

## Using Abenomics to Benefit New Businesses

Jonathan Epstein , Credorax - 8 December 2014

*The measures that need to be taken by premier Shinzo Abe's administration in reviving Japan's economy include establishing a more fertile business environment in which new start-up firms can flourish.*

The Japanese economy has struggled with a long period of deflation since the crash of its real estate bubble in the early Nineties and it is increasingly challenged by the rapid ageing of its population.

Two years since he returned to office, prime minister Shinzo Abe and his cabinet is battling these problems through a set of policies, dubbed Abenomics, in hopes of leading the way to Japan's recovery. Abenomics comprises a 'three arrow' strategy that comprises monetary stimulus, fiscal stimulus and structural reform, each targeted at stoking demand and delivering growth.

Meanwhile, as the world's 3rd largest economy by gross domestic product (GDP) measures, Japan's outsize contribution and involvement in the global financial community makes resolving these challenges central to international financial stability and prospects for growth.

Recent reviews of Abenomics depict a worrying picture for those who are currently optimistic on the prospects for Abe's reform program. In particular, the deferral from next October of a planned second hike in sales tax following the fall in domestic demand and inflation after last April's first increase has put the government's budget consolidation initiative in danger.

According to ratings agency Moody's, there is an indeterminate delay in the sales tax rise which resulted in the stalling of the 2015 budget. A plan to meet fiscal objectives probably won't appear until the second half next year, at the earliest. With Japan's government debt estimated at approximately 245% of GDP by the end of 2014 (against, for example, 101.5% in the US and 90.6% in the UK), these delays threaten investor confidence in the country.

However, growth constricted sharply in the second and third quarters of 2014 after a sales tax increase from 5% to 8% in April. With the mounting pressure that Japan also faces to increase economic growth and push inflation back towards the Bank of Japan's (BoJ) 2% target, the government is now under pressure to improve the country's performance. Specifically, policymakers face a tremendous challenge in refocusing domestic investors' expectations that they can break out of two decades of deflation - a struggle that so far has fallen short of the target.

The Japanese government faces a herculean balancing act. Should Abe's reforms raise inflation at the cost of a further deterioration in the government's finances, it could make paying for the state's huge debt burden substantially more difficult.

On the other hand, should the reforms fail Japan will still be left with the problem of how to pay for an ageing society without economic growth to help support its rising welfare bills - a challenge that Europe and the US also face, but to a lesser degree. These struggles could also cause investors to doubt the government's fiscal sustainability and increase its borrowing costs. While the threat is mitigated to the extent that Japan's government debt is primarily held domestically, the country's rising energy costs since the March 2011 Fukushima disaster - financed with a falling yen (JPY) - could increase the need for foreign purchases of government debt.

Either way, many policymakers and economic experts are saying that the success of Abenomics is far from certain. Having recently established payment processing operations in the Japanese market, Credorax supports the structural reform 'arrow' of Abe's plans and is playing its part towards improving the efficiency and integration of Japan's financial system by enabling single integration, global smart acquiring.

So while Abenomics will continue in this same vein of uncertainty, there still seems to be a bright side. It comes in the loosening of regulations around digital acquiring and online payment processing. The author previously served as general manager for PayPal Japan, when launching the network to thousands of stores across the country proved challenging as it was next to impossible to jump government hurdles.

As a pure play banking acquirer, Credorax is uncovering windows of opportunity within these economic threats, especially in the electronic and mobile commerce arena. As was experienced with the adoption of Paypal in Japan, we are seeing greater adoption of technology-driven payment processing and online acquiring and find that overseas companies can be better positioned in the oncoming years to overcome government hurdles.

In Japan, as anywhere else in the world, the key to success in the financial sector lies in providing customers with a technology product or service that fills a need not yet being met by traditional players. For such changes, Abenomics' third arrow - structural reform - is both the biggest challenge and the most critical determinant of success. Similar to Abenomics' challenge in transforming the country through flexible and adaptable reforms, there is a parallel in the microcosm of payment processing.

### Daunting Costs

While Japan is ahead of other countries in several areas such as getting credit, protecting investors, trading across borders and resolving insolvency, the country lags in terms of creating a fertile environment for new firms. It costs an estimated 7.5% of Japan's income per capita (as of 2012) to formally start a business in Tokyo according to the 2014 edition of the World Bank's 'Doing Business Report'.

The process typically takes eight procedures and requires 22 days in Japan. By comparison, an entrepreneur can start a business by following just one procedure, in a half day, and at a cost of 0.3% of income per capita in New Zealand. Similarly, starting a business requires only three procedures and no more than four days in Australia, while it costs only 0.4% of income per capita to start a business in Canada.

It is interesting to note that there are various measures the Japanese government can introduce to reduce the number of steps, the monetary cost and the time taken to start a business in Japan. They involve reforms to eliminate the requirement for a company seal (reform 2.1.1), make business registration administrative rather than judicial (reform 2.1.2), create one-stop shop for business registration (reform 2.1.3), and

cut registration fees (reform 2.1.4). These steps would, in our opinion, help accelerate the third reform arrow.

Along these lines, the company very encouraged to be granted a license by Japan's Ministry of Finance, which is the first payments licence that encompasses the merchant acquiring process. This licence demonstrates Japan's willingness to evolve and aims to make Abenomics more meaningful for the country as it helps promote local entrepreneurs' ability to take advantage of more global opportunities.

These sorts of progressive decisions and reforms to Abenomics will help to further streamline and evolve the Japanese market for business.  
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