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To succeed, Abenomics must empower women

by Ivka Kalus-Bystricky, Vice president and portfolio manager

The year 2013 has proven so far to be one of fortune-reversal for Japan. Improving gross domestic product (GDP) growth and stellar stock market returns are being attributed to "Abenomics," the policies of Prime Minister Shinzo Abe's government. The program combines aggressive quantitative easing with public investment and an export-stimulating weak yen as first steps in tackling decades of economic stagnation. Abenomics is fueling optimism in a Japanese financial renaissance.

Still in the early stages of implementation are reforms Prime Minister Abe refers to as the "third arrow" of Abenomics: growth strategies to sustain recovery. Early success is necessary in order to start tackling Japan's debt-to-GDP burden which could reach 230% by the end of 2014.[1] Most urgent is the imperative to address the country's rapidly aging demographic before dissaving drives Japanese government bond rates higher and outsized debt servicing costs create a made-in-Japan financial crisis.

This paper examines the key role women in Japan must play in order for Abenomics to succeed. We review the current status of women in Japan's labor market, challenges that could blunt their potential to contribute more fully to Japan's economy, and policies and programs that could empower women to make more substantive economic contributions.

The third arrow awaits

Recent results highlight the impact of government spending and quantitative easing on economic and investor sentiment. First quarter GDP growth was 4.1% and second quarter GDP came in at 3.8% on an annualized basis,[2] a welcomed reversal of negative GDP growth in three of the last five years.[3] Year-

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[1] *CNN/Money*, "Japan debt tops 1 quadrillion yen," August 9, 2013.
[2] *Reuters.com*, "Japan Q2 GDP revised up sharply, boosts case for tax hike," September 9, 2013.
[3] World Bank, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG, as of August 31, 2013.

KEY TAKEAWAYS

- Improving gross domestic product growth and stellar stock market returns are being attributed to "Abenomics," the policies of Prime Minister Shinzo Abe's government.
- The third arrow of Abenomics – economic growth to sustain recovery – is heavily influenced by its most vexing problem: an aging and declining domestic workforce.
- Women will need to play a key role in ithe success of reforms needed to sustain economic growth and recovery.
- Policies and regulations that empower women can influence corporate behavior.
- A greater challenge is changing deep-seated business and cultural norms about the roles of women in business, men and women in society, and the balance between work and family life.

Ivka Kalus-Bystricky is Vice President and Portfolio Manager of the Pax World Global Women's Equality Fund. Ms. Kalus-Bystricky took over management of the Global Women's Equality Fund on January 1, 2012. She also managed the Pax World International Fund prior to its merger into the Pax MSCI International ESG Index Fund on March 31, 2014. Before joining Pax World, she was a senior portfolio manager at State Street Global Advisors and Barings Asset Management, an equity analyst at Putnam Investments and Independence Investment, where she covered various international market sectors. Earlier in her career, she returned to her native Czechoslovakia to work on the privatization of various state industries following the collapse of the iron curtain and served as a consultant to companies in Latin America, Europe, Canada and the United States. Ms. Kalus-Bystricky holds a Bachelor of Arts in biology from Harvard University, a Master's Degree from the Fletcher School of Law and Diplomacy, and a Master of Business Administration from INSEAD in France. She speaks five languages.

to-date through September 30, 2013, Japan's stock market as measured by the Nikkei 225 Index[4] gained 39.06% based on the yen. Its 20-year average annual return through December 31, 2012 was -2.41%.[5] (Past performance is no guarantee of fuure results.)

With these positive trends in place, Prime Minister Abe wrote in *The Huffington Post* in July, "… there is no fiscal reconstruction without growth. That is why the 'third arrow' of my economy policy, the growth strategy, is vital."[6] It is a practical impossibility to foster sustainable economic growth if Japan cannot address its most pressing demographic challenge: an aging and declining population and national workforce.

Earlier this year, Japan's Ministry of Internal Affairs and Communications announced the population across the Japanese archipelago dropped by around 284,000 to an estimated 127.5 million as of October 2012[7] (See Exhibit I). The International Monetary Fund forecasts Japan's population will shrink by around 30% by 2055.[8] Working age ranks are set to decline to about 44 million people by 2060, according to Japan's National Institute of Population and Social Security Research.[9]

Writing in the *Toronto Globe and Mail* in April 2013, Carl Weinberg, chief economist at High Frequency Economics, attributed a 15-year deflationary trend in Japan to the shrinking workforce and innovation. "Quarterly employment in Japan has declined 5% since 1998," he wrote. "However, technological innovation has progressed over the past 15 years independent of declines in working population: GDP per worker – productivity – has risen 14.4% since 1998." He contends that, in Japan, technology-driven productivity gains drive unit labor costs lower rather than production rates higher because population declines have reduced domestic demand for goods and services. Companies competing to retain market share pass labor cost savings along to consumers in the form of lower prices.[10] Absent offsetting increases in exports, the deflationary spiral spins.

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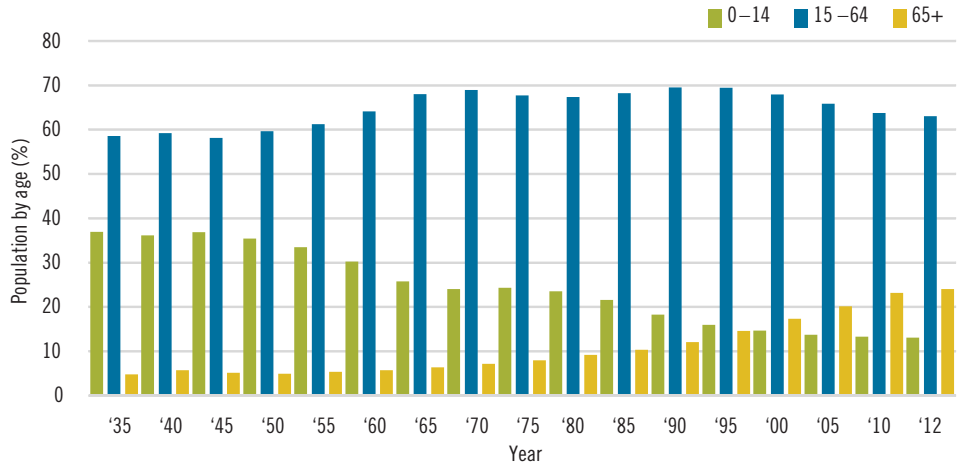
Exhibit I: Japan's shifting demographics (1935 - 2012)

Japan's young and working-age populations are declining while the elderly population increases.



Source: Japan Ministry of Internal Affairs and Communications, 2012.

[4] Nikkei 225 Average has been calculated since September 7, 1950 using the Dow Jones method. The 225 components are among the most actively traded issues on the TSE first section. The average represents the performance of the first section stocks and the general market. Components have been rebalanced from time to time to assure liquidity and representation of Japan's industrial structure. One cannot invest directly in an index.

[5] FactSet in local currency.

[6] *Huffington Post*, "The Third Arrow of Abenomics: TINA," July 3, 2013.

[7] *The Telegraph*, "Japan's population suffers biggest fall in history," April 17, 2013.

[8] *CNN.com*, "Can 'womenomics' save Japan," May 22, 2013.

[9] *Bloomberg*, "Abenomics for women undermined by men dominating Japan," June 17, 2013.

[10] *Toronto Globe and Mail*, "Japan's deflation is a product of shrinking work force, not policy," April 9, 2013.

Realizing women's economic potential

In *The Huffington Post*, Prime Minister Abe wrote, "It goes without saying that having women participate more fully in the workforce and management is no longer a luxury, but a necessity."[11] Kathy Matsui, chief Japan equity strategist at Goldman Sachs Group Inc., has studied the role of women in Japan's economy since 1999. Her estimates, which support Abe's comments on women's economic potential, hold that increasing the female workforce participation rate to 80%, the same as the male participation rate, would add 8.2 million people to the workforce and as much as 14% to Japan's GDP.[12]

Such a compelling and seemingly simple solution to Japan's economic and workforce challenges would seem like an obvious place to start the reform process. However, deep-seated business and cultural norms make implementation more of a long shot than a slam dunk. To attract and retain more women in the workforce, government and business will have to address issues such as women's empowerment and equality in the workplace, creation of an adequate child and elderly care infrastructure, and reversal of societal and cultural attitudes about gender roles and work/life balance.

Increasing and empowering women in the workplace

In Japan, women account for more than 51% of the population according to a 2012 World Bank report but only 60% of them work.[13] Japan's female participation in the workforce is among the lowest in the Organization for Economic Cooperation and Development (OECD), a 34-member global organization,[14] and compares to female workforce participation rates of 64% in Germany, 68% in the U.S., and 75% in Norway.[15]

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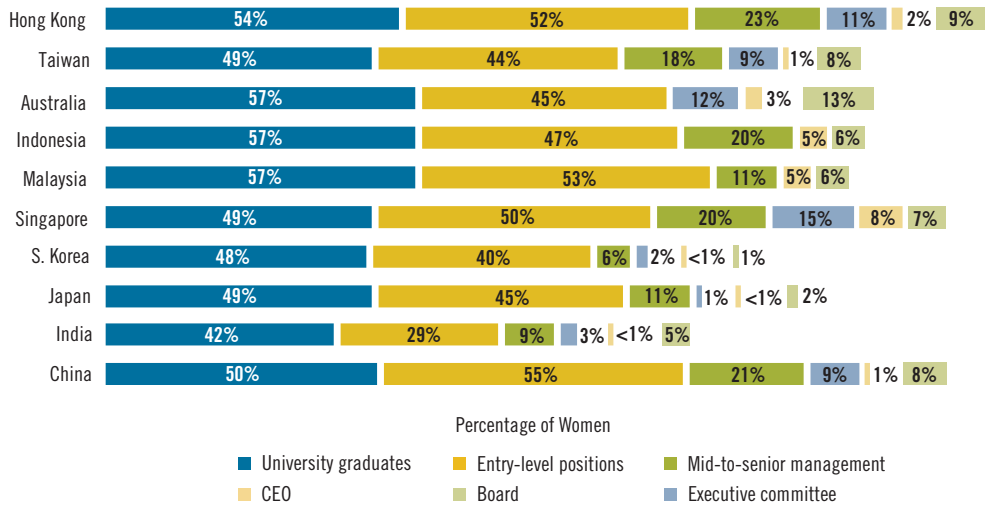
Exhibit II: Decline of women along the corporate pipeline in Japan

While the percentage of women who are university graduates and those holding entry level positions are high, the percentage of women in executive and board-level roles are among the lowest.



Source: McKinsey & Company, 2012.

[11] *Huffington Post*, "The Third Arrow of Abenomics: TINA," July 3, 2013.
[12] Goldman Sachs Group Inc., "Japan: Portfolio Strategy, Womenomics 3.0: The Time Is Now," October 1, 2010.
[13] Trading Economics, http://www.tradingeconomics.com/japan/population-female-percent-of-total-wb-data.html, as of August 31, 2013 and Goldman Sachs Group Inc., "Japan: Portfolio Strategy, Womenomics 3.0: The Time Is Now," October 1, 2010.
[14] McKinsey & Company, "Women Matter: An Asian Perspective," June 2012.
[15] McKinsey & Company, "Women Matter: An Asian Perspective," June 2012.

A 2012 McKinsey & Company report, *Women Matter: An Asian Perspective*, showed that women account for 49% of university graduates in Japan (See Exhibit II) and women hold 45% of entry-level professional positions. However, women hold only 11% of mid-to-senior management positions. Chief Executive Officer and Board-level positions held by women in Japan range from 1% to 2%, some of the lowest rates of representation in Asia.[16] No Nikkei 225 company is led by a woman.[17] Only 15% of companies in Japan have any female executives at all.[18] Only 30 of Nikkei 225-listed companies and 130 of 1600 companies listed on the Tokyo Stock Exchange have a female board member.[19] Women's salaries are 70% those of men, the second worst male/female wage gap among OECD economies and double the average wage gap in other OECD countries.[20]

Japan's government has undertaken legislative and policy initiatives to increase workforce gender diversity over the years. Examples include the 1986 Equal Opportunity Act, the 1999 Basic Act for a Gender-Equal Society, and the establishment of two cabinet-level organizations, the Headquarters for the Promotion of Gender Equality and the Council for Gender Equality. Basic Plans for Gender Equality were rolled out in 2000, 2005, and 2010, with the last attempting to establish specific numerical targets and deadlines and a program to monitor progress toward the goal of increasing the share of women in leadership positions in government and the private sector to 30% by 2020. But in a 2013 report *Breaking the Glass Ceiling: Women in the Boardroom*, the international legal firm Paul Hastings observed, "The government has been hesitant to encourage adoption of this target by the private sector."[21]

If women are to contribute more fully to Japan's economic growth, their contributions will have to be recognized and rewarded equitably. Prime Minister Abe has proposed offering tax incentives to companies for achieving gender diversity and encouraging them to empower women through mentoring and career advancement. Tax incentives and regulation could help advance opportunities and equitable compensation, but changing long-held attitudes in corporate executive offices and board rooms may prove more challenging.

Expanding child and elderly care

The issue extends beyond keeping women in the workforce to include, perhaps most importantly, helping them return to the workforce after they've taken time to have families or care for elderly parents. Only one-third of Japanese mothers are in the labor force. "The unfortunate reality," Ms. Matsui of Goldman Sachs says, "is that even today roughly 70% of Japanese women quit working after giving birth to their first child compared to only about one-third who do so in the U.S."[22]

Japan's current child care facilities are inadequate to meet demand today and, if female employment rates rise, so too will the demand for day care and the length of the care waiting lists. The government says it will add 400,000 child care openings by 2017 and eliminate waiting lists.[23] Extended maternity, paternity and family leave policies, and tax deductions for child care and

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[16] McKinsey & Company, "Women Matter: An Asian Perspective," June 2012.
[17] *Bloomberg*, "Sexism stands in the way of 'Abenomics' saving Japan," May 26, 2013.
[18] *Think Progress*, "Abenomics will boost Japan's economy by helping its women workers," April 22, 2013.
[19] *Bloomberg*, "Sexism stands in the way of 'Abenomics' saving Japan," May 26, 2013.
[20] Goldman Sachs Group Inc., "Japan: Portfolio Strategy, Womenomics 3.0: The Time Is Now," October 1, 2010.
[21] Paul Hastings, LLP., "Breaking the Glass Ceiling: Women in the Boardroom," Third Edition, September, 2013.
[22] Goldman Sachs Group Inc., "Japan: Portfolio Strategy, Womenomics 3.0: The Time Is Now," October 1, 2010.
[23] *National Geographic*, "How other countries handle immigration," June 30, 2013.

domestic help expenses are additional policy responses that could support the return of women to the workforce.

Some observers also have suggested relaxing tough immigration barriers to allow more foreign-born workers to enter the country to staff child and elder care facilities and to assist with domestic duties, all common practices in many Asian countries. The percentage of foreign workers in Japan is less than 2%, according to the Ministry of Health, Labor and Welfare's 2007 data.[24] Japan only allows foreigners with certain visas such as diplomat or investor/business manager to sponsor foreign domestic helpers, effectively banning Japanese citizens or permanent residents from hiring foreign domestic help.[25]

Addressing cultural norms and work/life balance

Expanded child and elderly care facilities and accommodative immigration policies are possible through legislative action. Changing long-held attitudes about the roles of men and women and work/life balance issues may prove more intractable. Traditional gender roles in Japan assign care giving and household tasks largely to women.

A 2006 government survey cited that on average, Japanese men with children under the age of six spend just one hour per day on child care and household chores: about 30 minutes on child care and 30 minutes on household chores. That is about one-third the amount of time fathers in Sweden, Germany and the U.S. spend on child care and household chores.[26]

"By far the greatest double burden of many working women in Asia is holding down a job while looking after their families," McKinsey & Company reports (See Exhibit III). "Particularly in cultures where women are expected to take sole responsibility for family and household duties."[27]

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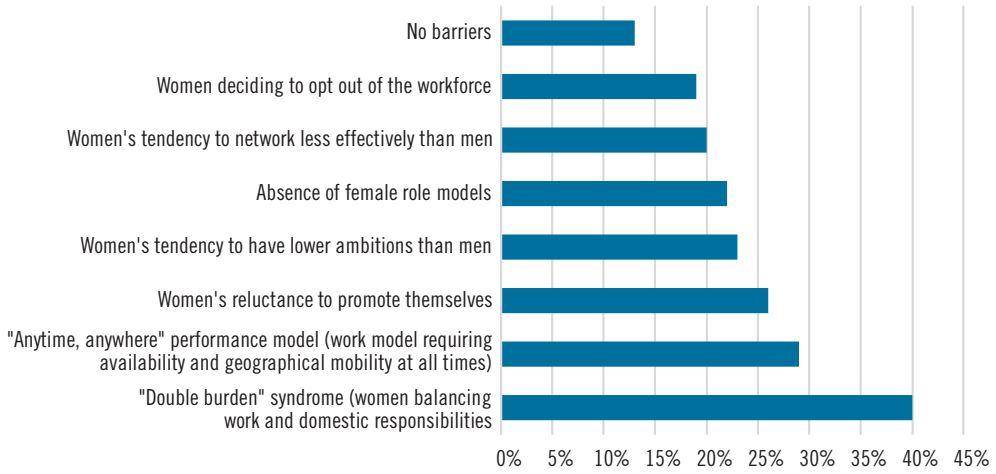
Exhibit III: The double burden of working and providing child/elder care

Executives in Asia believe the double burden of working while also caring for children and elderly members of both families in a marriage is the most significant reason women drop out of the workforce.



Source: McKinsey & Company, 2012.

[24] *The Japan Times*, "Overhaul Japan's immigration laws to boost working women," May 30, 2013.
[25] McKinsey & Company, "Women Matter: An Asian Perspective," June 2012.
[26] *Bloomberg*, "Sexism stands in the way of 'Abenomics' saving Japan," May 26, 2013.
[27] *The Japan Times*, "Why Abenomics hurts women," May 22, 2013.

"Japan's institutional sexism deepens deflation, hurts competitiveness and exacerbates the demographic trends that make Japan's debt load so dangerous," writes *Bloomberg View* columnist William Pesek. "There also needs to be a national dialogue about the role fathers play in family life and how there can be a true partnership between mothers and fathers raising their children."[26]

Balancing the needs of family and work is another challenge that must be addressed. Notorious are the stories of long work-hour expectations in Japanese businesses. Although corporate executives in their 40s and 50s may no longer need day care centers, they still want to be "at home at reasonable hours to have dinner, help their kids with homework and talk with them."[28] Offering more flexible working hours and employment arrangements to men as well as women may allow families to shift the historical Japanese work/life balance and create more family time.

Reform is a tall order

July elections in Japan gave Prime Minister Abe's Liberal Democratic Party and its coalition partner majorities in both houses of government as well as the political mandate and time (a new three-year term) he needs to advance reforms. The early success of his quantitative easing program has bought him credibility for now. But, so far, monetary policiy has been the "easy" part of Abe's reform plan.

To drive economic growth, Abe is pushing policy and regulatory reforms to open markets, increase exports, attract foreign direct investment, drive business competition, loosen zoning regulations, improve work opportunities for foreigners, and deregulate key industries such as agriculture and electric power. Notably, none of these first-line policy reforms are explicitly aimed at empowering and increasing the status of women in the workforce.

Despite his current mandate, the fact that none of Abe's predecessors have succeeded in implementing meaningful reform clearly communicates the difficulty he faces in successfully hitting the target with his "third arrow." Policies and regulations can influence corporate behavior. However, a more challenging task is to alter Japanese attitudes about the role of women in business, the roles of men and women in society, and the balance between work and family life. The recovery of the world's third largest economy depends on achieving these objectives. Empowering women is a key to Abenomics' success.

[28] *The Japan Times*, "Why Abenomics hurts women," May 22, 2013.

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Pax World Investments

Pax World Investments
30 Penhallow Street, Suite 400
Portsmouth, NH 03801
800.372.7827
info@paxworld.com
www.paxworld.com

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