



# The Pandemic and Crisis in Ukraine—The Changing International Order and Japan's Growth Strategy

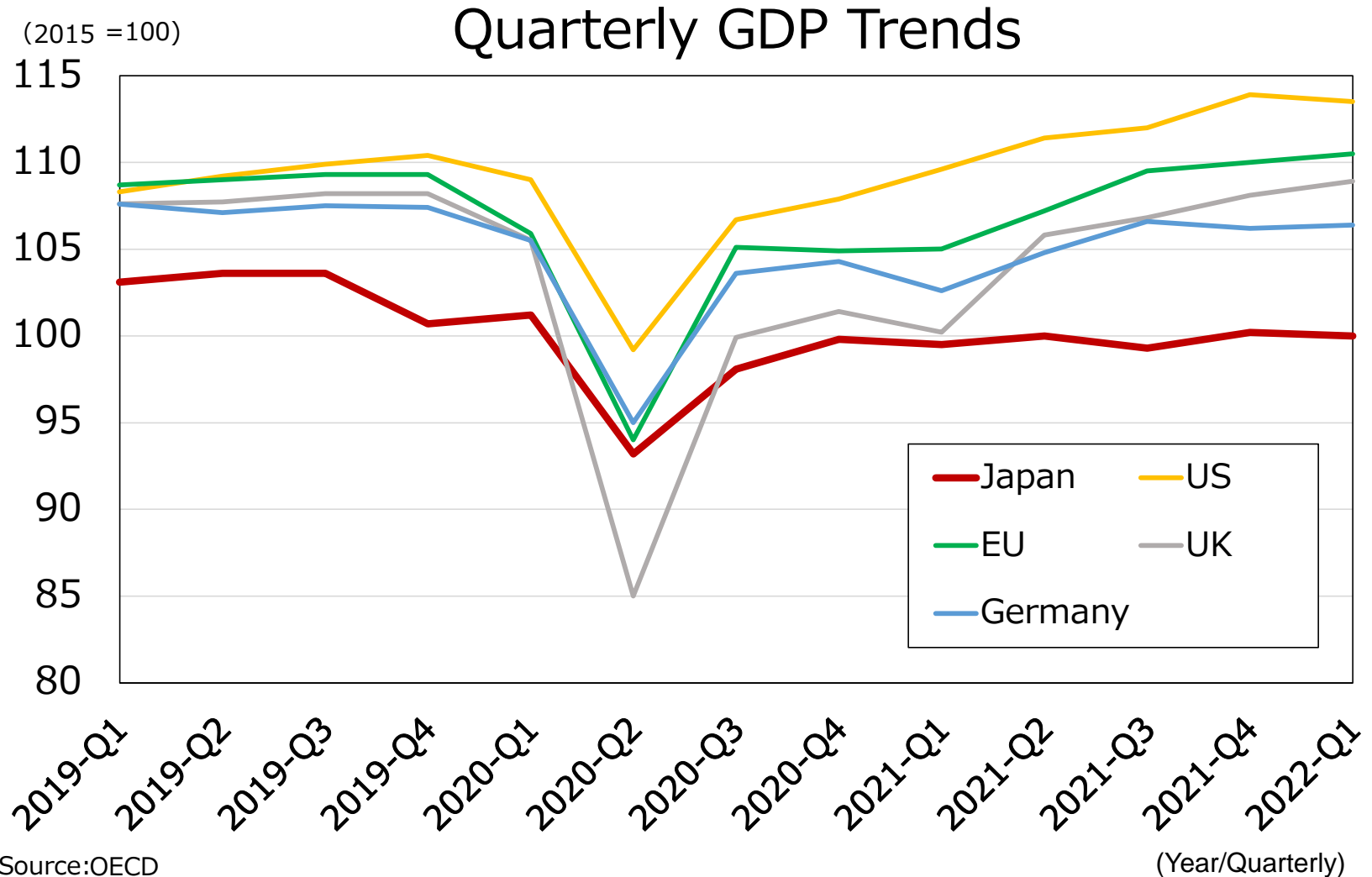


May 31, 2022  
NLI Research Institute  
Chief Economist  
Yasuhide Yajima

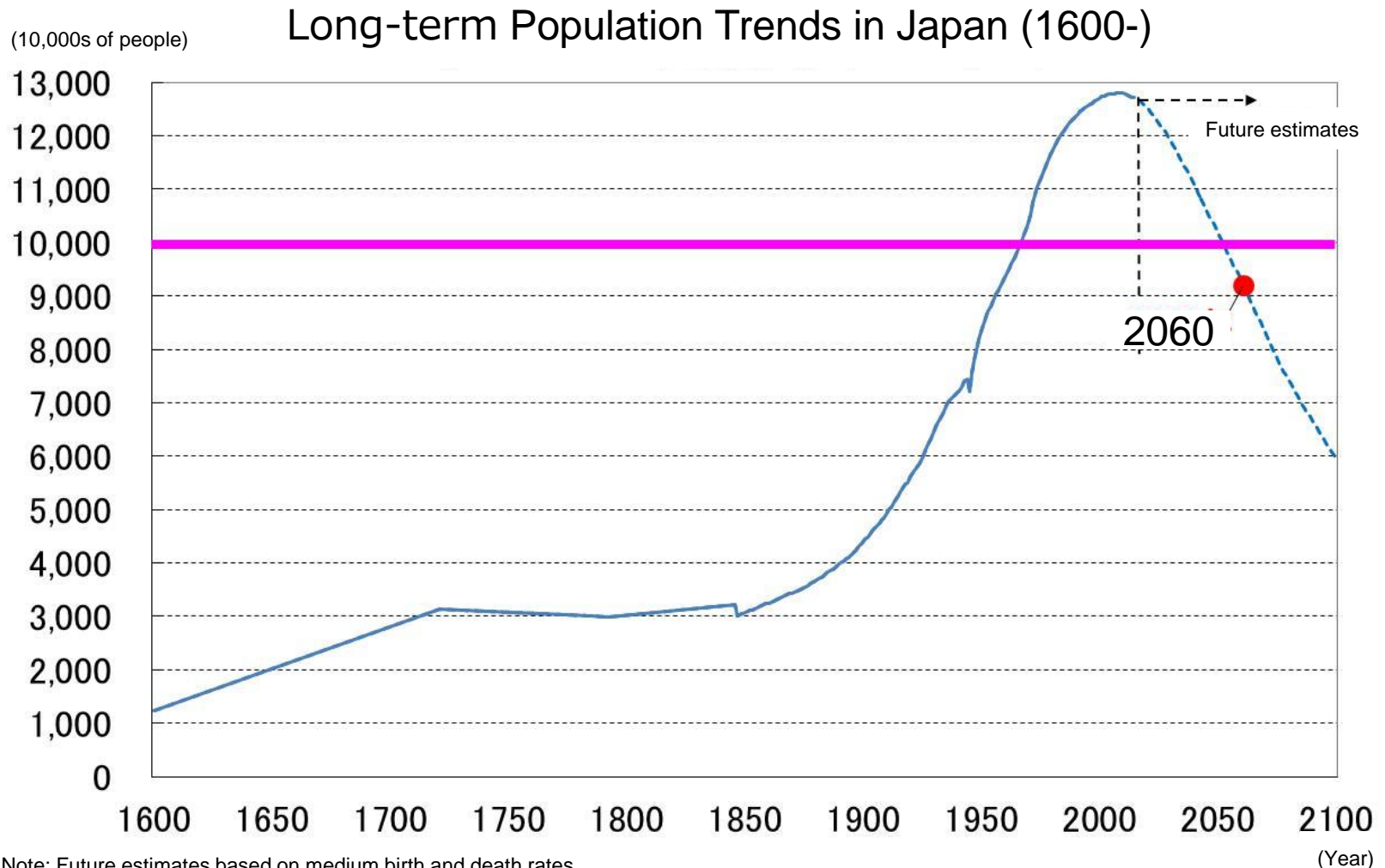
1. Understanding Japan's Position
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"New form of Capitalism"

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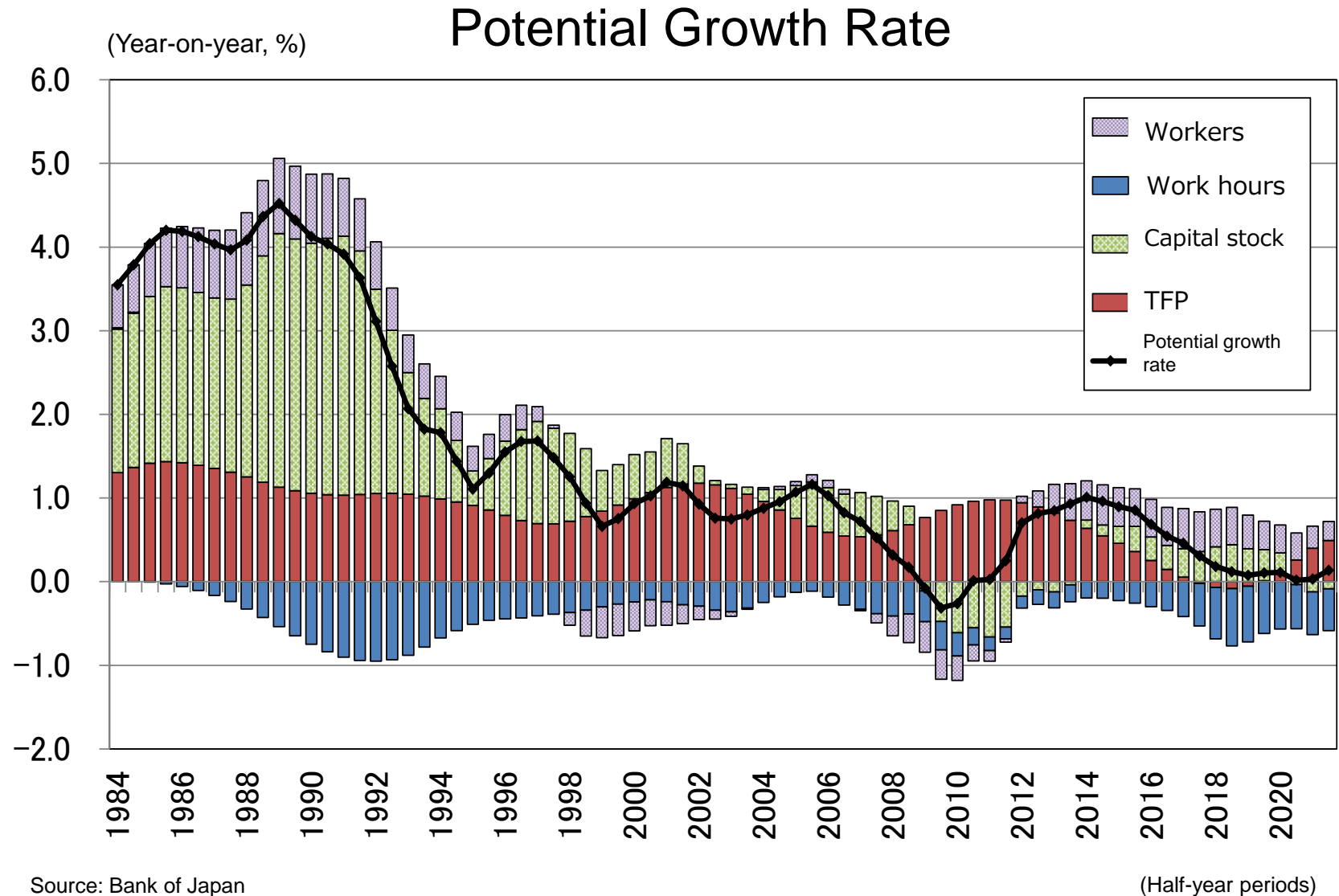
# Aging of Japanese Society: Japan's Population Trends



Note: Future estimates based on medium birth and death rates

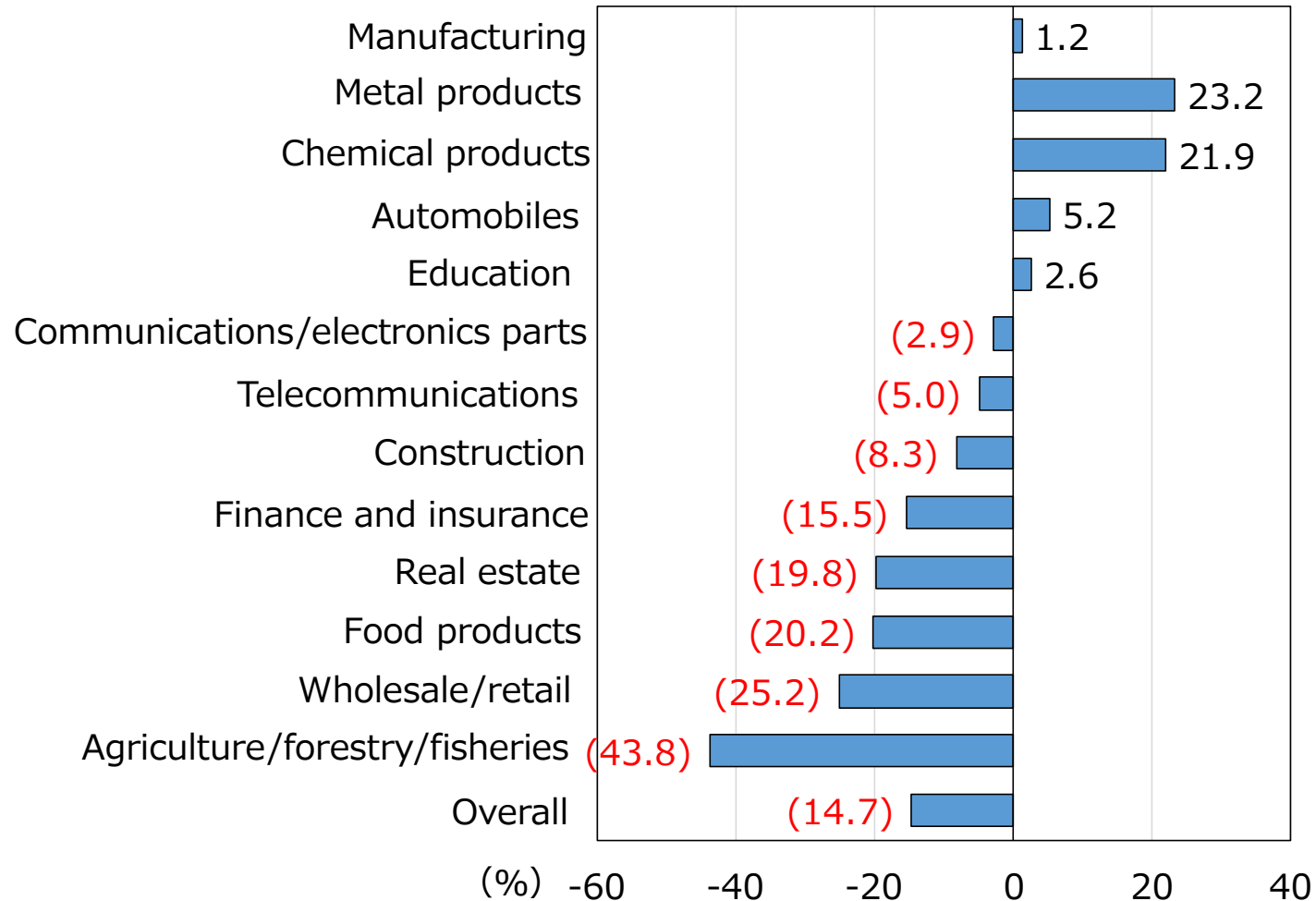
Source: National Institute of Population and Social Security Research's Population Statistics (2021 and Population Projection for Japan (2017)

# Japan: Factors in Long-term Decline of Potential Growth Rate?





## Comparison of Total Factor Productivity by Industry in Japan (2015)

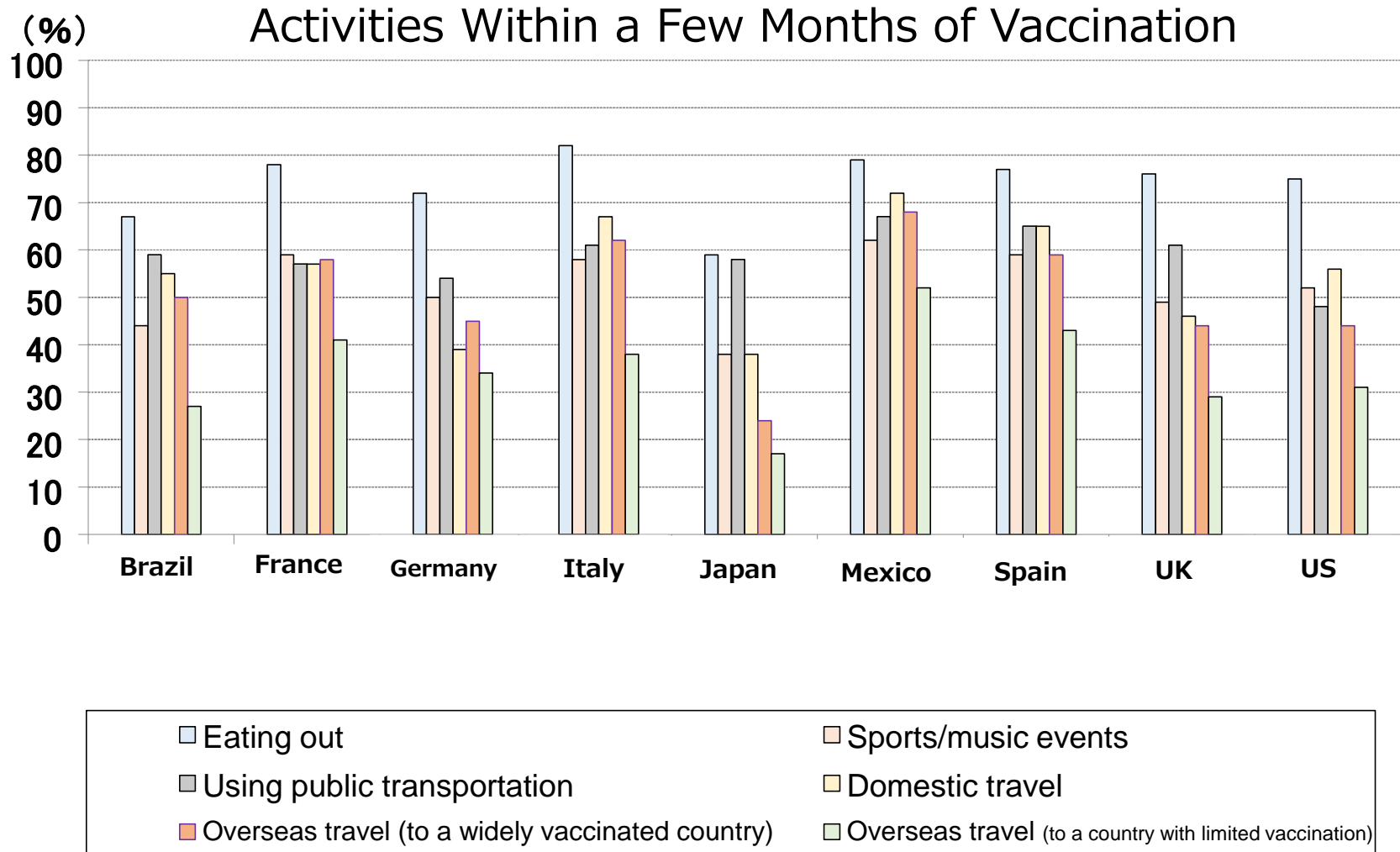




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# The Cautious Populace

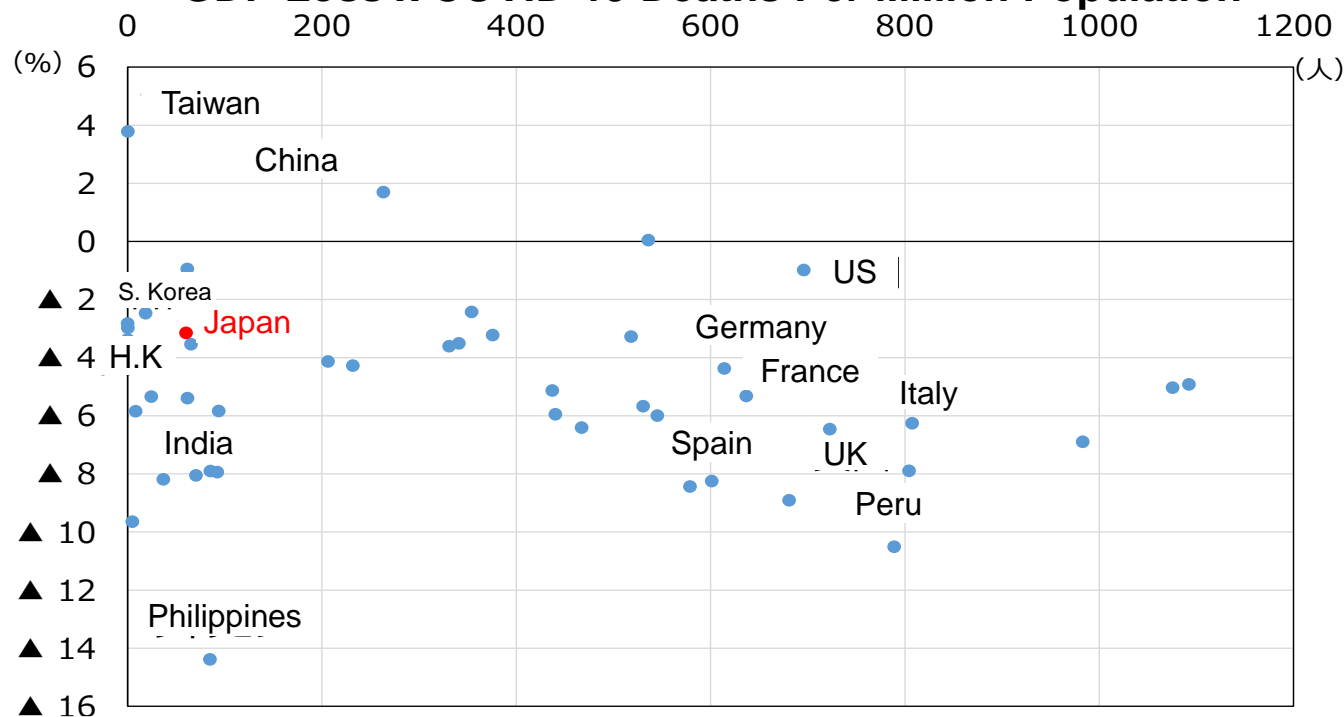


Source: IPSOS

# Japan: Less Infections Than Other Countries, But a Major Impact on the Economy

- University of Tokyo Associate Professor Taisuke Nakata (“Economics Classroom,” *Nikkei*, December 3, 2021)
- Estimated “how much economic sacrifice is admissible per COVID-19 deaths reduction” (Values of Life)
  - Japan was 2 billion yen, US 100 million yen, UK 50 million yen

## GDP Loss x COVID-19 Deaths Per Million Population



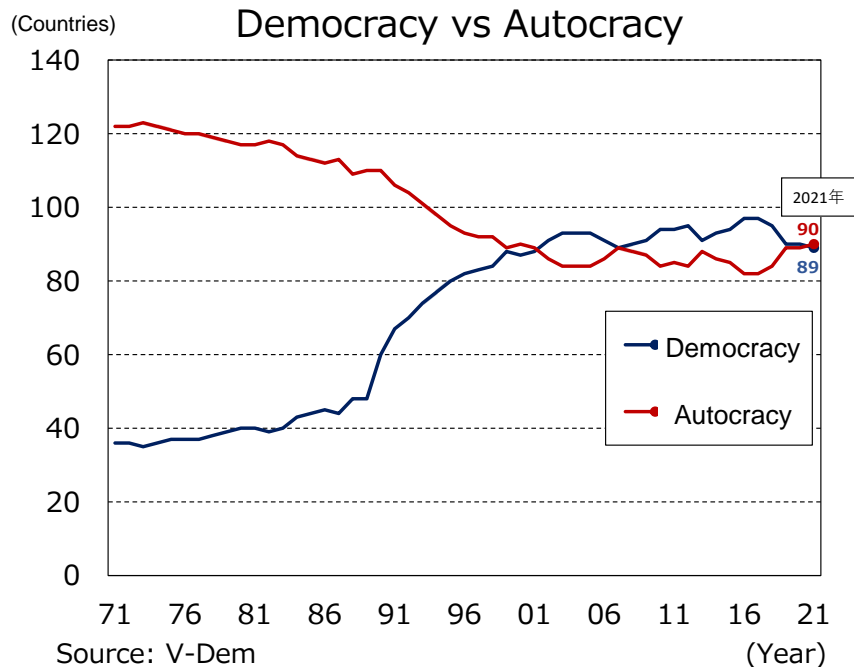
Source: Johns Hopkins University, Eurostat, Datastream, and national governments

\*Deaths as of May 2021

For GDP loss, the GDP forecast for 2021 made before the pandemic (baseline) was compared to the 2021 GDP forecast at the end of May 2021



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(As of May 10)

**Countries participating in US sanctions of exports to Russia**  
37 countries

Japan, South Korea, Australia, New Zealand, the 27 EU countries, Norway, Liechtenstein, Iceland, Switzerland

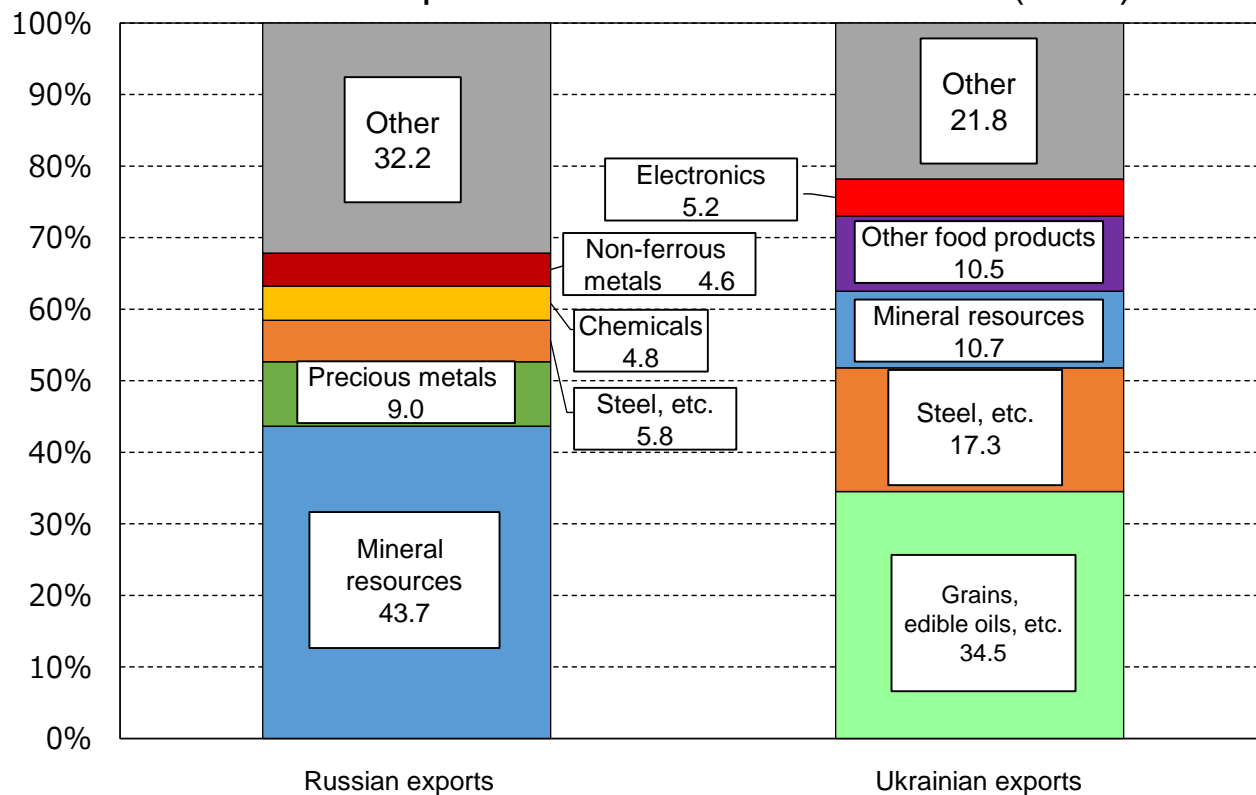
**Countries designated as “Unfriendly Countries” by Russia**  
48 countries and regions

(In addition to the 37 countries above)  
Ukraine, Montenegro, Albania, Andorra, Monaco, San Marino, North Macedonia, US, Taiwan, Singapore, Micronesia

Vote to suspend Russia from the UN Human Rights Council (April 7)	In favor	Against	Abstained
Votes	93	24	58
Notable countries	Japan, South-Korea, Western states, etc.	China, Vietnam, Laos, Uzbekistan, etc.	Brazil, UAE, Malaysia, etc.



## Main Exports from Russia and Ukraine (2020)



## Global Export Share

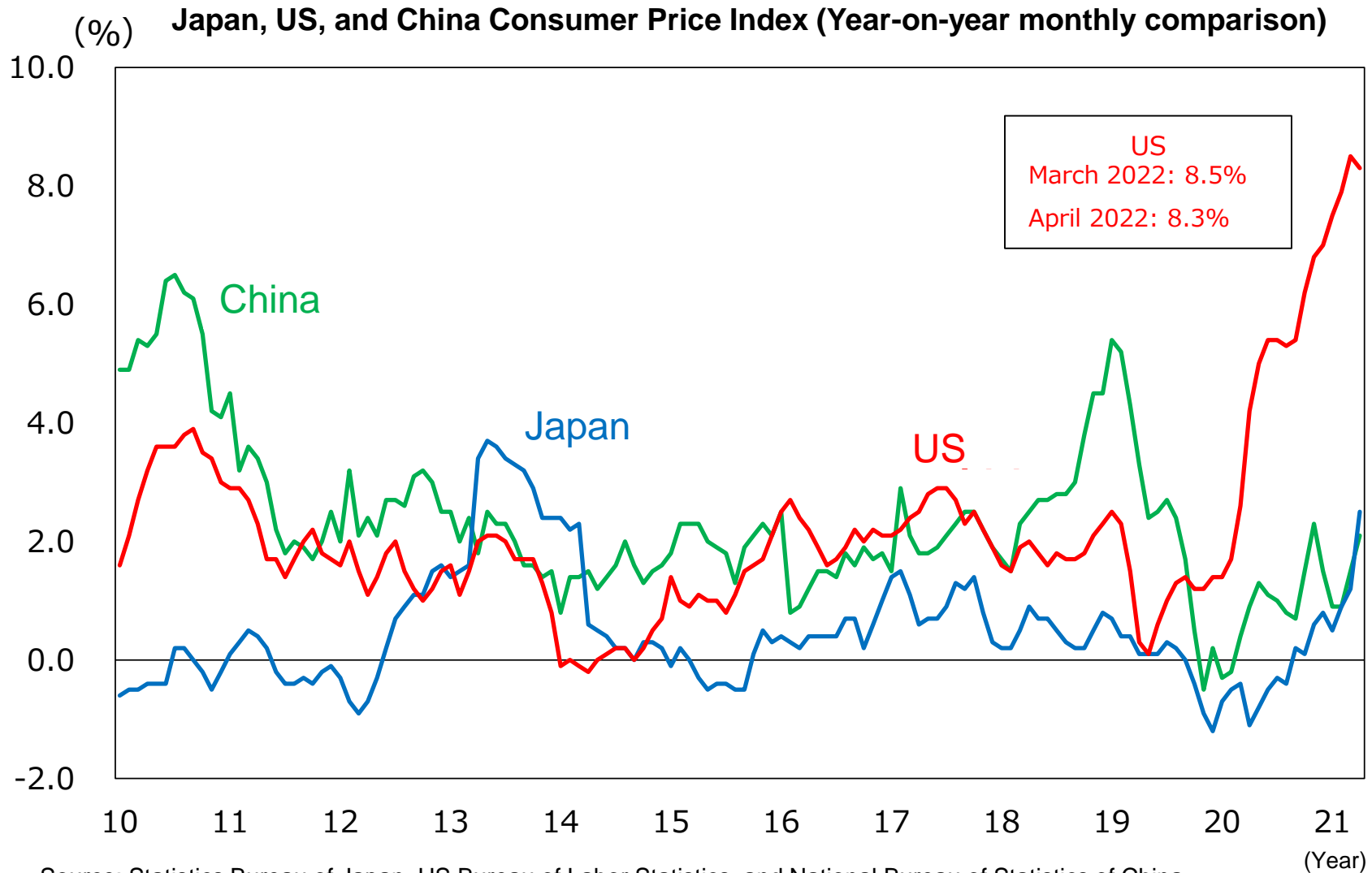
Oil/Gas	Crude oil	12.3% (Russia)
	Natural gas	19.1% (Russia)
	Noble gases	5.0% (Russia, Ukraine)
Metals	Palladium	24.6% (Russia)
	Aluminum	3.3% (Russia)
	Nickel	12.9% (Russia)
Agricultural products	Wheat	25.6% (Russia, Ukraine)
	Barley	23.9% (Russia, Ukraine)
	Edible oils	9.4% (Russia, Ukraine)
Other	Fertilizer	17.8% (Russia, Belarus)

Source: International Trade Centre



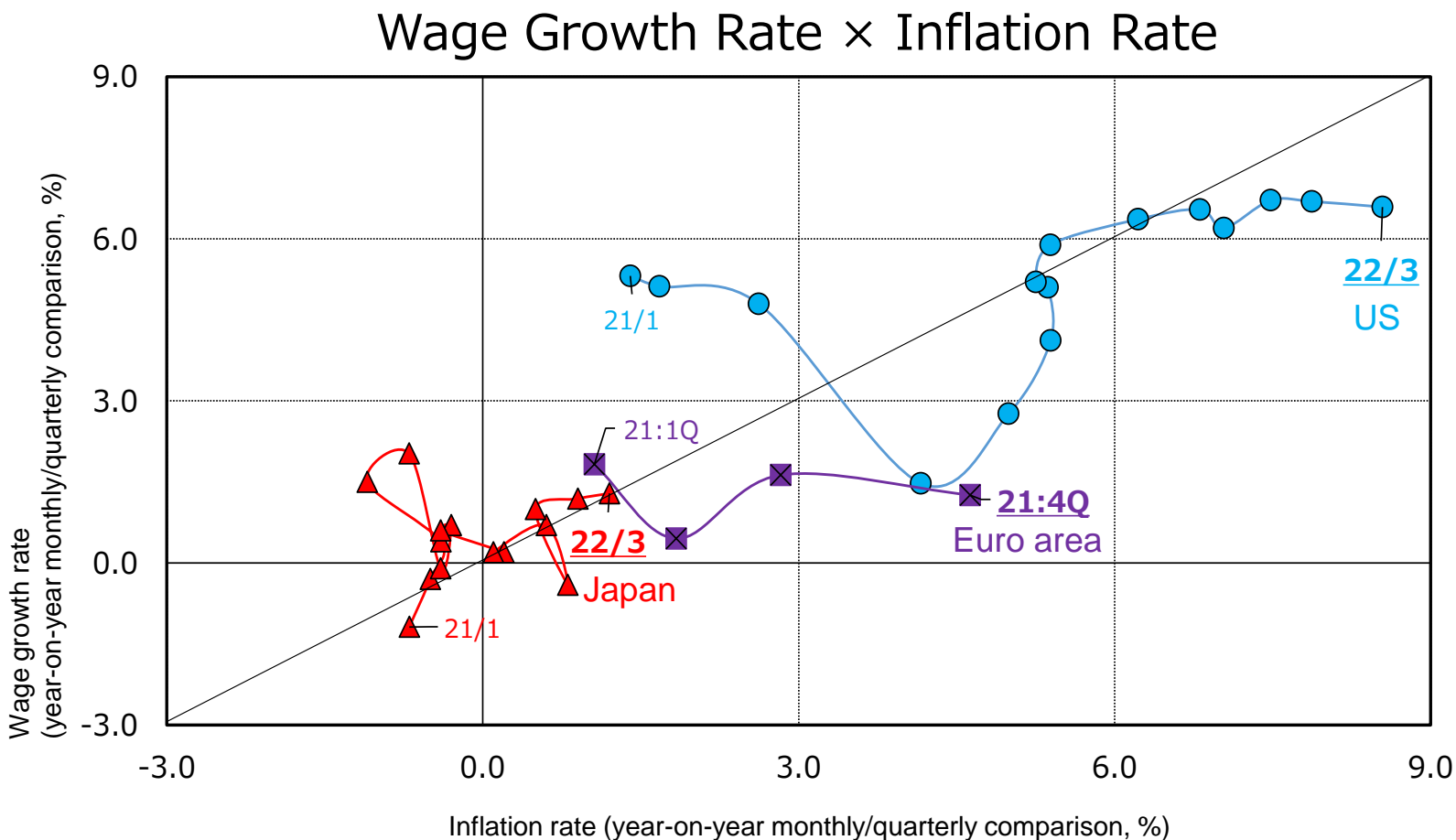
	2021 (Results)	2022 (Outlook)	2023 (Outlook)	2024 (Outlook)
World total	6.1	3.6 (▲ 0.8)	3.6 (▲ 0.2)	3.4
Advanced countries	5.2	3.3 (▲ 0.6)	2.4 (▲ 0.2)	1.7
US	5.7	3.7 (▲ 0.3)	2.3 (▲ 0.3)	1.4
Euro area	5.3	2.8 (▲ 1.1)	2.3 (▲ 0.2)	1.8
UK	7.4	3.7 (▲ 1.0)	1.2 (▲ 1.1)	1.5
Japan	1.6	2.4 (▲ 0.9)	2.3 (0.5)	0.8
Emerging and developing countries	6.8	3.8 (▲ 1.0)	4.4 (▲ 0.3)	4.6
Emerging Asia	7.3	5.4 (▲ 0.5)	5.6 (▲ 0.2)	5.6
China	8.1	4.4 (▲ 0.4)	5.1 (▲ 0.1)	5.1
India	8.9	8.2 (▲ 0.8)	6.9 (▲ 0.2)	7.0
Latin America	6.8	2.5 (0.1)	2.5 (▲ 0.1)	2.5
Brazil	4.6	0.8 (0.5)	1.4 (▲ 0.2)	2.2
Emerging Europe	6.7	▲ 2.9 (▲ 6.4)	1.3 (▲ 1.6)	2.8
Russia	4.7	▲ 8.5 (▲ 11.3)	▲ 2.3 (▲ 4.4)	1.5

# CPI for Japan, US, and China



Source: Statistics Bureau of Japan, US Bureau of Labor Statistics, and National Bureau of Statistics of China

# The Relation Between Wages and Commodity Prices



Note: Inflation rate is overall CPI. Wage growth rate is monthly wages (for all industries) for Japan, weekly wages (private sector) for US, weekly wages (all industries) for UK, and hourly wages (all industries) for the Euro area. Japan and US data is from January 2021 to March 2022. Euro area data is from 2021 Q1 to Q4.

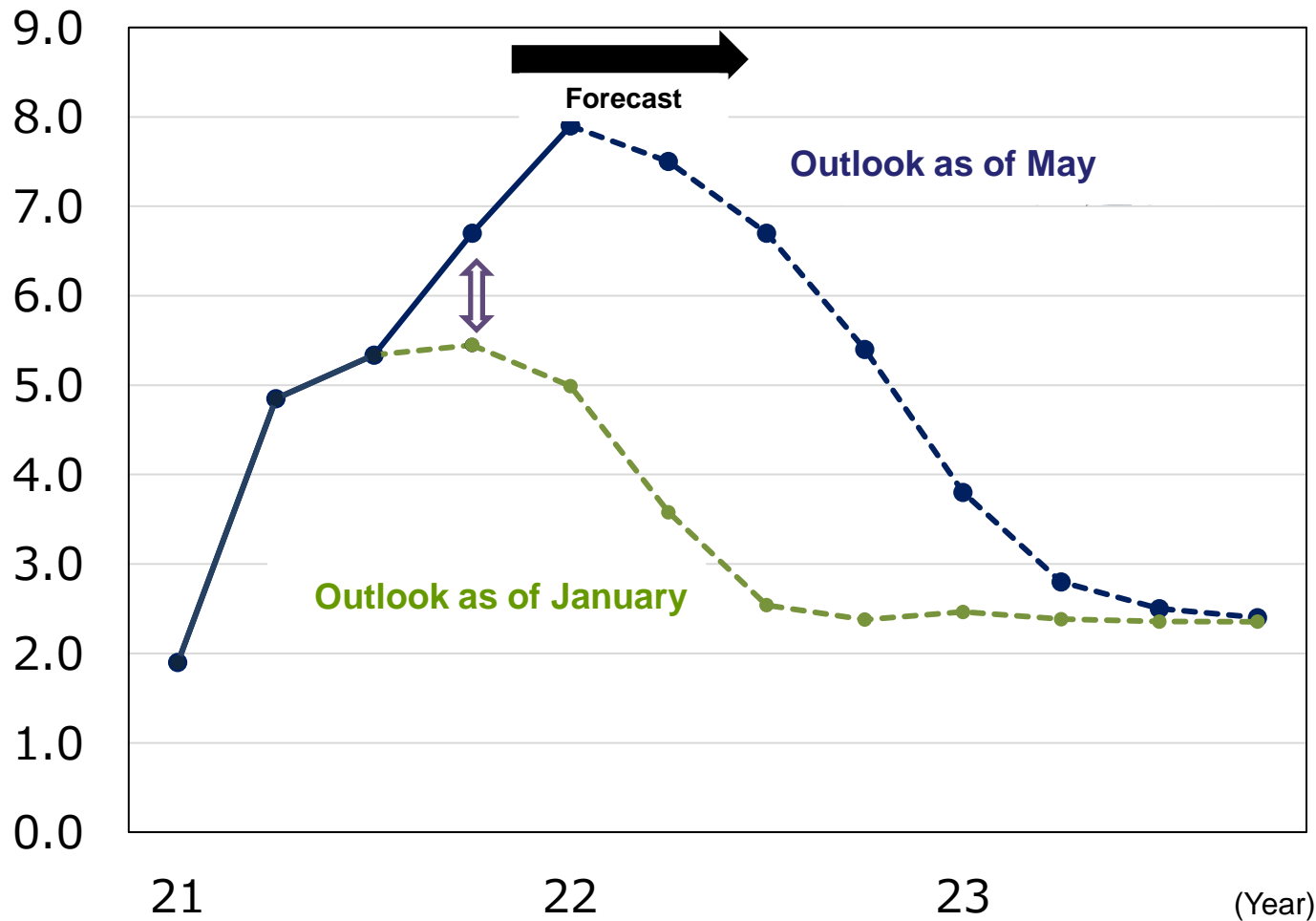
Sources: Datastream, Ministry of Internal Affairs and Communications





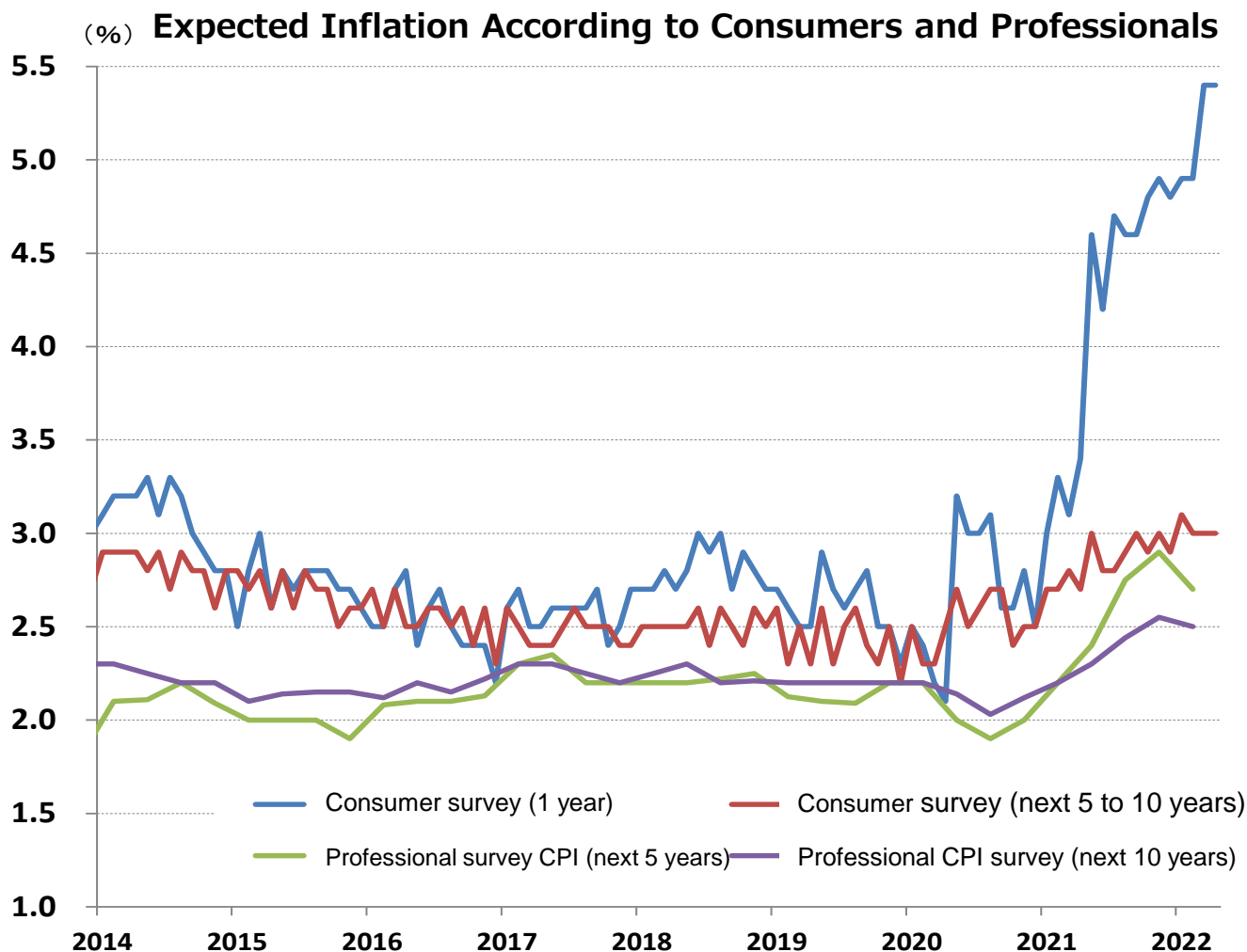
## Outlook for Consumer Price Index in US

(Year-on-year comparison, %)



Source: the US Bureau of Labor Statistics

# Expected Inflation (US)



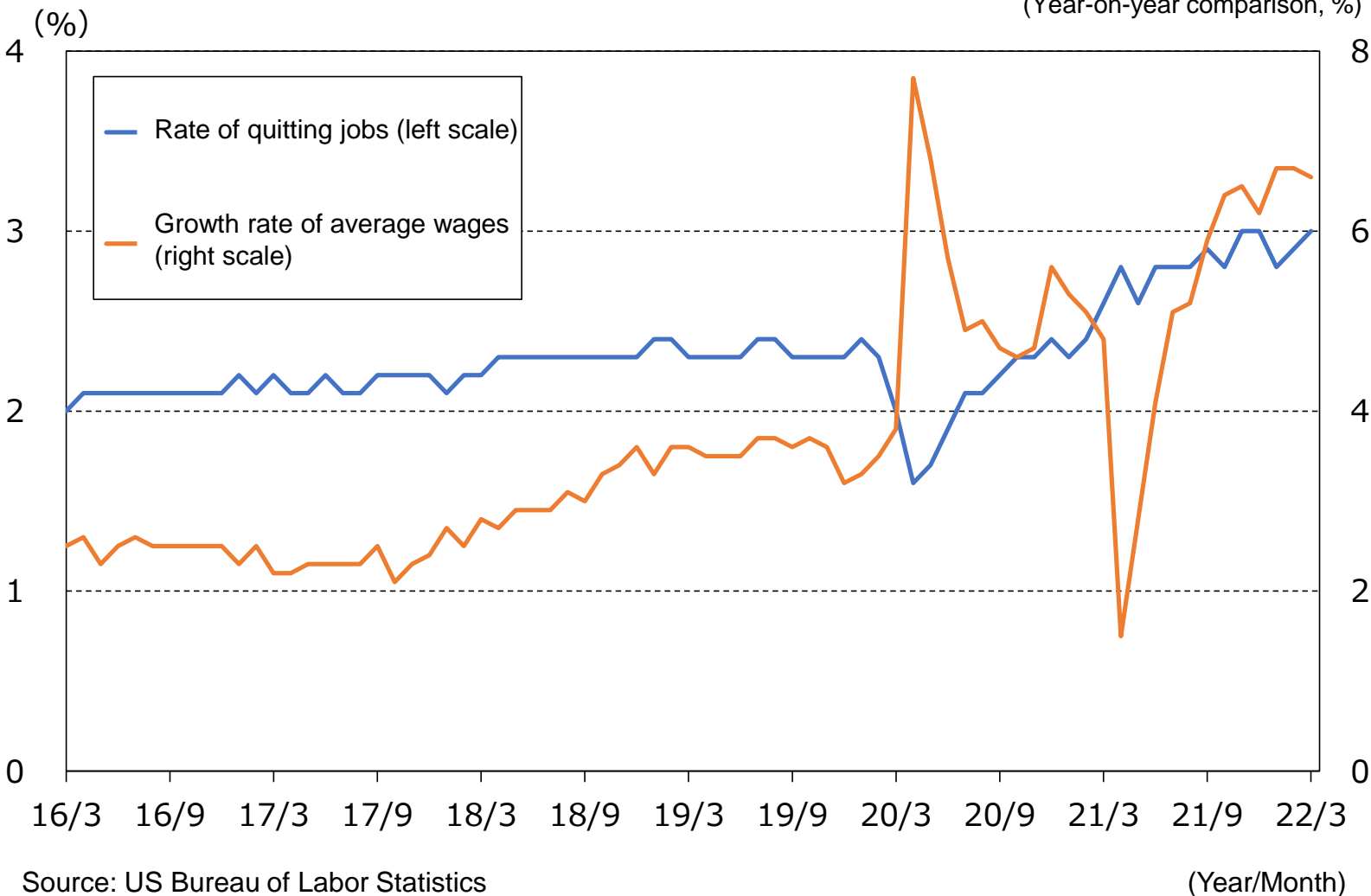
Note: The consumer survey was carried out by the University of Michigan, and the survey of professional forecasters by the Federal Reserve Bank of Philadelphia. The median value for expected average inflation rate was used

Source: Made by NLI Research Institute based on data from the University of Michigan and the Federal Reserve Bank of Philadelphia

# People Quitting Jobs in the US



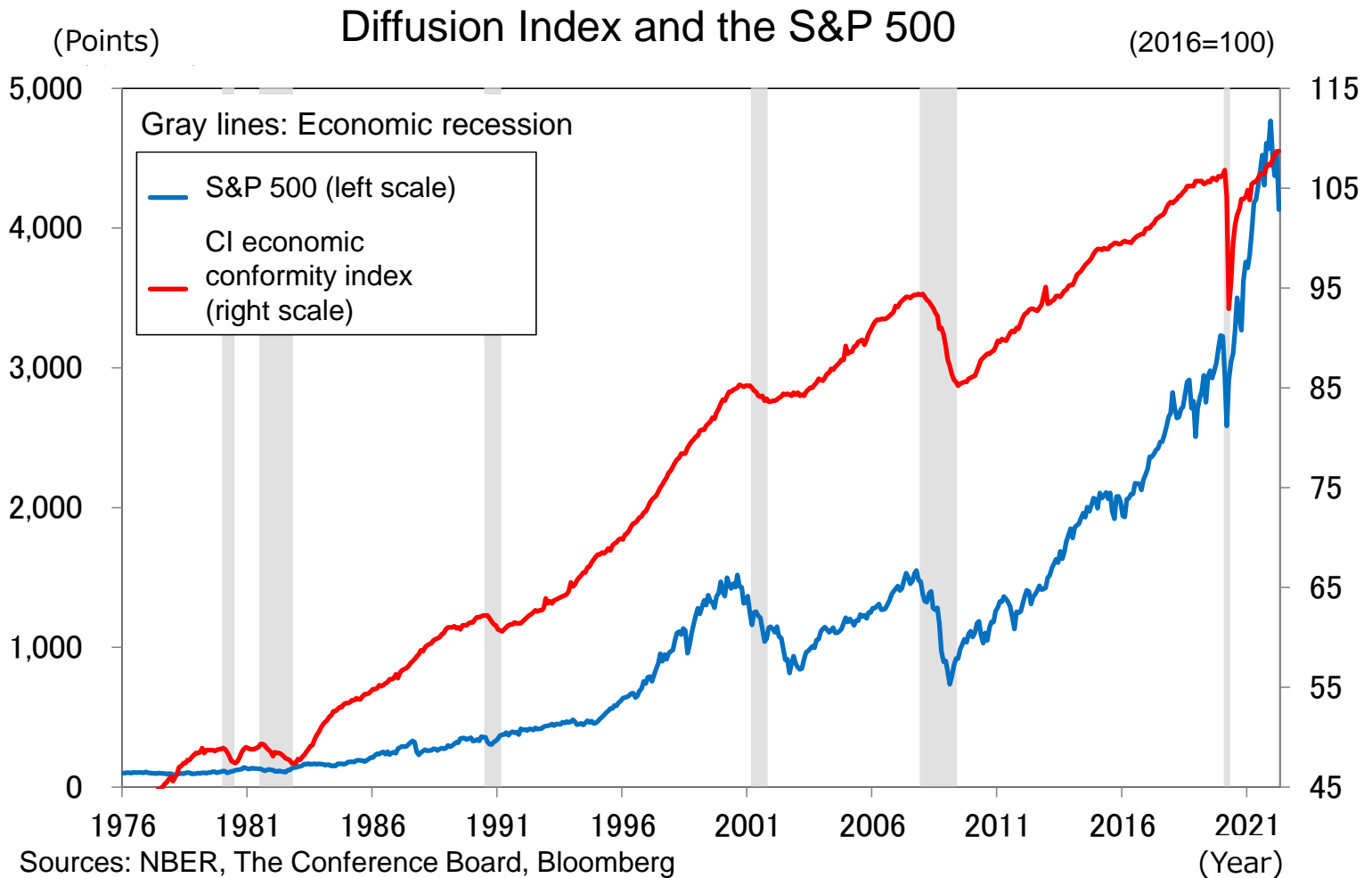
**Rate of People Voluntarily Quitting Jobs in the US and Growth Rate of Average Wages**  
(Year-on-year comparison, %)

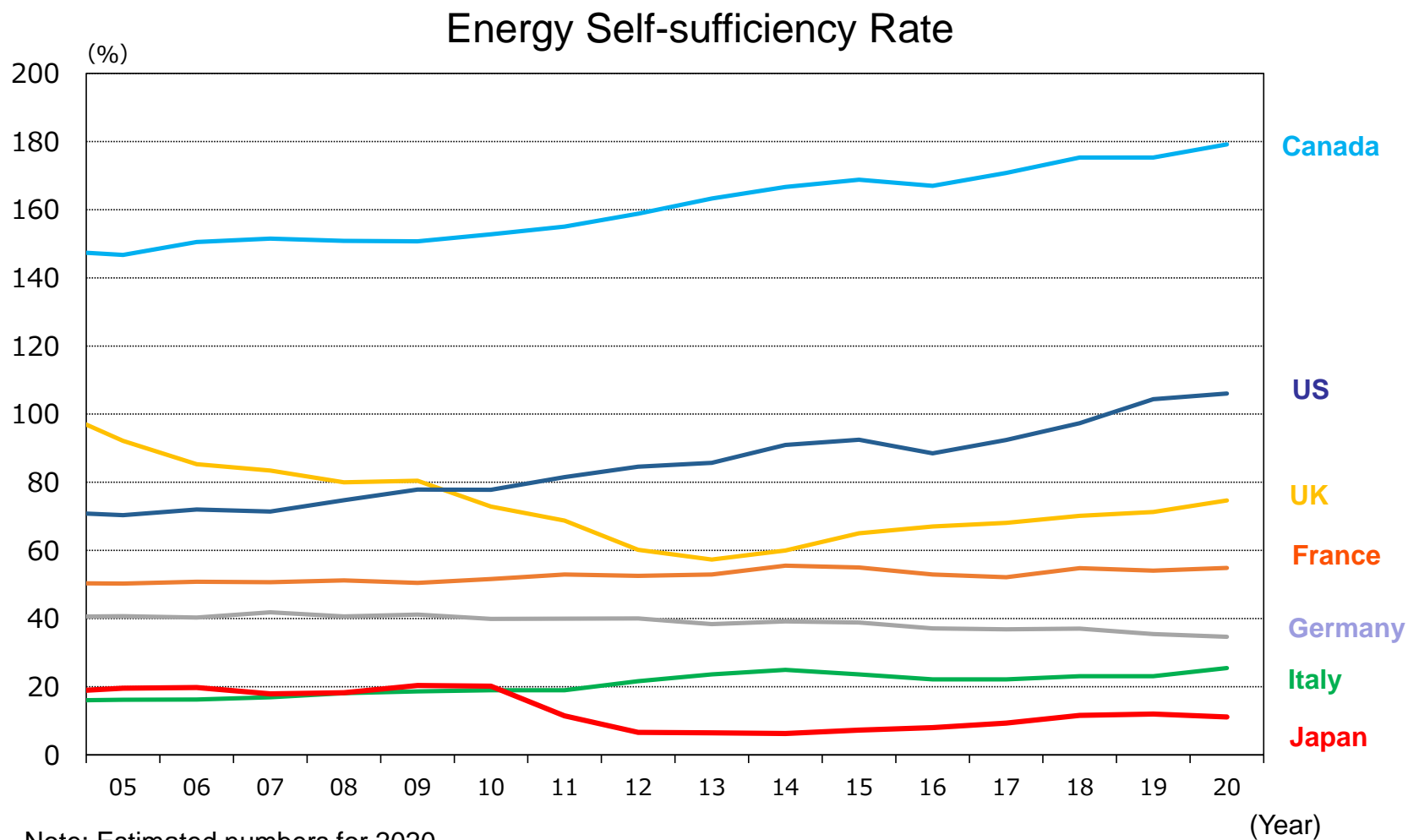


# US: The Economy and Stock Market Will “Definitely” Go Higher Than Before



- As the key currency for the West, the US dollar's presence will grow stronger
- Influx of investment and capital is expected to negate a US economic recession.





Note: Estimated numbers for 2020

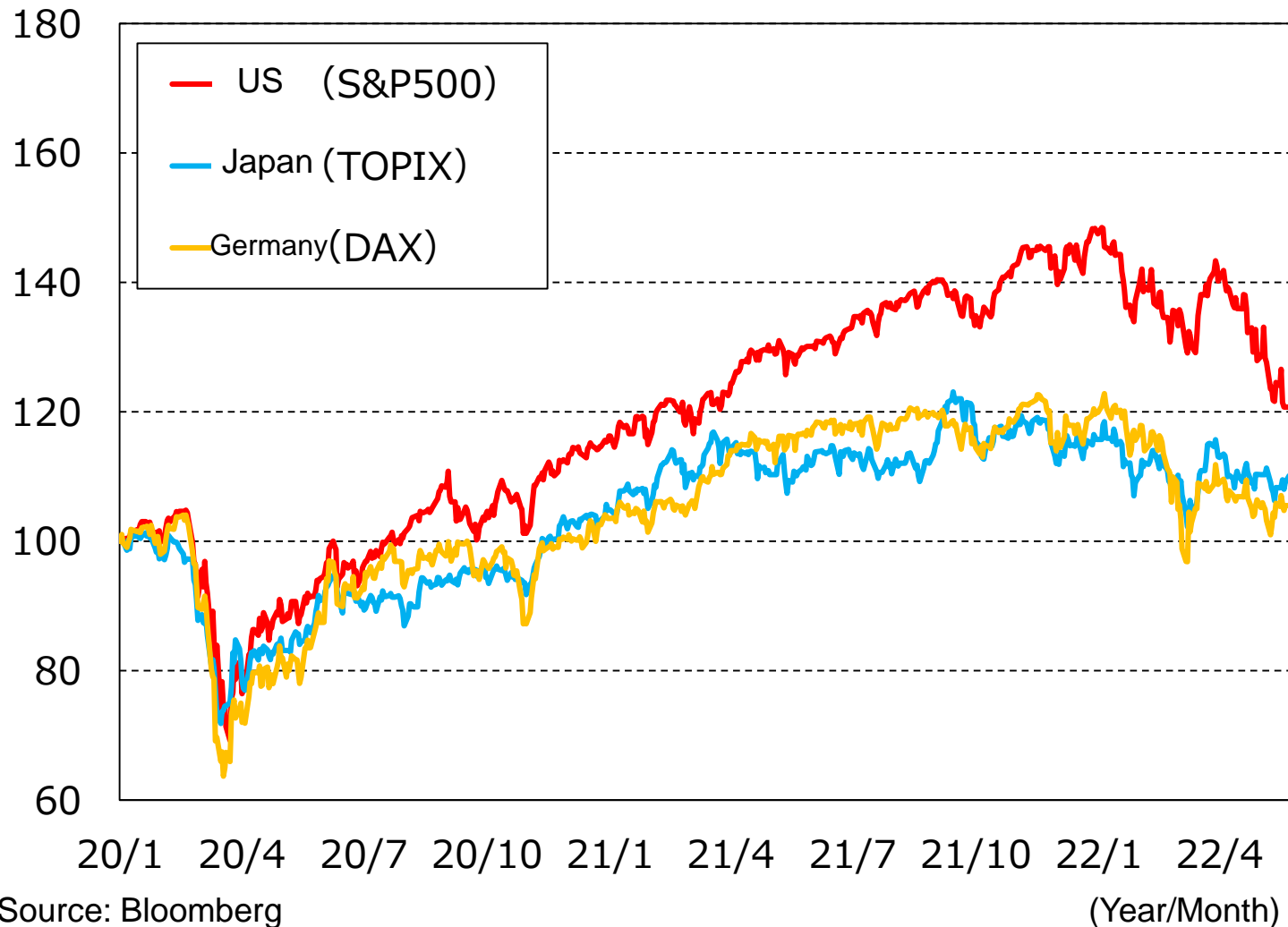
Source: IEA

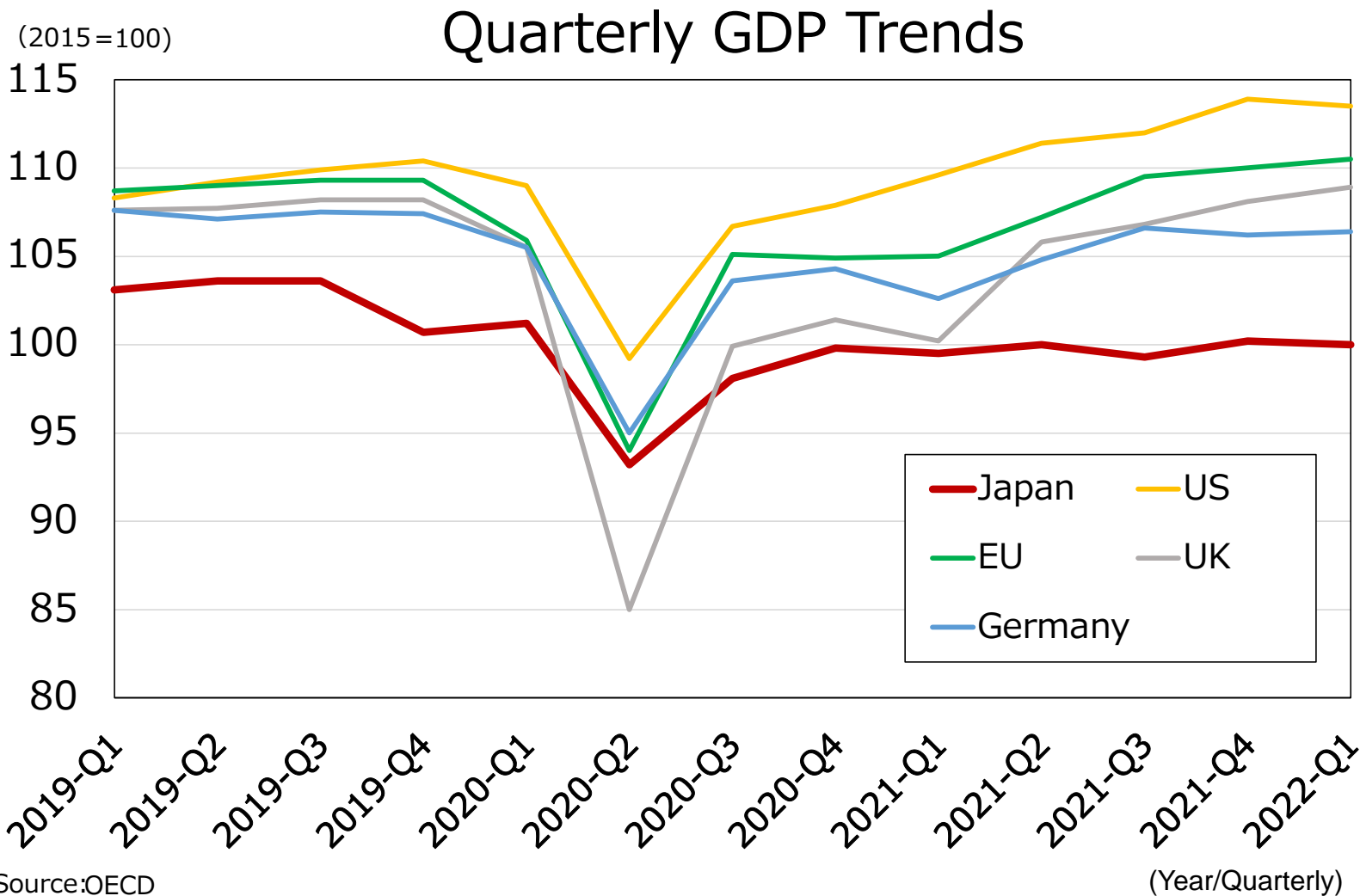
# Financial Markets Already Incorporate Changing Frameworks



## Stock Price Index for Japan, US, and Germany

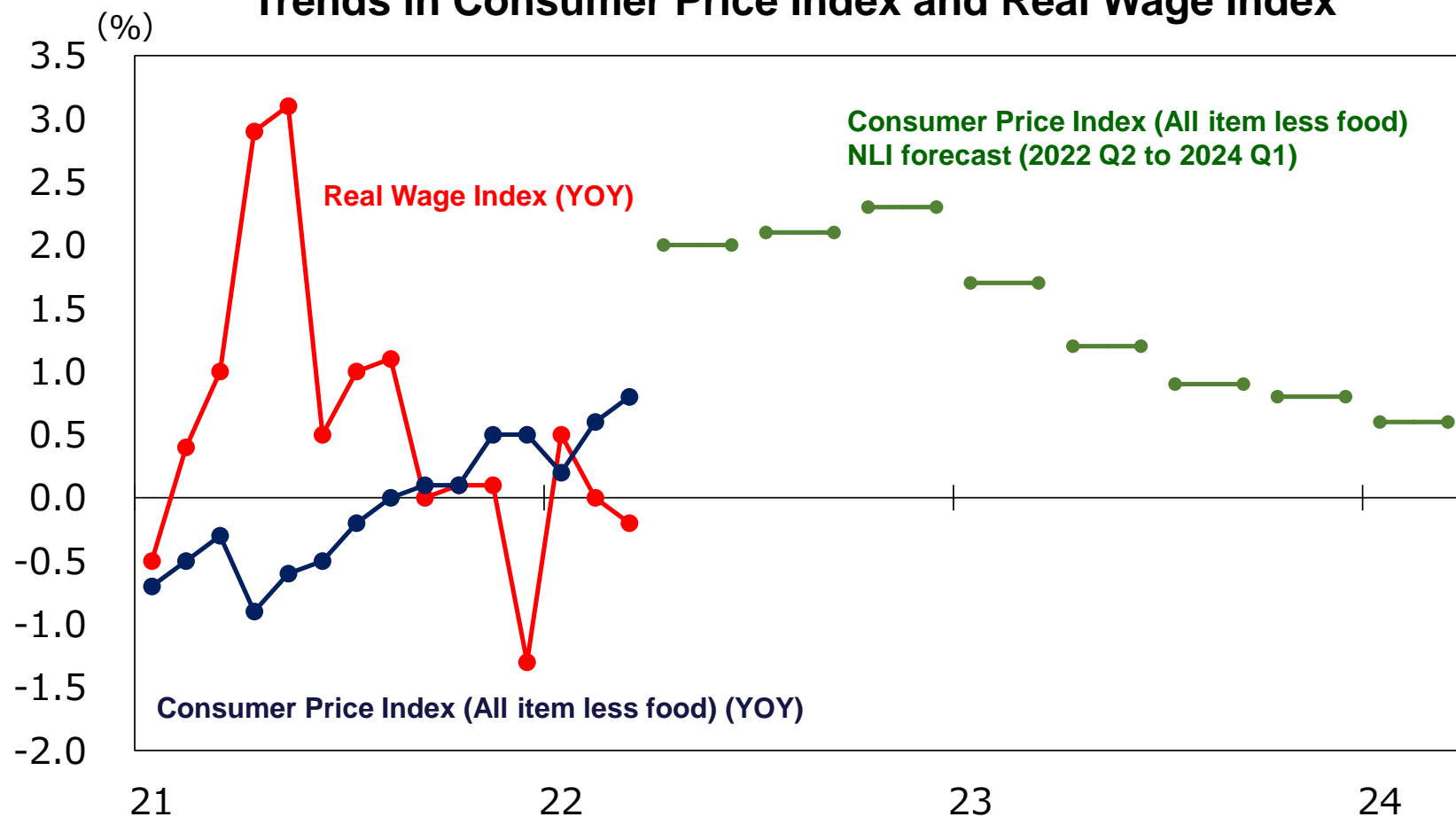
(January 1, 2020=100)







## Trends in Consumer Price Index and Real Wage Index

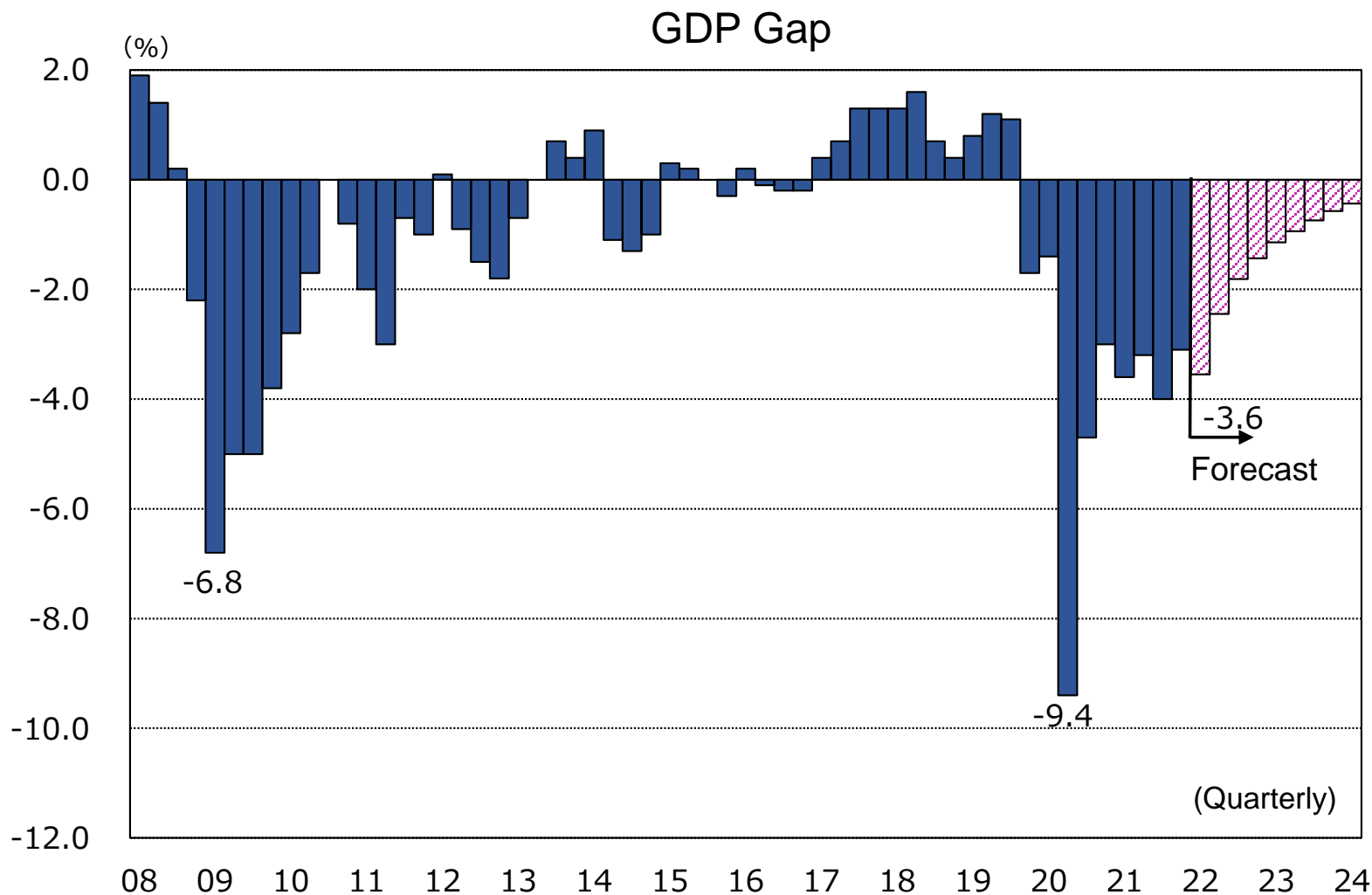


Source: Ministry of Internal Affairs and Communications and Ministry of Health, Labour and Welfare

(Year)



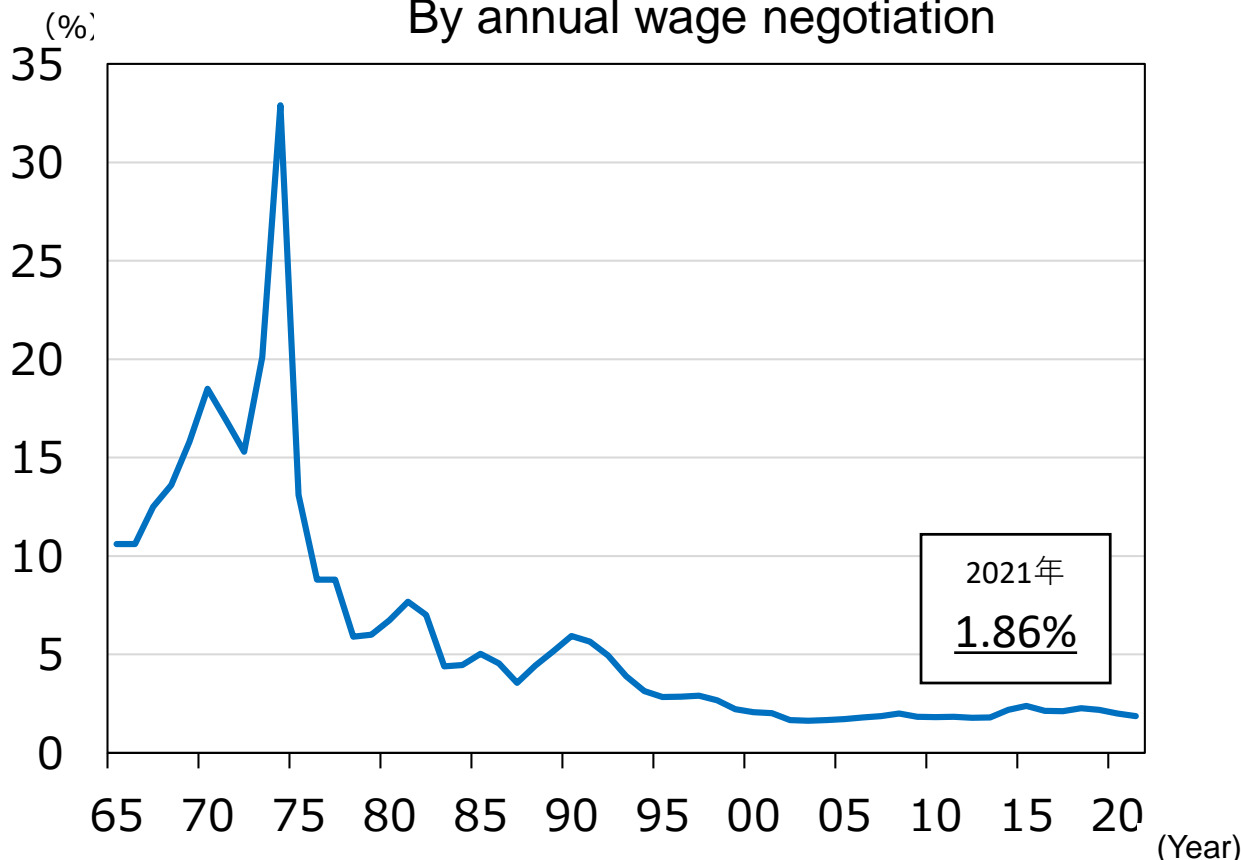
# Japan: GDP Gap



Note: Up to 2021 Q4 are actual values. Forecast values were made by NLI Research Institute based on the average forecast for economic growth rate by private-sector economists (May). Responses to the survey were made between April 28 and May 11.  
Source: Made by the briefier based on Cabinet Office data



## Wage Increases in Major Private Companies By annual wage negotiation



Source: Ministry of Health, Labour and Welfare "Conditions related to spring wage increase demands and settlements at major private companies"

\*Major private company definition:

Up to and including the 2003 survey, defined as "Companies listed in the First Section of the Tokyo or Osaka Stock Exchange with capital of at least 2 billion yen and at least 1,000 employees with a labor union."

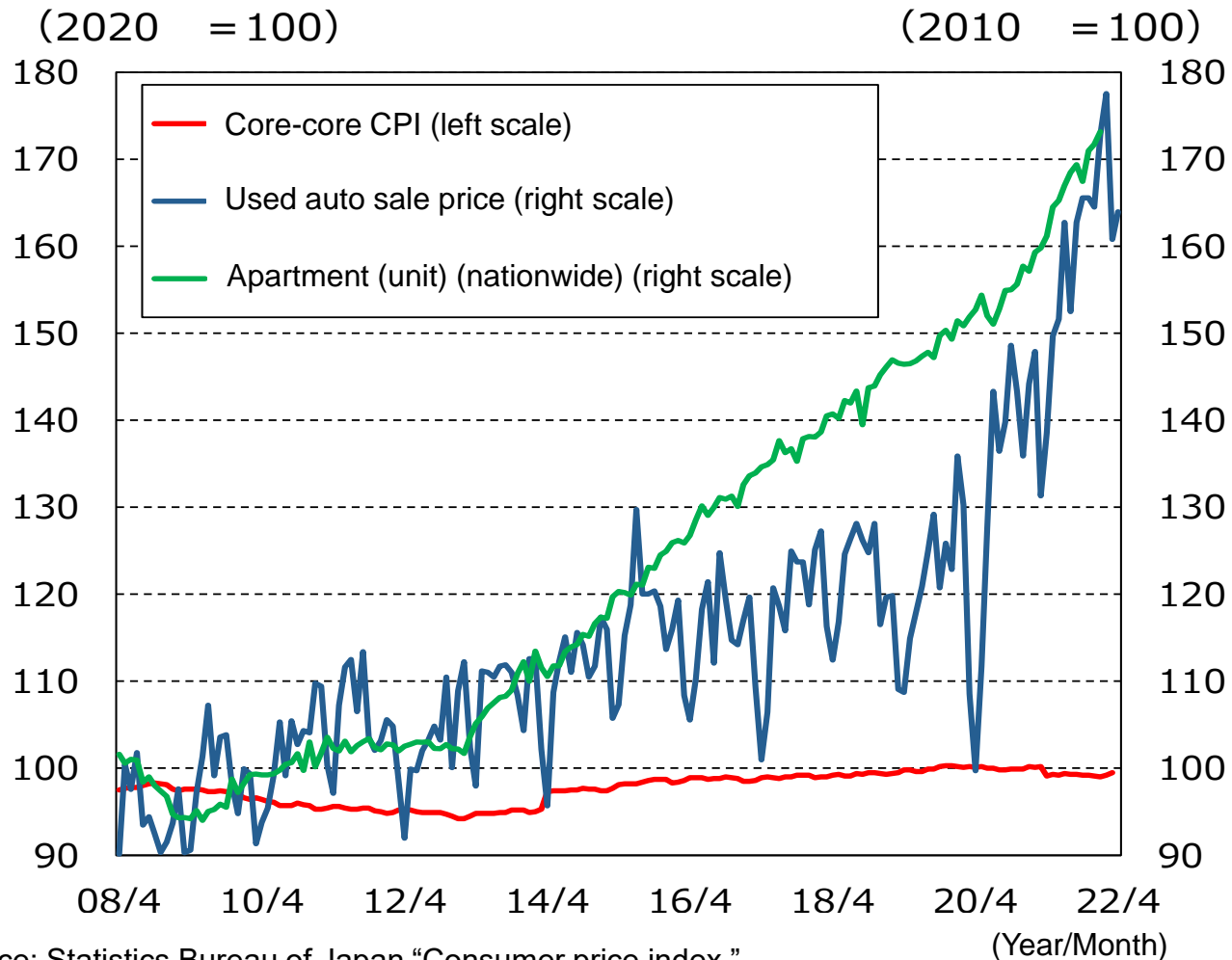
From 2004 on, defined as "Companies with at least 1 billion yen in capital and at least 1,000 employees with a labor union."

(Calculated with simple average until 1979, weighted average afterwards)

# Japan: An Untenable Structure



## Consumer Price Index and Cost of Housing/Used Automobiles

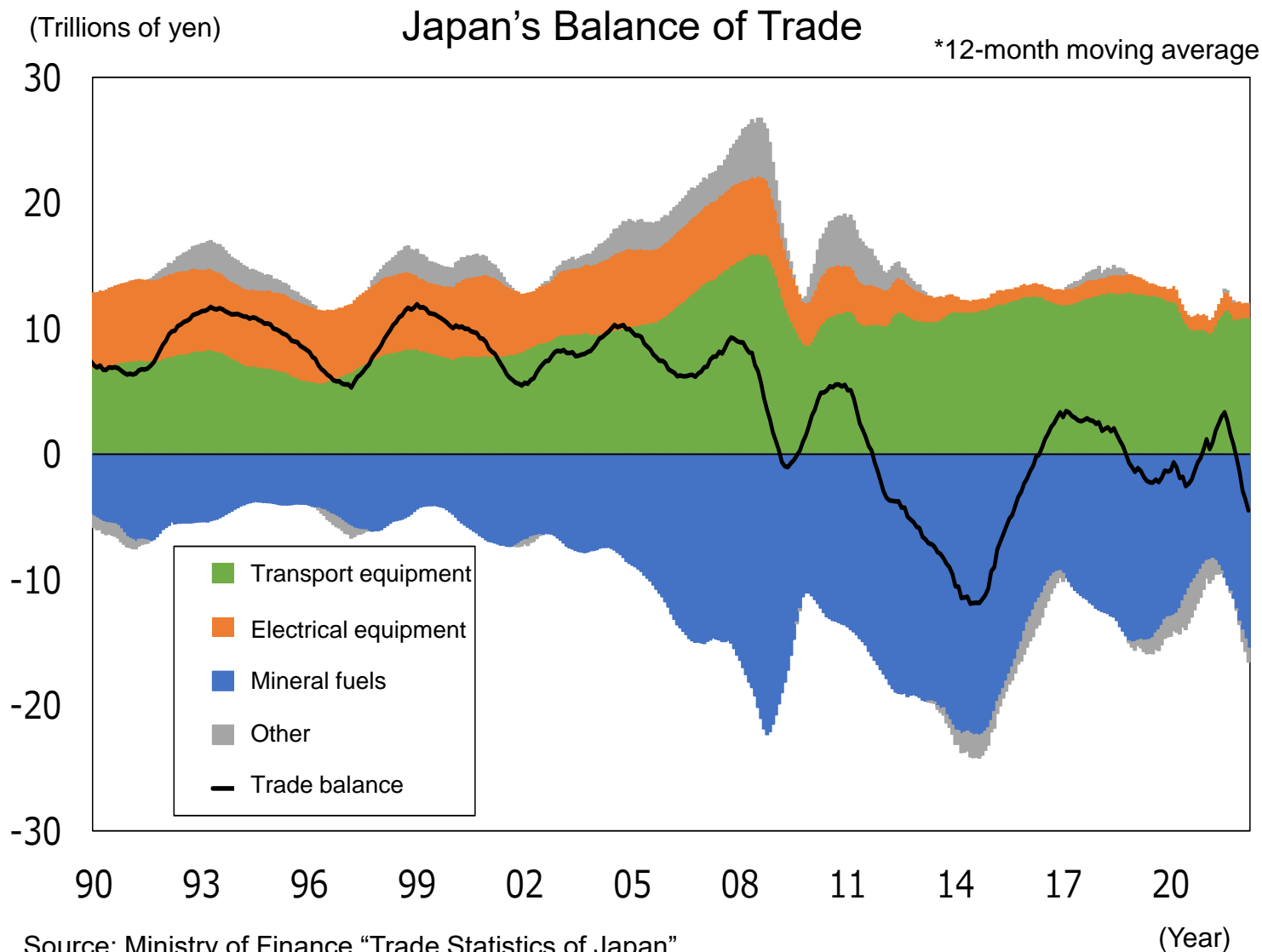


Source: Statistics Bureau of Japan "Consumer price index,"

Ministry of Land, Infrastructure, Transport and Tourism "Real estate price index," USS



# Japan: An Untenable Structure



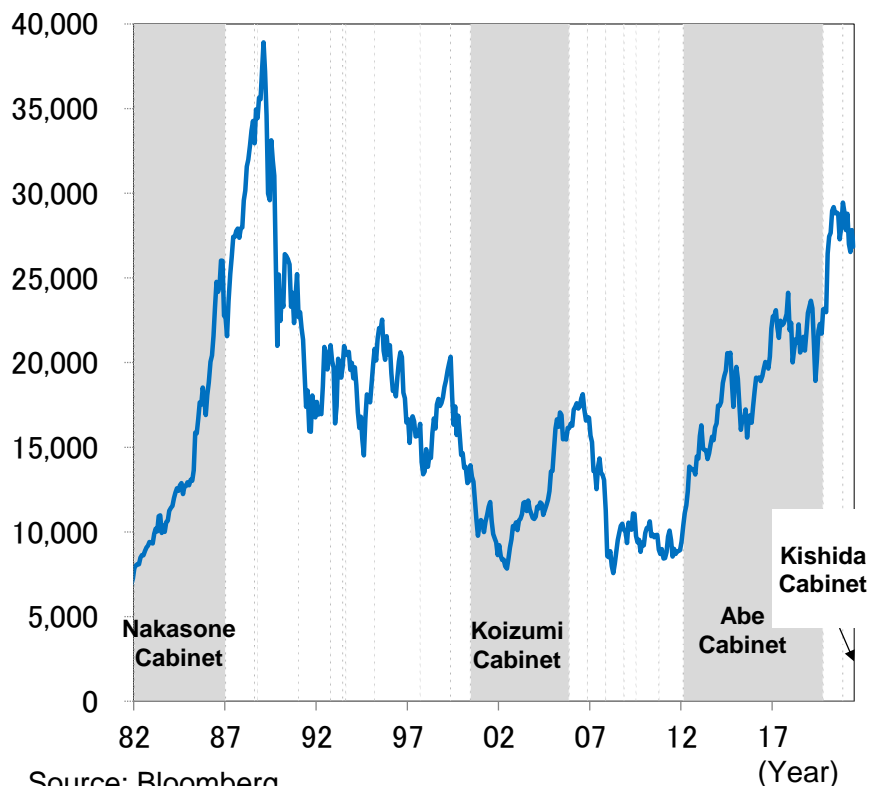


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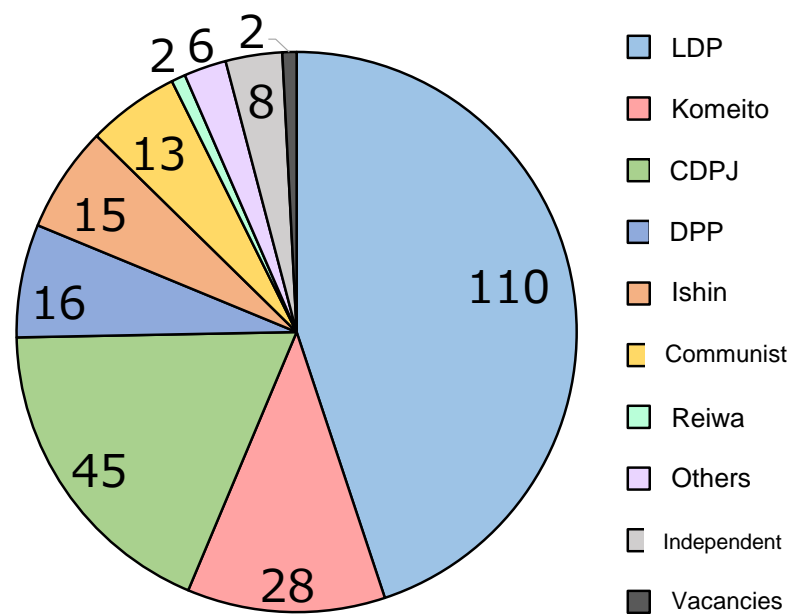


Economy

(Yen) **Governments and the Nikkei Stock Average**



**House of Councillors Members by Political Group**



Source: House of Councillors website (As of May 20, 2022)



## Growth Strategy

- Realize a science and technology nation
- Revival of the dynamism of Japanese companies and comprehensive support for startups as the leader of innovation
- Launch of a “Vision for a Digital Garden City Nation”
- Economic security

## Distribution Policy

- Support for strengthening distribution in the private sector, including cases on a medium- to long-term basis
  - Fostering momentum for raising wages in accordance with the business environment
  - Eliminating wage disparities between men and women
  - Establishing an environment for business restructuring and business revitalization
- Fundamental review of the state of public prices
- Support for children and child-rearing activities
- Correcting the harmful effects resulting from deciding public finances on a single fiscal year basis

# UK Speech by Prime Minister Kishida



## Speech by Prime Minister Kishida in the City of London (May 5, 2022)

- "...aggression against Ukraine is a clear violation of international law" ("Japan has also been doing its utmost")
- "Japan will introduce a smoother entry process similar to that of other G7 members" (in June)
- "The Japanese economy will continue to see robust growth." ("Invest in Kishida.")
- Upgrading capitalism (public-private collaboration)
  - <Things to do>
    - 1 – "eliminate distribution blockages"
    - 2 – "overcome underinvestment in new value-added sectors"
    - 3 – "boost labour mobility to new sectors"
    - 4 – "promote diversity"
    - 5 – "nurture a 'healthy economic metabolism'"
- <Specific Plans ①> "Investment in people"
  - "...major expansion of NISA" ("advancing the 'Doubling Asset-based Incomes Plan'")
- <Specific Plans ②> "Investment in science, technology and innovation"
  - "Strong incentives will be offered to companies that increase R&D investment..."
- <Specific Plans ③> "Investing in start-ups"
  - "The attraction of overseas venture capital..." "..."the development of stock options"
- <Specific Plans ④> "Investment in green and digital initiatives"
  - "...maximizing introduction of renewable energy," "...utilise nuclear reactors with safety assurances"
- "A bold monetary policy, flexible fiscal policy and a growth strategy to stimulate private investment..."
- "...less than 50 days to go until the official start of the Upper House election campaign..."  
("We will...achieve victory and gain the support to implement the plans I spoke about today.")





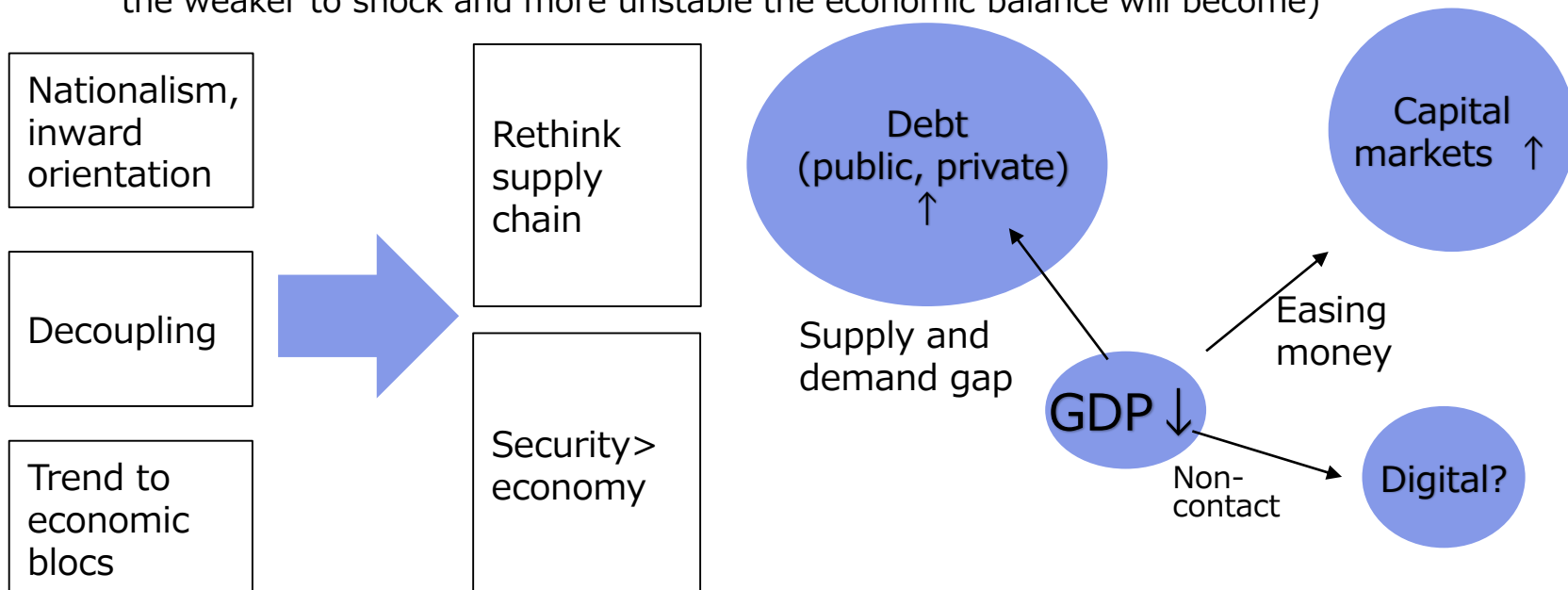
# A Major Turning Point

## ■ Things Expected to Change (or Accelerate) Due to the Pandemic

- Digital transformation
- Global division (US-China trade war , creation of blocs, anti-globalism)
- Rethink “shareholders’ first” policy, increase internal reserves, raise wages for essential workers, etc.
- Changing values, such as a focus on the environment and sustainable growth
- Working styles and family types
- Rapid debt increase for the public sector and private companies

## ■ Factors to Determine Economic Performance After the Pandemic

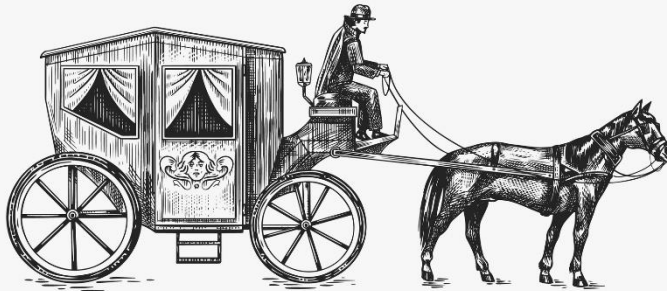
- ① Politics, security
- ② Correct instability of economy and capital markets (the longer the pandemic continues, the weaker to shock and more unstable the economic balance will become)



# Medium-term View (Comparison with the Roaring Twenties)



	<b>1920s</b> <b>After the Spanish Flu</b> <b>(1918-1920)</b>	<b>2020s</b> <b>After COVID-19</b>
Supply	<ul style="list-style-type: none"> <li>○ Increased labor input (participation of women in the workforce)</li> <li>○ Increased productivity (Infrastructure, roads, electricity, telephones, home appliances, lights, high-rise buildings)</li> </ul>	<ul style="list-style-type: none"> <li>○ Higher manufacturing cost (Economy blocs due to US-China tensions, climate change measures, income redistribution, investment in education and infrastructure, ESG initiatives)</li> <li>○ Forced saving and restricted investment due to excessive debt</li> <li>○ Increased productivity due to new technologies (AI, IoT, blockchain, etc.)</li> </ul>
Demand	<ul style="list-style-type: none"> <li>○ End of World War I (1918) Recovery after end of Spanish Flu ⇒ Freedom after being suppressed, optimism (revenge consumption)</li> <li>○ Popular innovative new products (Radios, cars, washing machines, fridges, overseas travel, department stores, door-to-door sales)</li> </ul>	<ul style="list-style-type: none"> <li>○ Recovery after end of COVID-19 ⇒ Freedom after being suppressed, optimism (revenge consumption)</li> <li>○ Innovative new products</li> <li>○ Population of China peaking and starting to decline</li> <li>○ Excessive debt a burden on real estate and financial markets</li> </ul>



## 1920s

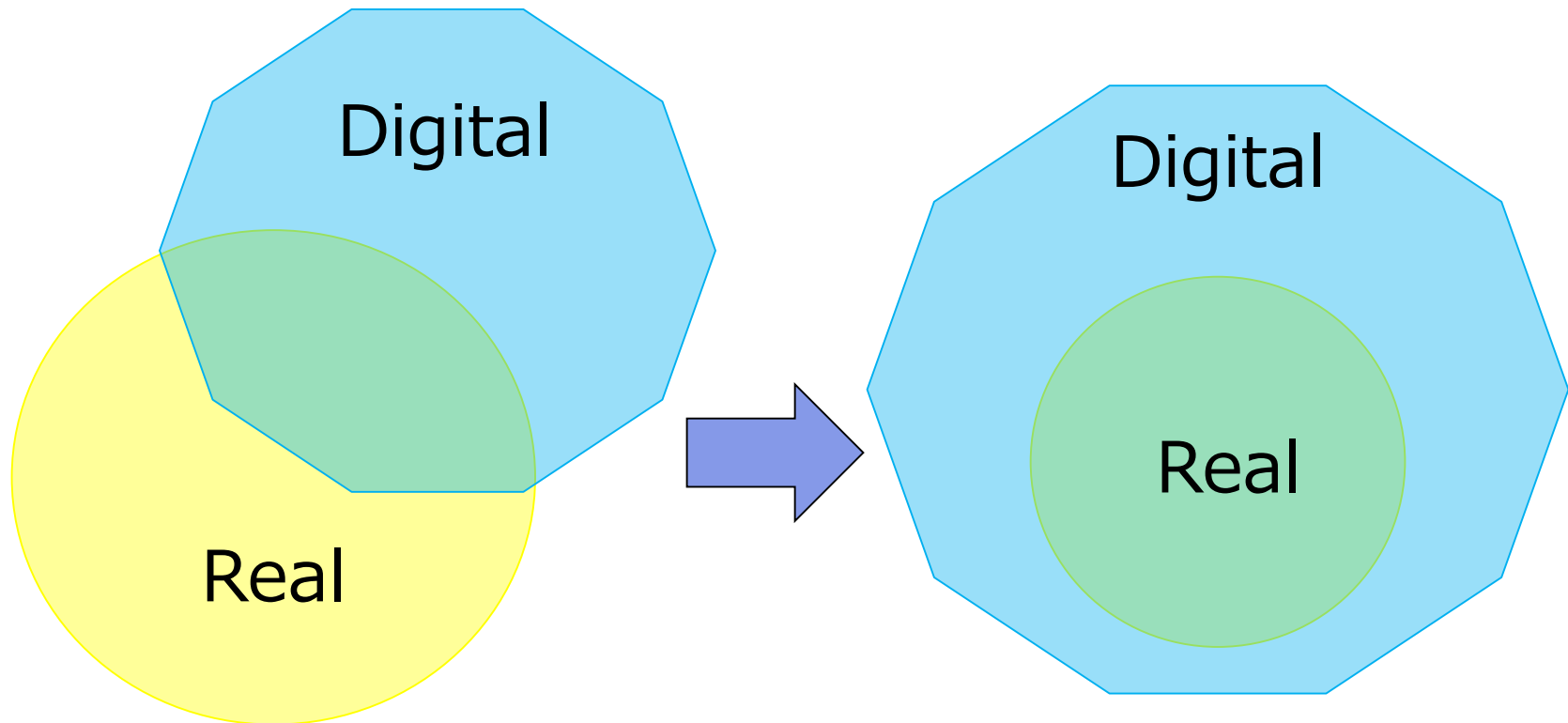
Cars, radios, fridges,  
washing machines,  
sewing machines, traffic lights,  
lights, tabloid-format  
newspapers, etc.

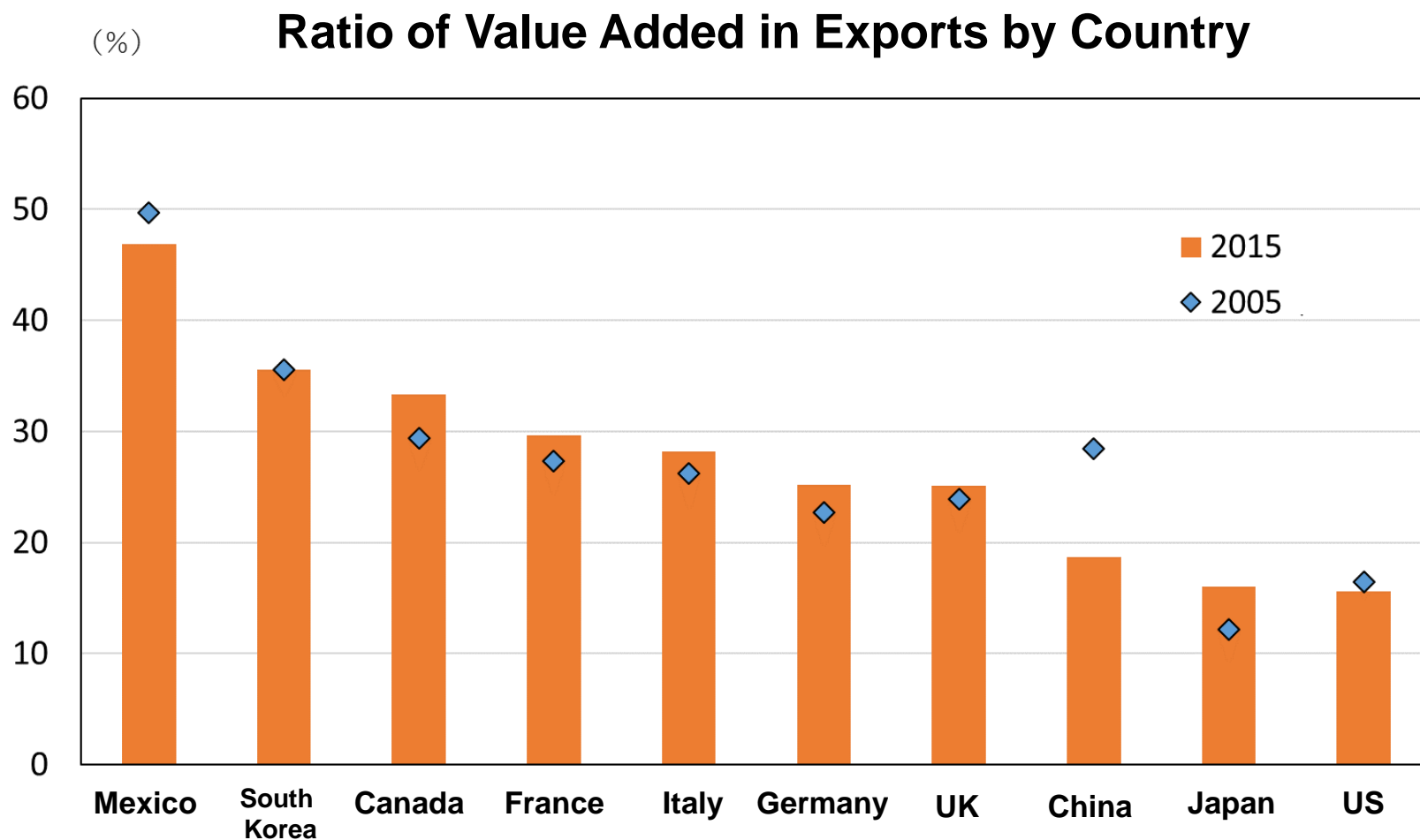




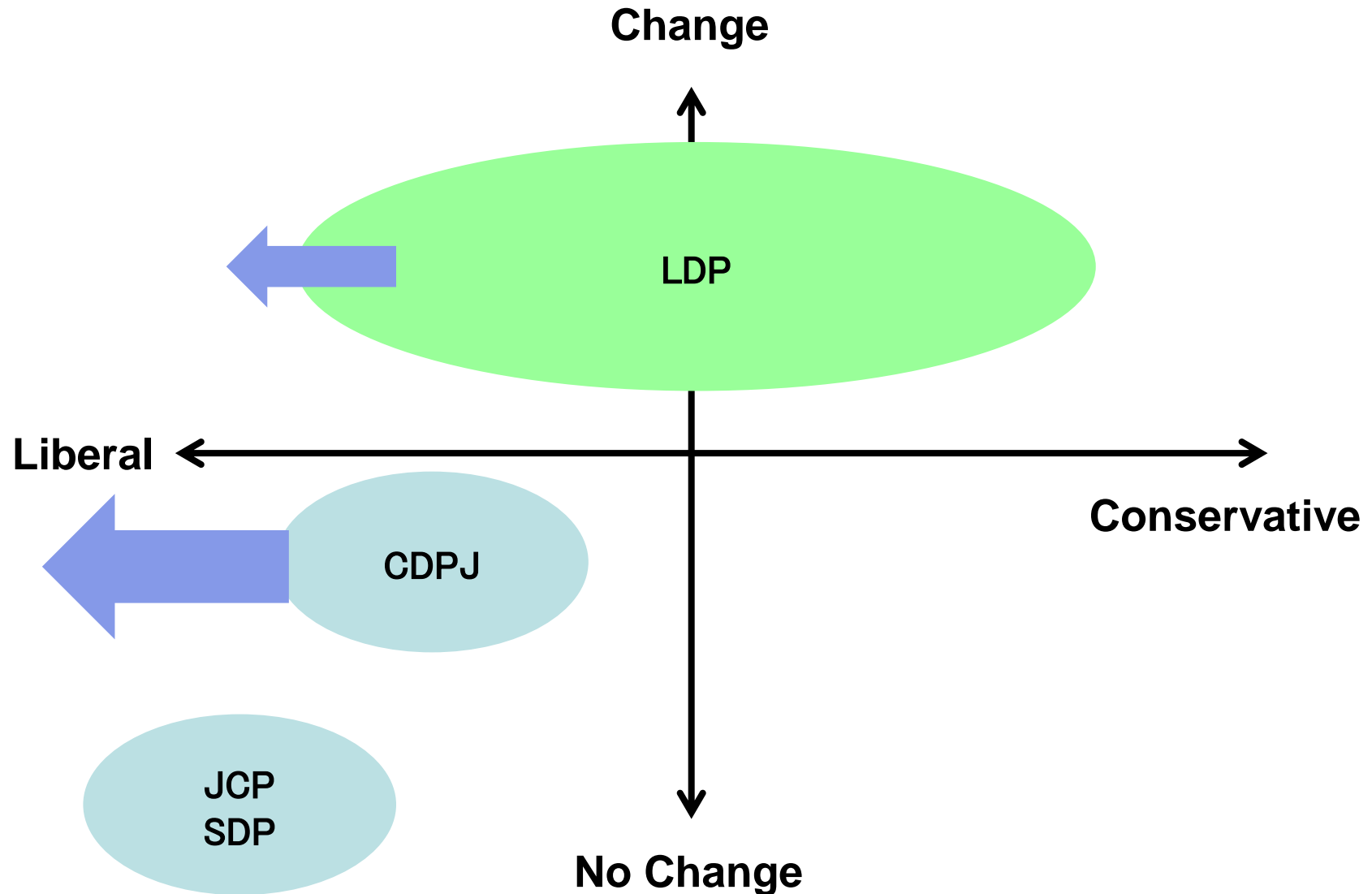
- On a macro level, monetary and fiscal policy support will gradually decline
  - Public and private debt will be a limiting factor
- To mitigate this effect, a focus on equity and innovation is important
  - Debt problem: Addition, subtraction
  - Innovation: Multiplication, division → exponential
- Stocks are not just a preview of economic performance, they grow the economy along with them
  - Stocks include the success of innovation
- Micro factors will become more important
  - (This can be seen as either a risk or opportunity)

# Japan Has An Opportunity as Well: Digital × Real





Source: OECD "Trade in Value Added" (December 2018)



# Late Abe Administration (Focus on Distribution + Security) → Kishida Administration (Distribution + Economic Security)



## 3 Arrows (December 2012) Fiscal/monetary policy, growth strategy

Major House of Representatives election win (Dec. 2012)

Consumption tax hike delay (Nov. 2014)

Cabinet reshuffle: Women participation, regional revitalization (Sept. 2014)

Consumption tax hike (April 2014)

Major House of Councillors election win, end to 'twisted' Diet (July 2013)

Start of 2<sup>nd</sup> Abe Administration (Dec. 2012)

## New 3 Arrows (September 2015) Strong economy, support for raising children, social security

Consumption tax hike (Oct. 2019)

Cabinet reshuffle: Social Security System Oriented to All Generations (Sept. 2019)

Major HoC election win (July 2019)

Major HoR election win (Oct. 2017)

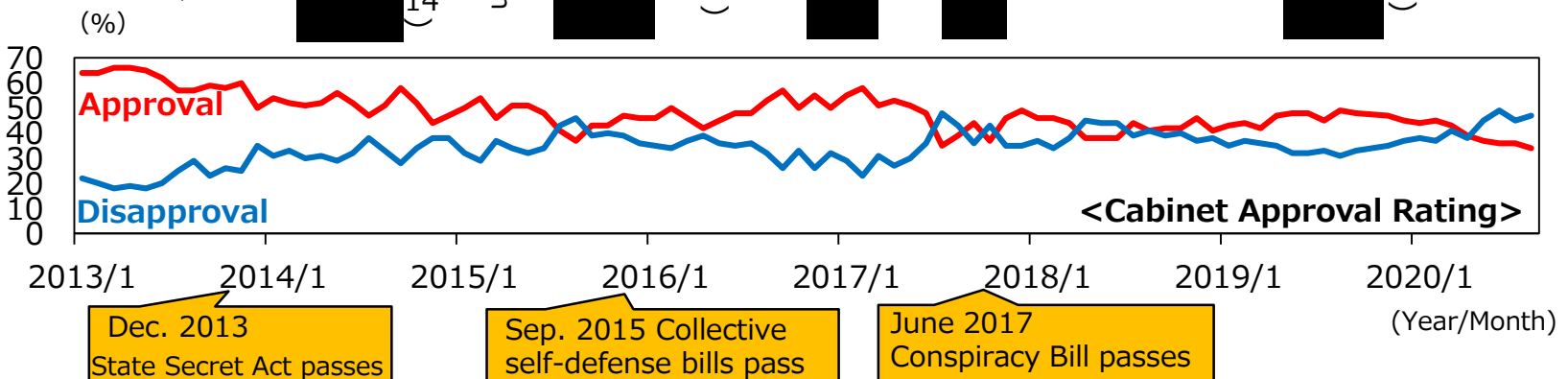
Cabinet reshuffle: Human resources revolution (Aug. 2017)

Cabinet reshuffle: Working-style reform (Aug. 2019)

Major HoC election win (July 2016)

Consumption tax hike delay (June 2016)

Cabinet reshuffle: Hundred-million citizens dynamically engaged (Oct. 2015)

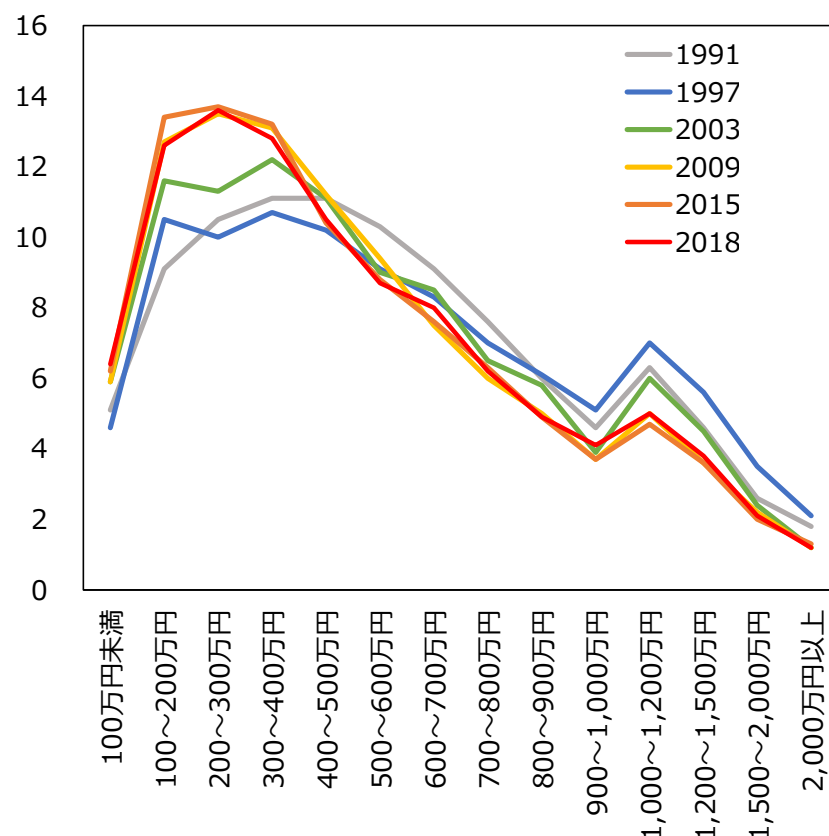


Source: NHK Broadcasting Culture Research Institute



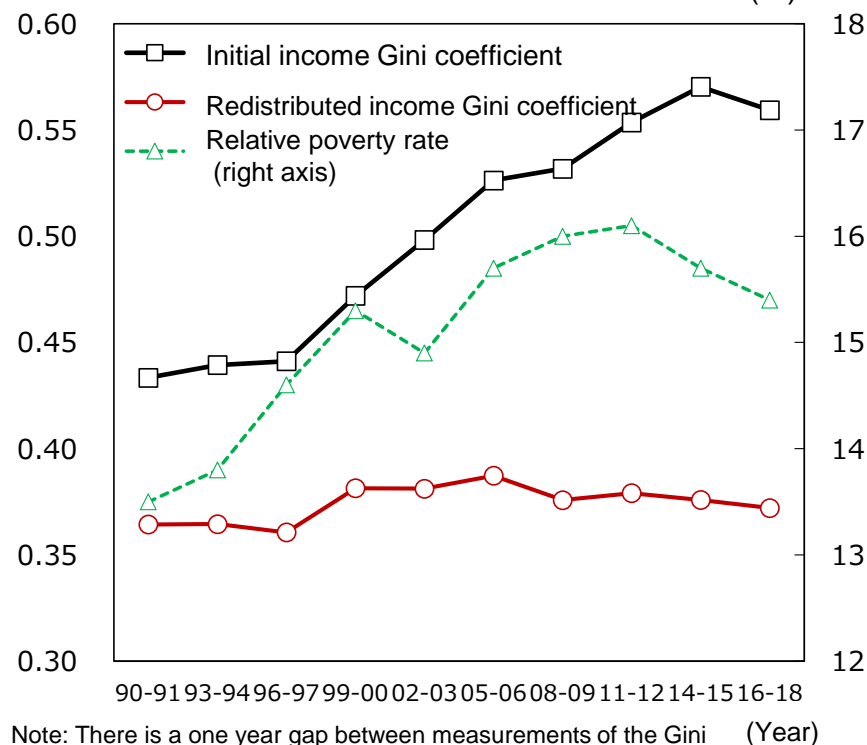


(%) Trends in Household Income Distribution



Source: Ministry of Health, Labour and Welfare White Paper

Improvement of Gini Coefficient by Income Redistribution (%)



Note: There is a one year gap between measurements of the Gini coefficient and relative poverty rate.

Source: Ministry of Health, Labour and Welfare Counsellor Office for Policy Evaluation under the Director-General for General Policy and Evaluation "Income Redistribution Survey," "Comprehensive Survey of Living Conditions"

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