BFA Annual Report 2016

Boao Forum for Asia

Asian Competitiveness

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对外经济贸易大学出版社
University of International Business and Economics Press

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对外经济贸易大学出版社
中国·北京

图书在版编目（CIP）数据

博鳌亚洲论坛亚洲竞争力 2016 年度报告 = Boao Forum for Asia Asian Competitiveness Annual Report 2016：英文．—北京：对外经济贸易大学出版社，2016.3

ISBN 978-7-5663-1554-0

Ⅰ.①博… Ⅱ. Ⅲ.①经济发展-研究报告-亚洲-2016-英文 Ⅳ.①F130.4

中国版本图书馆 CIP 数据核字（2016）第 040448 号

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责任编辑: 刘 丹 邸蓓蓓

对 外 经 济 贸 易 大 学 出 版 社
北京市朝阳区惠新东街 10 号 邮政编码: 100029
邮购电话: 010-64492338 发行部电话: 010-64492342
网址: http://www.uibep.com E-mail: uibep@126.com

北京博海升彩色印刷有限公司印装 新华书店北京发行所发行
成品尺寸: 215mm×278mm 4.25 印张 149 千字
2016 年 3 月北京第 1 版 2016 年 3 月第 1 次印刷

ISBN 978-7-5663-1554-0
定价: 160.00 元

Preface

With the background of economic globalization, economies are connected more and more closely, and only by competition, can development be realized. Competitiveness indicates the comprehensive capacity that an economy shows in the competition, which not only reflects the adaptability to rapid changes of external environment, but also reflects the independence of continuous upgrading of self-capacity. Within the scope of the whole world, economies in Asia show relatively comprehensive advantages, which are not only embodied in economic aggregate, development potentials and innovation capability, but also in the infrastructure, social development level and other dimensions. Comparatively speaking, the development stages, the resource endowments, the social systems of economies in Asia are all different, which are indicated in the great differences of comprehensive competitiveness. For the evaluation and analysis of competitiveness of economies within a region, not only the existing development foundations of the economies, but also the development potentials need to be considered rather than just staying on the level of economic strength. Therefore, it is difficult to accurately and objectively evaluate the comprehensive competitiveness of economies, and a scientific and reasonable balance is needed.

The *Boao Forum for Asia Asian Competitiveness Annual Report 2016* completed by China Center for International Economic Exchanges (CCIEE) and released by Boao Forum for Asia (BFA) provides the evaluations and analysis of the competitiveness of 37 economies in Asia-Pacific Region. According to the analysis results, the "Four Asian Tigers", which have more free and open business environment, ranked the top, followed by some developed economies with high level of social development. Although the development potentials and other aspects of the emerging economies had been enhanced to some extent since they had major weaknesses, their comprehensive competitiveness was still relatively backward. Therefore, after the international financial crisis, most emerging economies in Asia have been quickening their paces and fixing their weaknesses, continuously reforming the economic structures from inside, actively implementing structural reforms, and changing the previous economic growth modes, so as to revitalize the economies, take their positions in the more opened international economies as far as possible, march maximally towards the high end of the global value chain, and become beneficiaries of economic globalization.

In general, the comprehensive competitiveness performances of economies in Asia are stable. According to the evaluation results of the past six years, the rankings of Asian economies maintained stable relatively. With the constant changes of economic vitality, innovation capability, commercial and administrative efficiency and other aspects, the competitiveness rankings of certain economies may go up and down slightly, but the comprehensive competitiveness performances are still stable. For example, Singapore has been topping the 37 economies for three consecutive years, but was behind China's Hong Kong in 2012, and in 2011, Singapore was in the first place; although the rankings of Singapore, China's Hong Kong, the Republic of Korea (hereinafter referred to as Korea) and China's Taiwan change slightly in different years, these four economies take the top four places for a long term. Due to the comparative advantages of infrastructure, social development level, human capital and innovation capability that have been accumulated for a long term, Japan, Australia, New Zealand and Israel take the places following the "Four Asian Tigers". Although there are slight changes in some years, their comprehensive competitiveness always ranks the top ten among the 37 economies.

The competitiveness of small economies in development shows more vulnerability. The competitiveness of those small economies in development has drastic fluctuations. For example, impacted by oil embargo and turbulences and conflicts in Middle East, Iran's comprehensive competitiveness was shocked significantly, leading to the weakening of competitiveness. This is mainly because that these economies have weak capability to resist external risks and usually have sharply-dropped competitiveness due to external risk shocks in some years. In general, the comprehensive competitiveness of China, India and other large economies are relatively stable, while the competitiveness rankings of some small economies in development will have certain ups and downs. In the view of development, all economies in Asia have the internal motivation for maintenance of sustainable growth of economies and societies and for maintenance of comprehensive competitiveness advantages. Most of them are making efforts in the aspects of infrastructure completion, corruption elimination, administration streamlining and power delegation, public facility quality enhancement, etc.

The competitiveness evaluation of Asian economies is interesting, useful and creative. The report 2016 focuses on the evaluation of the competitiveness of 37 economies in the Asia-Pacific Region and makes a detailed analysis of the competitiveness of each economy, expecting to receive equal attention on these economies. Until now, this report has become one of the leading publications owned by BFA and received wide attention from Chinese and foreign governments, enterprises, media and research institutions. What is worth noticing is that, the focus of the research is to make an assessment of 37 economies in the Asia-Pacific Region in terms of commercial and administrative efficiency, infrastructure, overall economic vitality, social development level and human capital and innovation capability, view the strengths and weaknesses of the economies as a whole, provide a reference for domestic and international stakeholders and make contributions to the sustainable prosperity of Asia.

Looking back to the past, the evaluation research has been conducted for six years. With the encouragement and support from Chinese and foreign scholars and sincere and active involvement of global leaders, the research has been subject to adjustment, optimization and continuous improvement and become increasingly mature. All along the way, we endured great hardships in pioneer work but kept to our original aspiration. The original intention of this research is to promote Asia to create common dividend and share the achievement of development. By using this report, we hope to receive your comments, reflect the vitality of this report in closely keeping pace with the situation, inspire your thinking, guide the future, promote your actions and initiate a new life.

周文重

Zhou Wenzhong
Secretary-General
Boao Forum for Asia

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Chapter 1

Analysis on the Economic Situation and Outlook of Asia

Overall, the global economy remained to maintain a momentum of robust recovery in the year 2015. However, the previous growth trend of emerging and developed economies had deviated. And the traditional pattern that the overall economic growth of emerging economies was significantly higher than that of developed economies was changed. The gap of economic growth between emerging and developed economies was narrowed from 2.8% in 2014 to 2% in 2015. Developed economies, led by the US, gradually replaced emerging economies and gradually became stabilizers of global economy. Under such background, major Asian economies will be faced with even more complex international economic environment.

1.1 International Economic Environment for Asia's Economic Growth in 2015

Overall, the global economy remained to maintain a momentum of robust recovery in the year 2015. Economic growth in the world was estimated to reach 3.1% in 2015, slightly lower than 3.4% in 2014. However, the previous growth trend of emerging and developed economies was overturned. And the traditional pattern that the economic growth of emerging economies was significantly higher than that of developed economies was changed. Among developed economies, the US outshined all the other economies in terms of economic growth; and Japan and the Eurozone gradually got rid of economic depression. On the whole, economic growth of developed economies was estimated to reach 2%. The figure was estimated to be 2.6%, 1.5% and 0.6% respectively in the US, Eurozone and Japan, with a significant increase compared with that of 2014. Nevertheless, emerging economies witnessed a significant drop in economic growth. Considered as a whole, the economic growth of emerging and developing economies was estimated to arrive at 4%, hitting a new low since the financial crisis. The gap of economic growth between emerging and developed economies was narrowed from 2.8% in 2014 to 2% in 2015. Developed economies, led by the US, gradually replaced emerging economies and became stabilizers of global economy.

Seen from the Purchasing Managers' Index (PMI) of the global manufacturing industry, industrial production, international trade and other prosperity indices (See Figure 1.1 and 1.2), the prosperity of the global manufacturing industry was significantly worse than that of 2014. It was mainly due to the fact that the PMI of China's manufacturing industry was below the manufacturing gauge, 50. The sharp recession of the global trade was impacted by the contraction in demand of China on the one hand and by sharp fall in global energy and bulk commodity prices on the other hand. Similarly, the increase in industrial production index was significantly slower than that of 2014, which was also affected by the single-digit low growth in the added value of China's industrial output. In a word, only in terms of the prosperity of international trade, manufacturing and industry, the contradiction in China's economic demand and slow drop in China's economic growth was crucial to the adverse impact on the global industrial prosperity.

Observed from the status of developed economies, the economy of the US grew at 2.88%, 2.72% and 2.03% respectively in the first three quarters of 2015 (annualized rate on a year-on-year basis), with an expected increase of 2.6% in the whole year. The economic growth of the country benefited from the obvious increase in personal consumption expenditure. In the second and third quarters, only personal consumption expenditure added 2.42% and 2.19% to economic growth, almost presenting all economic momentum of economic growth. And the economic recovery of the Eurozone benefited from the sharp increase in export, which was driven by Euro depreciation. Especially under the background of great economic depression of the

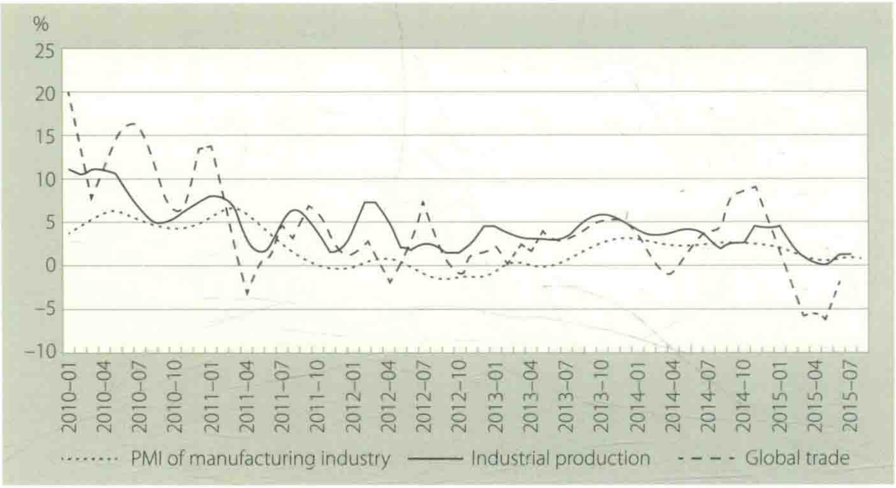

Figure 1.1 Changes in Major Global Economic Prosperity Indices

Note: For the three indices, the quarterly moving annualized increase is given in the above chart.

Source: IMF

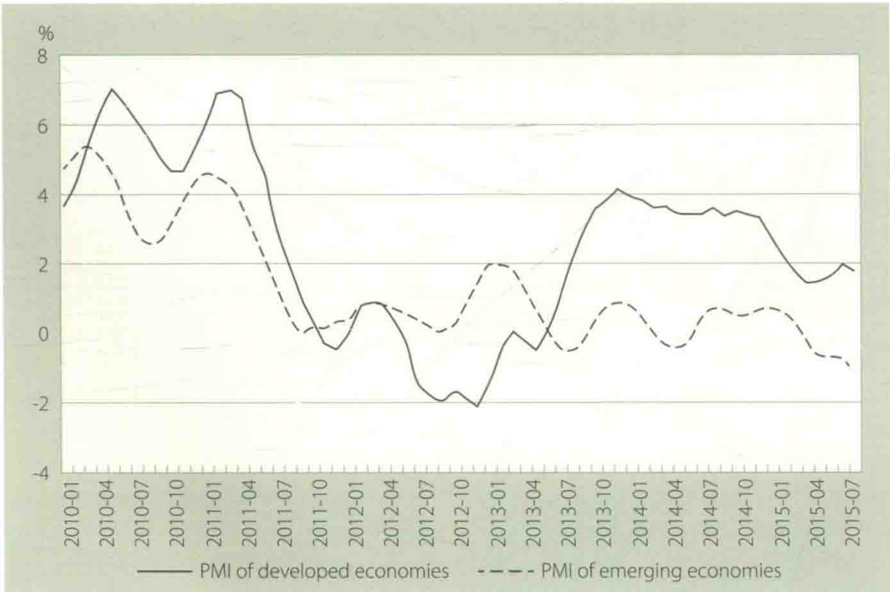

Figure 1.2 The Prosperity of the Manufacturing Industry of Developed Economies Is Significantly Better than That of Emerging Economies

Note: For the two indices, the quarterly moving annualized increase is given in the above chart.

Source: IMF

global trade, the export of the Eurozone had an annual average increase of up to 6.3% from January to August of the year, significantly higher than the average increase in global trade. In the second and third quarters, the zone had an increase of 1.3% and 1.6% in economy, in which only export added 0.46% and 0.72% to economic growth. The economic recovery of Japan was positively driven by the sharp depreciation of the Yen. In the second and third quarters, Japan had a positive economic growth of 0.7% and 1.6%, with export adding 0.3% and 0.5% to economic growth.

In conclusion, changes took place in the global economic environment for the economic growth of the Asian Region in 2015. Developed economies came to become the important driving force for steady economic recovery of the world by replacing emerging economies. The economic downturn of the Chinese industry and manufacturing industry and the contraction of their demand for bulk commodity produced negative impact on the export of primary goods and manufactured goods of the region. Specifically, although the Asia-Pacific Region, as major engine for global economic growth, has slightly slowed its speed in expansion in these years, it benefited a lot from the overall economic recovery and continuous drop in oil prices of developed economies . In 2014, the region remained to add 1/3 to global economic growth, twice of total contribution by other developing regions. In terms of purchasing power parity (PPP), the Asia-Pacific Region contributed 40% to total global Gross Domestic Product (GDP). In 2015, with intensified economic fluctuation of global economy and added uncertainty, the Asian-Pacific Region, especially developing economies, slowed their growth in the first half year. In the *Asia-Pacific Economic Outlook* released by IMF in October of 2015, the expectation on the economic growth was lowered. However, thanks to its good labor market conditions and increase in annual disposable income per capita, the region remained to maintain a GDP increase of 5.4% and continued to be a leader in global economic growth. It was emphasized by IMF that, the Asia-Pacific Region would probably be faced with further decrease in economy if China was troubled by abrupt economic growth or the US raised interest rate in the end of 2015 to cause US dollar appreciation.

1.2 Overall Economic Situation of the Asian Region

Influenced by China's economic downturn, the Asian economy also witnessed slowdown. In 2015, the economy of Asia was estimated to grow 5.4%, reaching a new low since the world financial crisis. China, as one of the largest economies of Asia and largest exporter of most emerging Asian economies, was estimated to obtain an economic growth of 6.9%, hitting a new low since 1992. Thus, the drop in China's economic growth became a leading factor for economic downturn of the region to some extent. Strongly stimulated by large-scale quantitative easing monetary policy and consumption tax supply-front reform, Japan was estimated to have a 0.6% increase in economy. Influenced by gloomy prices of bulk commodities, Australia, New Zealand and other developed economies of the Asia-Pacific Region witnessed a drop in economic growth to some extent. For the first time, India surpassed China in terms of economic indication and saw a growth of 7.3%. In spite of slightly slower economic growth in Malaysia, Indonesia and other economies of the region, fruitful results were obtained in the stable political situation of Thailand and supply-front reform of Vietnam, making ASEAN members to maintain basically stable economic growth. China's Hong Kong and China's Taiwan witnessed a gradually slowed economic growth under the influence of Chinese mainland's economic downturn (See Table 1.1).

The most direct factor for Asia's economic downturn lies in gradually weakened pulling effect of regional exports on economic growth. During the previous five years since 2011, the increase in Asia's exports has been significantly smaller than that in GDP, which appeared most obvious since 2014. The drop in export increase of the region is most directly caused by the suspended growth in the exports of China, which represents the largest trade partners among major economies of the region. In 2012, for the first time, China witnessed a single-digit increase in exports. From 2012 to 2014, China obtained an increase of 4.3%, 7.24% and 0.47% respectively. In 2015, China had a total goods export value of USD1 682.07 billion, significantly lower than the new historical record created in 2014 (USD1 959.2 billion), 14.1% down. The dramatic drop in China's domestic demand and in price of bulk commodity represented direct contributors to the economic downturn of bulk commodity export countries of the Asia-Pacific Region including Australia, New Zealand and Indonesia (See Figure 1.4). Meanwhile, due to the close link with the inter-industry labor division of the Chinese manufacturing industry, the Republic of Korea, China's Taiwan and Malaysia also experienced decreased economic growth. Conversely, India and Japan whose manufacturing industry relies less on Chinese economy were not influenced by the drop in China's imports while Japan, Thailand, Vietnam and some other economies which are major destinations of overseas tourism for Chinese visitors witnessed relatively small impact by the drop in China's imports in terms of economic growth.

Table 1.1 Economic Growth of Asian Economies (%)

Economy	2012	2013	2014	2015	2016
Asia	**5.7**	**5.8**	**5.6**	**5.4**	**5.4**
Australia	3.6	2.1	2.7	2.4	2.9
Japan	1.7	1.6	-0.1	0.6	1.0
New Zealand	2.9	2.5	3.3	2.2	2.4
East Asia	**6.8**	**6.9**	**6.7**	**6.2**	**5.8**
China, People's Republic of	7.7	7.7	7.3	6.8	6.3
China's Hong Kong	1.7	3.1	2.5	2.5	2.7
Korea, Republic of	2.3	2.9	3.3	2.7	3.2
China's Taiwan	2.1	2.2	3.8	2.2	2.6
South Asia	**5.2**	**6.8**	**7.2**	**7.2**	**7.4**
Bangladesh	6.3	6.0	6.3	6.5	6.8
India	5.1	6.9	7.3	7.3	7.5
Sri Lanka	6.3	7.3	7.4	6.5	6.5
Nepal	4.8	4.1	5.4	3.4	4.4
ASEAN members	**6.0**	**5.2**	**4.6**	**4.6**	**5.0**
Brunei	0.9	-2.1	-2.3	-1.2	3.2
Cambodia	7.3	7.4	7.0	7.0	7.2
Indonesia	6.0	5.6	5.0	4.7	5.1
Laos	7.9	8.0	7.4	7.5	8.0
Malaysia	5.5	4.7	6.0	4.7	4.5
Myanmar	7.3	8.4	8.5	8.5	8.4
The Philippines	6.7	7.1	6.1	6.0	6.3
Singapore	3.4	4.4	2.9	2.2	2.9
Thailand	7.3	2.8	0.9	2.5	3.2
Vietnam	5.2	5.4	6.0	6.5	6.4

Note: The data of 2015 and 2016 are predicted value.

Sources: IMF, World Economic Outlook database

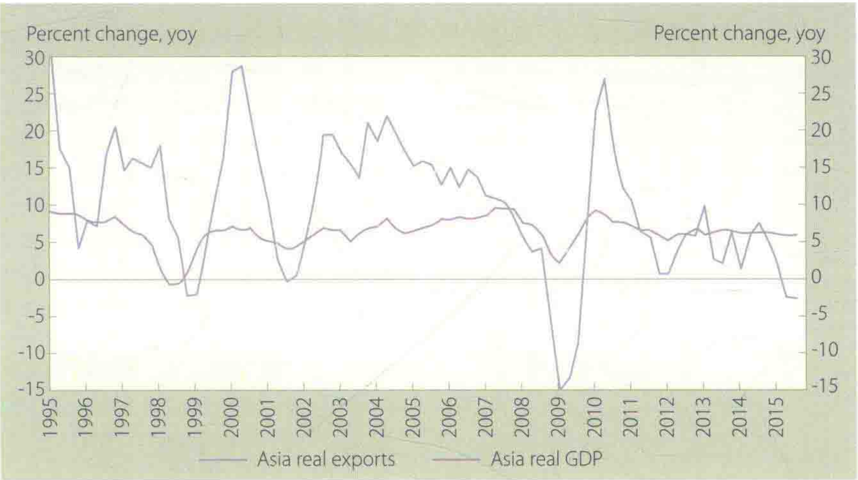

Figure 1.3 The Increase of Asia's Exports Has Significantly Lower than Economic Growth

Sources: IMF, World Economic Outlook database

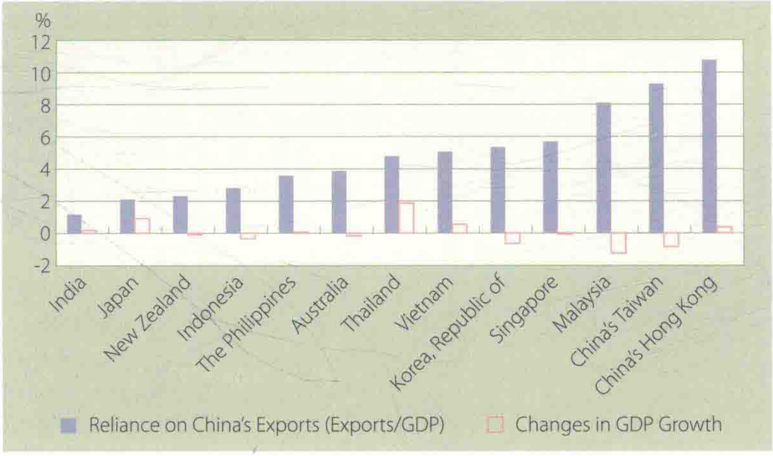

Figure 1.4 Emerging Asian Economies Rely More on China's Exports

Source: Asian Development Bank (ADB)

Although China may witness further economic slowdown in 2016, the whole Asian Region are expected to maintain a stable growth momentum and continue to keep an increase of 5.4%. Global bulk commodity prices will turn around, drive the increase in the exports of Australia and New Zealand and further facilitate the economic growth of both countries. With the trend of accelerated economic growth in India, four East Asian countries will create a new high of 7.4% that has never reached in the recent years in terms of economic growth, leading Asia's economic growth for the first time. Indonesia, as the largest economy of ASEAN, will regain its economic growth of 5% or above. Also, followed by the pick-up of economic growth of major countries including Thailand, the Philippines, Singapore and Vietnam, ASEAN's economic growth is expected to exceed 5% again in 2016, which will further enhance economic vitality. Although Asia's economy will also be influenced by continuous USD appreciation and capital flight, the vulnerability of Asian economy has been obviously better than that of 1998. And there will be no major economic fluctuation.

1.3 Economic Situation by Country or Region

1.3.1 China Still Witnessed Economic Downturn

Since 2007, the growth of China's GDP has dropped from over 14% in the peak period to around 7%. China obtained an economic growth of 6.9%, hitting a new low since 1992. However, the economic downturn of China is followed by continuous optimization of Chinese economic structure.

1) Gradually Optimized Chinese Economic Structure

The optimization of Chinese economic structure is shown in the following two aspects: first, the demand structure driven by economic growth is being steadily optimized. For the first three quarters of 2015, consumption added 58.4% to GDP growth, 9.9% up compared with that of the same period in 2014, 15% more than the gross capital formation and nearly equivalent to around 60% consumption in developed economies to economic growth. It was estimated that the final consumption expenditure in 2015 would contribute 60.0% to the GDP growth, 5.7% up compared with that of the same period in the previous year and reaching the highest level since 2012.

At the same time, the contribution rate of investment in economic growth points had become smaller than that of consumption. In the first three quarters of 2015, fixed asset investments had an increase of 10.2%, 5.6% down compared with that of the same period in the previous year, reaching the bottom since 2000. Since the beginning of the year, three areas of fixed asset investments including manufacturing industry investment, real estate investment and infrastructure investment have shown continuous drop in its growth. From January to November, real estate development investment only increased by 1.3%, 10.6% down compared with that of the same period, becoming the major factor for drop in investment growth. Economic growth is relying less on real estate investment and the Chinese economy is in the crucial stage of transformation and upgrading.

Second, the economic transformation led by service industry had become increasingly obvious. In terms of industry structure, the tertiary industry accounted for 51.4% of the total GDP for the first three quarters of 2015, 2.3% up compared with that of the same period in the previous year and nearly 11% higher than that of the secondary industry. For the third quarter, the tertiary industry added 58.8% to GDP growth, 8.2% up compared with that of the same period in the previous year and 22% up in contrast to the secondary industry, which benefited from fast growth of financial service industry driven by the prosperity of stock market. Despite the fact that it is hard for such trend to sustain, it remains predictable and the contribution of the tertiary industry to the economic growth will not witness a sharp decrease. That is because the emerging service industry driven by the Internet witnesses a fast growth and will provide a new support for the tertiary industry. These structural changes mean that China will continue to shift from industry-leading to service-leading.

2) China's Economic Policies Remain to Have a Large Space for Adjustment

Over years of economic deceleration, China is experiencing more and more positive factors in terms of economic operation and has the probability of soft landing featuring shifting from high-growth drop to medium- and high-speed stable growth. The favorable factors are shown as follows:

First, the policy of "ensuring steady growth" had been augmented and witnessed initial results. It is required at the meeting of Political Bureau of the Communist Party of China (CPC) Central Committee held in April 2015 that China's economic downturn should be paid attention to and ensuring steady growth should be attached even greater importance to. Subsequently, the following economic growth stimulus policies have been augmented: (1) Enhancing input of infrastructure and public service construction. For example, the Ministry of Finance proposed to enhance efforts to facilitate the construction of major projects, including speeding up the allocation of major water resources engineering project funds, taking full advantages of railway development funds and national integrated circuit industry investment funds, etc. The National Development and Reform Commission (NDRC) proposed to launch four engineering packages, namely fostering strategic emerging industries, enhancing the core competitiveness of manufacturing industry and developing modern logistics and urban rail transit so as to enhance effective investment of infrastructure. (2) More easing monetary policy including decrease in deposit reserve ratio and interest rate will further improve market liquidity and release funds constraints to some extent. (3) In the second half year of 2015, the shifting of real estate sales in some regions towards growth has driven the increase in real estate development of the period. (4) Guided by the policy of local debt replacement, the local governments will be exposed to financing space again. (5) The adoption of ensuring steady foreign investment and reduction of duty tax of some commodities and regulation of consumption tax are expected to further increase imports and exports and consumption recovery and foreign trade will continue to play an even more positive driving effect on economic growth.

Second, the monetary policy still had a larger space for producing effect. In response to economic downturn, the central government of China proposed to revitalize stock funds reserves and effectively implement proactive financial policies so as to give an effective support to economic growth. As of the end of October, 2015, China had a balance of finance capital deposit of over RMB4.8 trillion and financial authorities at different levels had collected precipitation and illegal funds of over RMB250 billion. These stock funds can be revitalized in an integrated manner for emergent major projects and public service construction areas. Meanwhile, government financial deficits still have a large space for growth. In 2015, the planned financial deficits were RMB1.62 trillion, 2.3% of the total GDP and lower than the safety limit of 3%. The debts of the Chinese government are still within the scope of safety. Currently, in a broad sense, the ratio of the central government over the total GDP is not higher than 30% and local government debts are also within the scope of 60% safety limit. In addition, monetary policies, either regarding interest rate or deposit reserve ratio, remain to have a space for adjustment.

Finally, deepened supply-front reform and opening up add new vigor to economy. Currently, the Chinese government is trying to provide the community with a better business environment by streamlining the administration and delegating real powers to lower levels and add new vigor to economic growth by launching economic system supply-front reform in terms of market access, financial taxation, state-owned enterprise, business affairs and element price and building a new open economic system: (1) The Chinese government has formulated the "Internet Plus" action plan and "Made in China 2025" initiative, fully implemented innovation-driven strategy, actively promoted industry structure optimization as well as supply-front reform and upgrading of the traditional manufacturing industry, and stimulated the upsurge of "encouraging people to do business creatively and driving innovation", contributing to the generation of new industries, technologies and businesses. (2) The government has launched in an orderly manner "One Belt, One Road" strategy and open economic system, helped enterprises to seek for new space of international cooperation, facilitated Chinese enterprises to "go global", accelerated international cooperation regarding competitive capacity, advanced technologies and emerging market, etc. and the development of new business models of foreign trade, and quickened the speed of implementing the guideline on promoting fast and sound development of cross-border e-business in order to practically facilitate steady growth of imports and exports.

3) China's Economic Outlook: Coexistence of Opportunities and Challenges

In the long run, the existing issue relating to supply structure and depressed internal and international demand leads to continuously weakened real economy. Due to sharp decrease in the price of bulk commodities and vulnerable real economy, China is faced with continuously increased inflation pressure. No new growth momentum has been formed upon the ending of real estate cycle. Weakened investment especially in real estate constitutes major factor for economic restructuring. Nevertheless, the restructuring of real estate industry is far from completion in the long run and it remains a hard work for second- and third-tier cities to destock. Thus, the real estate industry will remain to encumber overall investment. It is still quite necessary to increase financial input and stabilize the growth in structure investment so as to hedge decrease in investment. Multiple factors including high real interest rate, difficulty in small and medium enterprises (SME) financing as well as fall in monetary base caused by capital outflow demand for further easing of monetary policies. Also, the supply-front reform proposed by the central government provides orientation for enterprise departments to cut excessive industrial capacity. More crucially, tax reduction, increase in expenditure and in financial deficits will remain a focus for further tasks. Overall, China will continue its weak economy in 2016 and her GDP growth will probably further drop to around 6.5%. With continuously optimized economic structure, the Chinese economy has tended to shift from stabilization to improvement.

1.3.2 "Abenomics" Was Difficult to Help the Japanese Economy out of Dilemma

1) The Japanese Economy Remained to Be Weak in Recovery Basis

Japan, as the second largest economy of Asia and the third largest economy of the world, has never got rid of the dilemma featuring inflation and stagnant economy. Since the financial crisis in 2008, Japan has been trapped in economic recession for three times, namely Q3 in 2011, second half year of 2012 and the second half year of 2014 till now. Since Mr. Abe's government came to power, a series of new economic policies with "Abenomics" as the core has been implemented. Key measures include increase in consumption tax, aiming to change domestic deflation of Japan, reduce in public debts and promotion of structural reform. However, since 2014 when Japan raised its consumption tax, the Japanese economy has witnessed a sudden turn and got trapped in inflation again. It seems difficult for "Abenomics" to get rid of decadent Japanese economy.

Since 2015, driven by internal and international demand, the Japanese economy has experienced short-period recovery. In the first quarter of 2015, Japan's GDP had an increase of annualized rate of 4.4% on a quarter-on-quarter basis, representing the highest increase in the year. However, due to weak export and gloomy domestic demand, Japan's GDP had an increase of -0.5% in the second quarter. In September, Japan had an increase of industrial production of 1% on a month-on-month basis. But, due to the fall in industrial production in July and August, Japan only had an increase of GDP of 1% on a quarter-on-quarter basis in the third quarter. In terms of export, due to slowed external demand especially depressed external demand of Asia, Japan's exports witnessed sharp decrease. According to the data released by World Trade Organization (WTO), in the first three quarters of 2015, the growth of commodity trade exports dropped by 6.0%, 10.2% and 11.4%. Since April 2014 when Japan raised its consumption tax, Japan's household consumption expenditure has witnessed sustained contradiction. In March 2015, the household consumption expenditure of the country dropped by 10.6%, representing the sharpest decline since 2005. As household consumption expenditure accounted for about 60% of the total GDP of Japan, sustained depressed domestic demand encumbered the recovery of Japan's economy. The real household consumption dropped by 0.4% in September and household consumer confidence index dropped to 41.1, far below the manufacturing gauge, 50, indicating that consumers were more pessimistic than optimistic towards the economic outlook of their country. Therefore, the situation of sluggish domestic demand has not completely changed and Japan's economic recovery remains to have a weak foundation.

2) Japan's Quantitative Easing Monetary Policy Failed to Change the Deflation Situation

In 2015, the monetary policies adopted by developed economies greatly differed. The US withdrew from the quantitative easing policy and started to raise interest rate; while the central banks of Japan and European economies continued to implement the easing monetary policy so as to stimulate economic growth and make inflation reach the target level. In the year, the full easing monetary policies were adopted in the whole Eurozone, aiming to stimulate economy and ease inflation risk. In January 2015, a new European version of quantitative easing (QE) policy was promoted by the European Central Bank and the asset acquisition plan of a larger scale was implemented so as to expand balance sheet. Also, since March, the Bank has started to acquire bonds of €60 billion, which will last till September 2016. It is estimated that the total amount will reach €1.08 trillion.

The Bank of Japan (BOJ) initiated its quantitative easing policy in April 2013 and expanded QE scale in October 2014, hoping to reach the inflation target of 2% by the "super quantitative easing policy". In July 2015, the BOJ expressed its intention to maintain the easing policy and maintain the planned increase in monetary base of 80 trillion yen each year unchanged. In fact, since April 2015, the country maintained its consumer price index (CPI) growth at around 0.3% compared with that of the same period in 2014, reaching 0 in September and the key CPI has fluctuated at 0±0.1% for a half year. It greatly deviates from the target of eliminating deflation that is expected by Mr. Abe. According to market expectation, it will be possible that BOJ will further expand the scale of quantitative easing policy.