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Japan as a “Survivor of the Fittest”

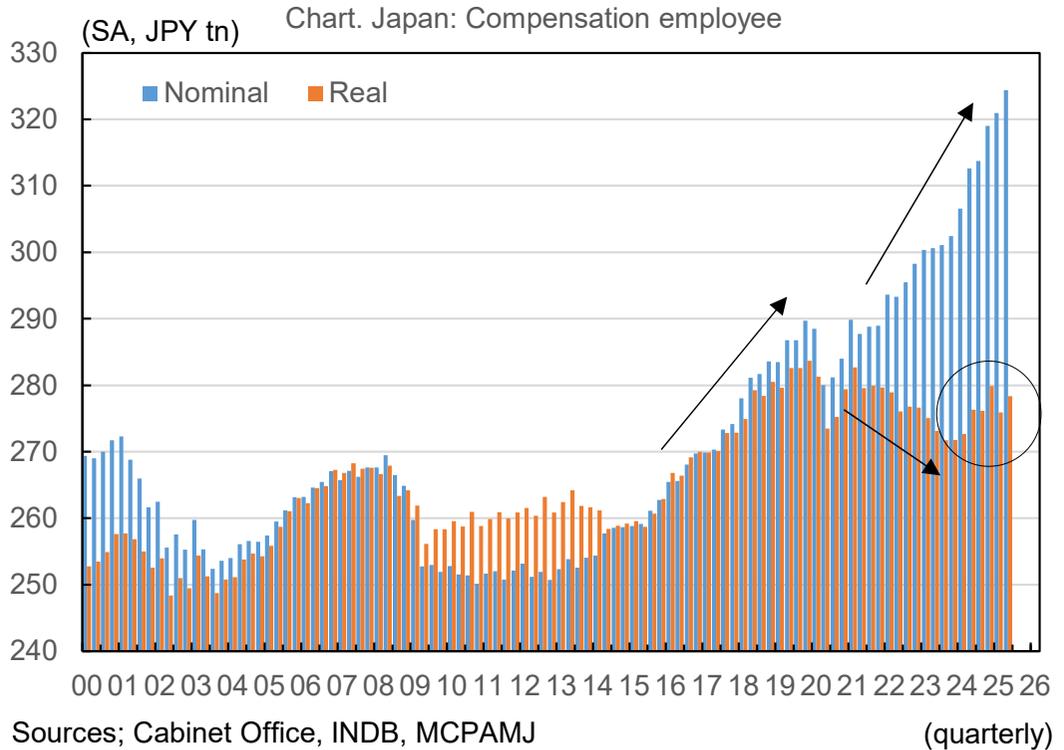
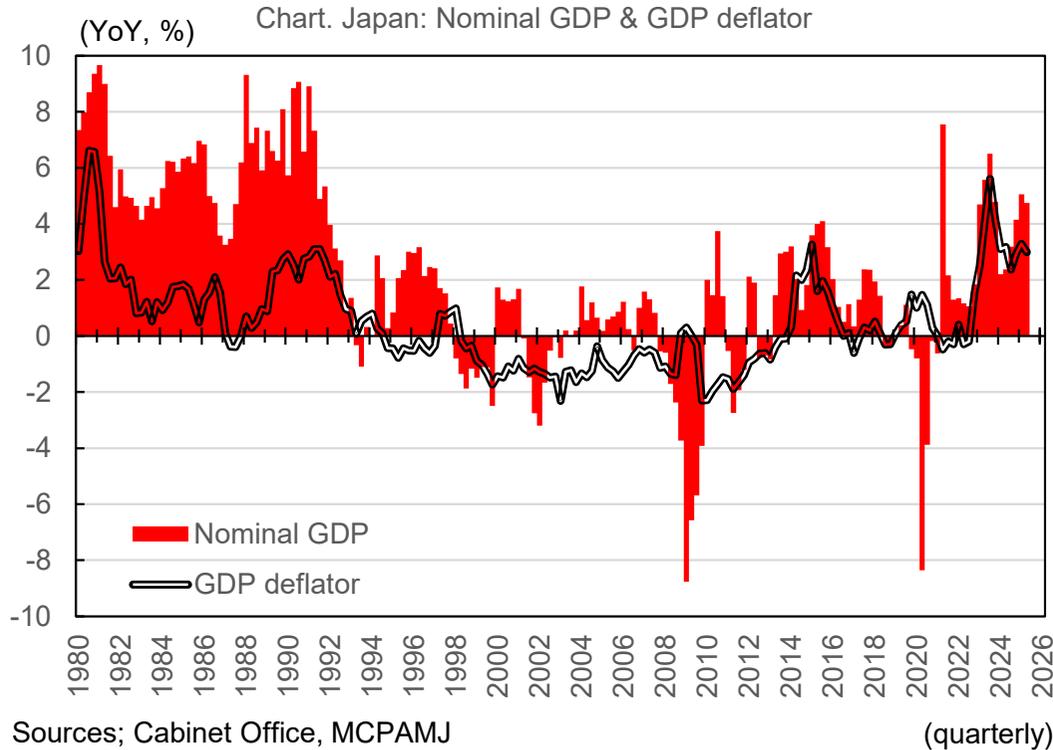
A new era brought by the end of deflation

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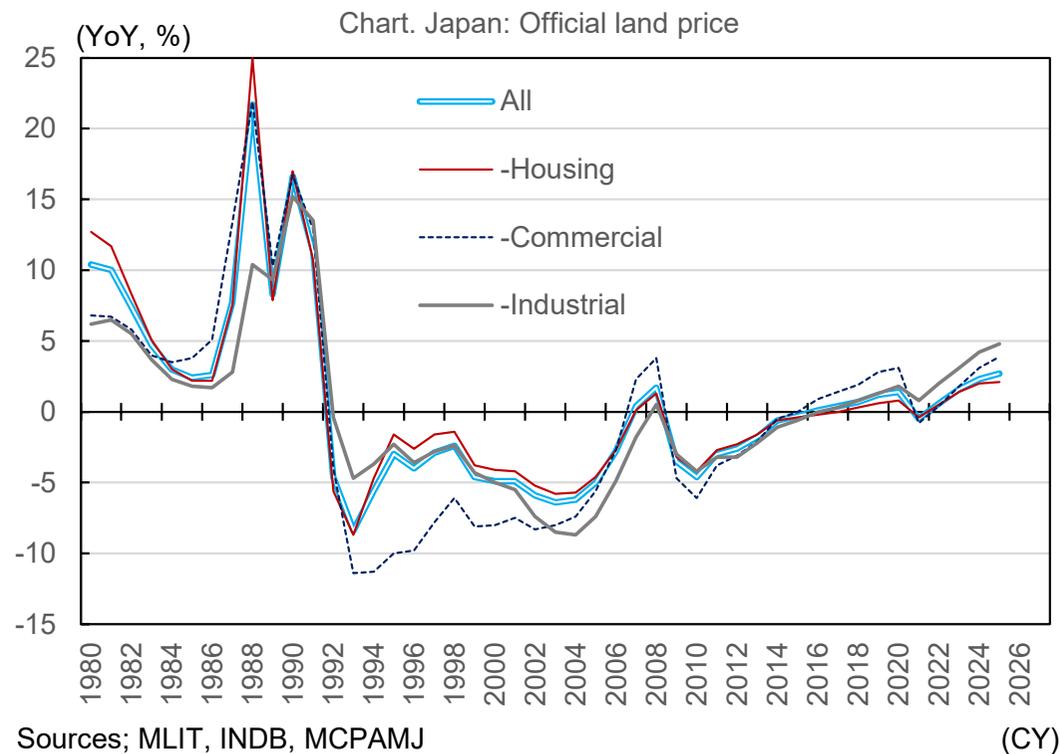
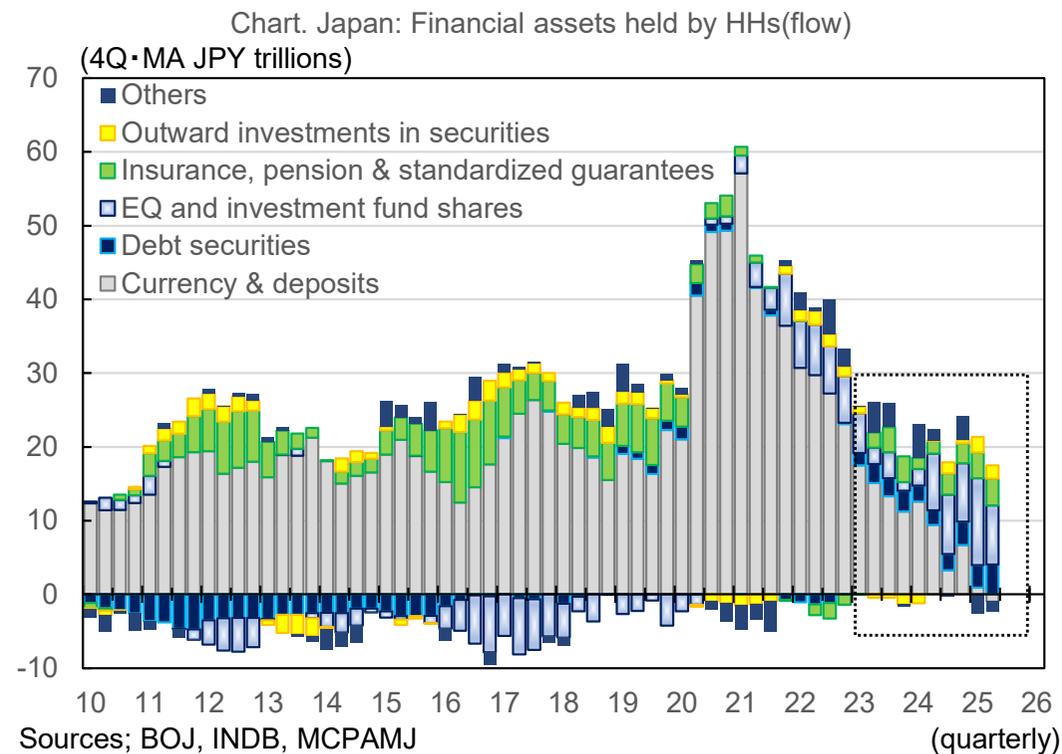
1. Fundamentals, from cost-push to demand-pull.

- Deflation is coming over, but cost-push inflation, along with worsening terms of trade, weighed on economic fundamentals.
- But the real compensation of an employee is picking up.



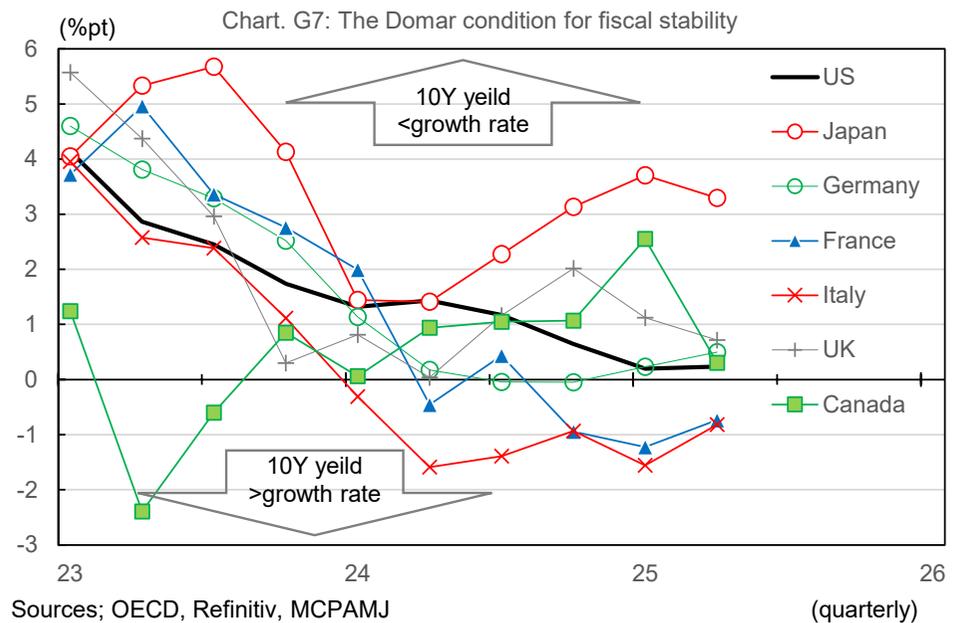
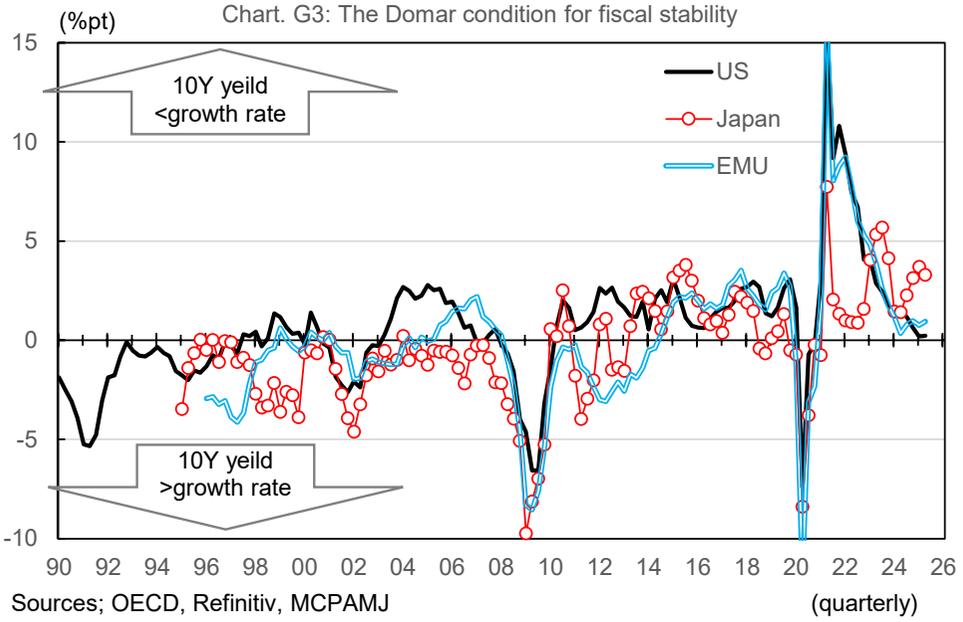
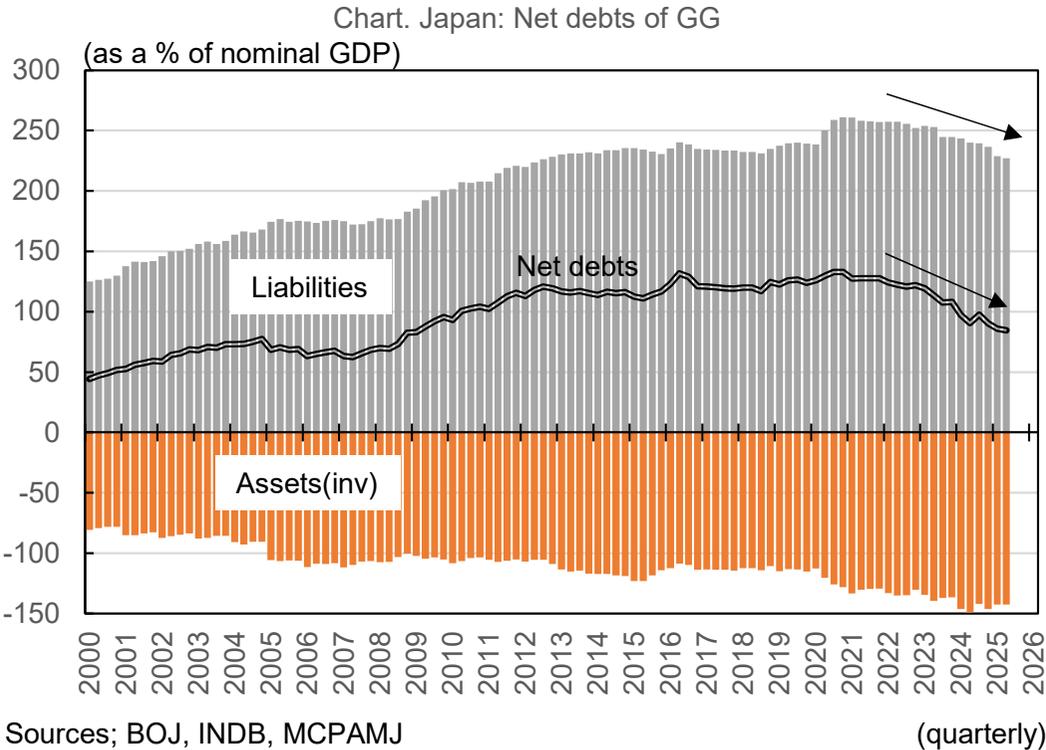
2. Households, from savings to investment.

- The era when Japanese people were eager to save is coming to an end.
- In Japan, where the legacy of a land-based economy remains strong, rising land prices could potentially fuel leverage.



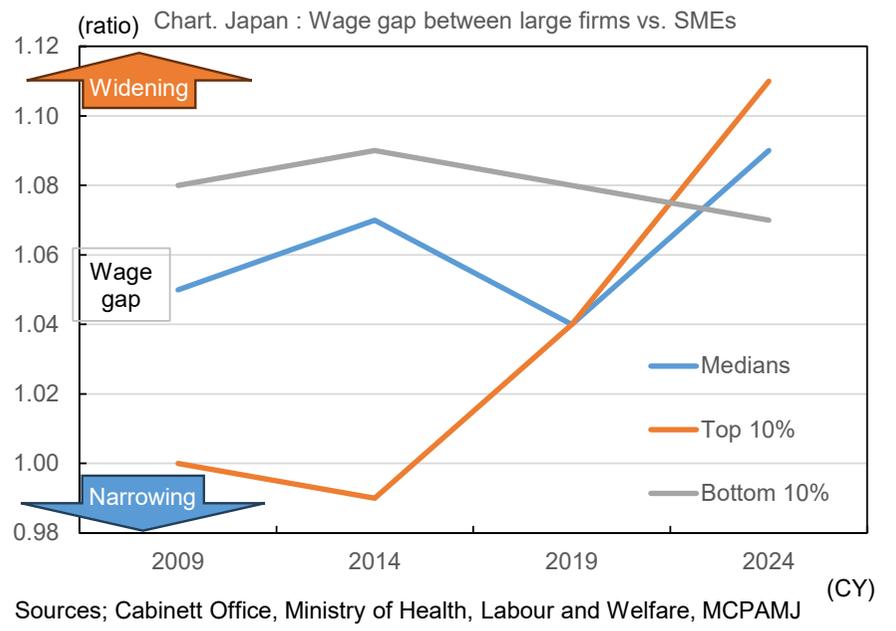
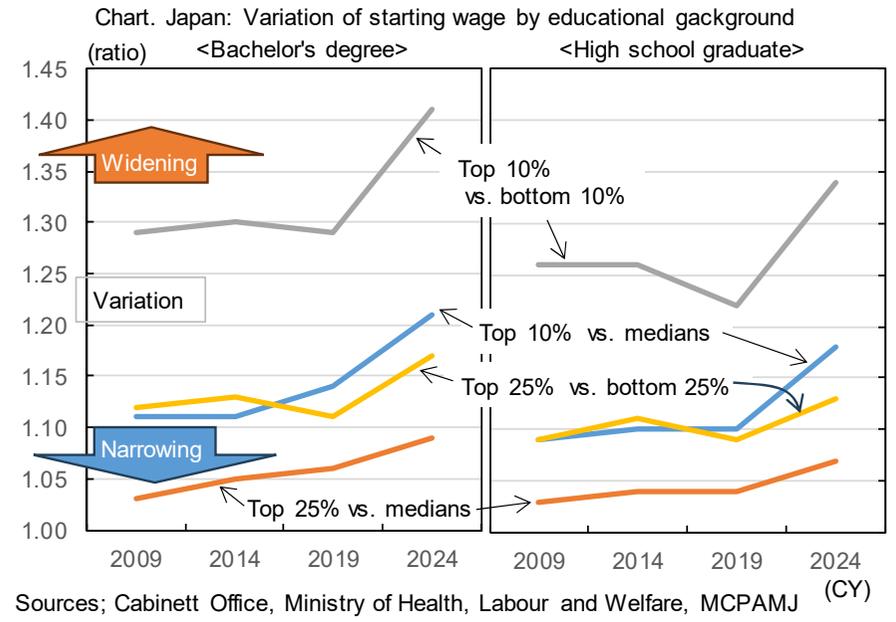
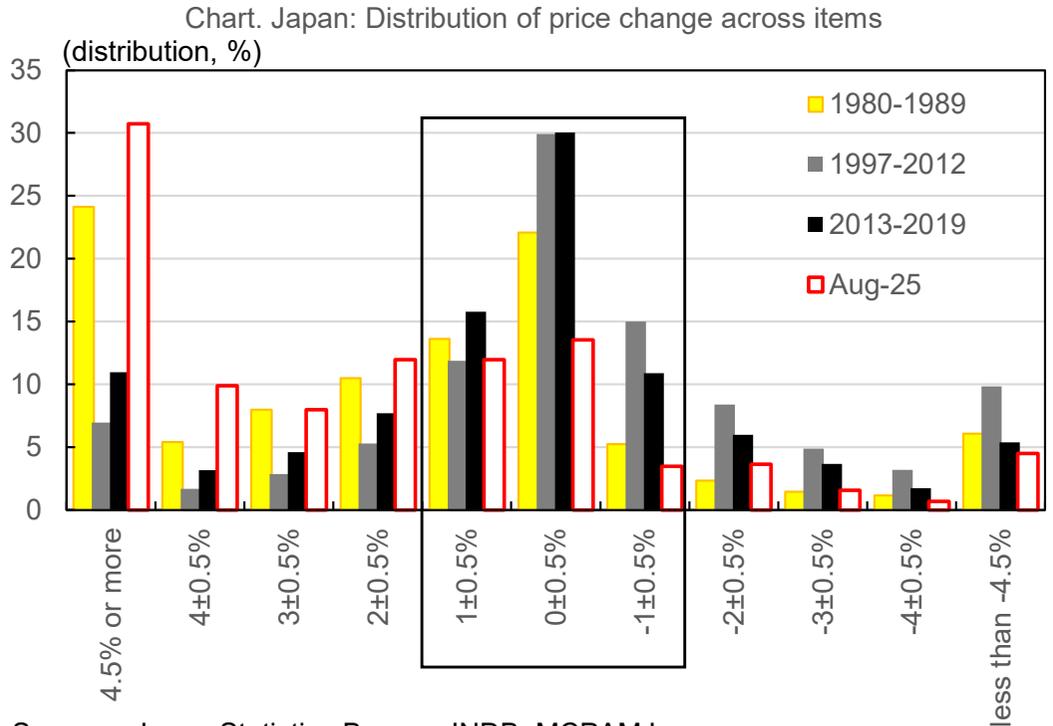
3. Government, from deterioration to consolidation.

- The end of deflation is contributing to fiscal consolidation.
- A higher growth rate than the interest rate is expected to stabilize the fiscal situation.



4. Business, from commoditization to differentiation.

- Business previously pursued only a price-freezing strategy during deflation.
- But now they are adopting various strategies, including a markup strategy.
- These phenomena can also be seen in wage setting.



5. Japan, from loser to winner.

- Japan suffered from deflation during a global era of disinflation (2% vs. 0%).

⇒ However, during a global era of inflation, it will likely benefit from the moderate inflation (3-4% vs. 1-2%).

1. **Households** have realized that savings alone will not be enough for retirement and now actively invest in riskier assets.
2. Under inflation, pressure for **fiscal consolidation** tends to ease, and Japan, where the Doherty condition holds, is particularly prone to fiscal stability.
3. **Business** has gained a wide range of options by easing deflationary pressure.
⇒ There is even the option of applying experiences for business under a deflationary era in Japan to China.

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