

Japan

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**Basic characteristics**

# A. Basic characteristics

- one of the most developed countries in the world
  - GDP p.c. (PPP) around 36 600 \$ X USA 54 600 \$
- 3<sup>rd</sup> measured by econ. strenght (according to EX rates)
- 127,8 mill. inhabitants
- hilly landscape, 4 islands
- lack of natural resources
- structure of the GDP (2015) - A = 1,2 %, I = 26,6 % a S = 72,2 %
- small government
- $(EX + IM) / GDP = 23 \%$

Until 1868

## B. Until 1868

- old culture – 4 000 before BC
- I. Europeans = the Portuguese 1542
- beginning of the 17<sup>th</sup> century shogun Tokugawa strict **isolationism**
  - X Christianization and colonization
  - trade only with NL and in limited amount
  - + ban on travels abroad
  - isolation = peaceful and stable period ⇒ creation of national identity BUT lagging behind in technologies
- 1853 and 1854 am. commodore Matthew Perry 2x sailed to the Tokyo harbor → opening of JP
  - diplomatic relations and so-called „unequal treaties“
    - JP forced to impose not higher than 5% import tariffs
- unrests X shogun X foreigners → emperor Mutsuhito in 1868

**MEIJI**

# C. Meiji (1870-1912)

- no isolation but **distance from foreigners**
- **change of the old feudal system** – following the best example:
  - **bureaucracy** - France
  - **army** - Prussia
  - **navy** - GB
  - **industry + financial mechanism** – mainly USA
  - **education** – western countries



- **finance**

- before the reform – nonconvertible paper money
- to build new bank system according to USA
- 1877 revolt of Sacuma Klan ⇒ need of money ⇒ issue ⇒ ↑ inflation ⇒ bank system blamed
  - ⇒ reform of CB (Bank of Japan) according to Belgian example = monopoly on the emission of money in circulation
  - + commercial banks according to GB
- 1897 joining the gold standard

- industrialization
  - only non-western country in the 19<sup>th</sup> century
  - at that time JP fully agricultural economy
  - government built and run western manufactures
  - promotion of private entrepreneurship
    - sale of factories and mines immediately after having reached economic stability
    - government kept only military productions
  - the fastest growing industry – silk industry
  - heavy industry – slower growth despite tariff protection
  - zaibatsu ...

# Zaibatsu

- industrial conglomerates
- establishment in Meiji
- family-controlled conglomerates + bank included + cross-shareholding + personal relations + subcontractors
- impact on the spread of modern (heavy) industry
- Mitsui, Mitsubishi, Sumitomo, Yasuda
- inter-war period – economic and political influence but rarely monopoly

# Economic results

- from 1870s to WWI
  - average annual growth of GDP = 3% (estimates from 2,4 to 3,6%)
  - ↑ manufacturing industry by 5%
- ↑ EX: in 1880s = 6 - 7% GDP ⇒ during the first decade = 15% ⇒ 1915 > 22%

# Japanese aggressions

- with economic growth also political influence
- 1894 - 95 defeated China = annex of Taiwan
- 1904 - 05 defeated Russia
- 1905 protectorate over Korea ⇒ 1910 annexed ⇒ imperial power
- WWI (passively) on the side of the Entente ⇒
  - winner
  - ↑ EX
  - gained DE colonies in the Pacific ocean
  - gained Chinese territories
- regional power

# Inter-war period

1. Political development
2. Economic development

# D1.Political development

- political and militant ambitions
  - East Siberia X USA
- military regime
- still expansive plans x China
  - 1932 Manchuria
  - 1937 war with China
  - 1939 a puppet state X Chiang Kai-shek
  -

- since 1/2 1930s ties with fascist powers
  - 1936 Anti-Comintern Pact with Nazi Germany
  - 1937 fascist axis Berlin-Rome prolonged to Tokyo
- December 1941 - Pearl Harbor – attack on USA
  - 6 months successes BUT in LR am. economy
  - 1942 Battle of Midway
  - 1945 nuclear bomb
- 1945 defeat
  - USSR – Kuril Islands



# Battle of Tarawa

## 20 to November 23, 1943

- Japanese 4, 836
  - soldiers and laborers
- 4,690 killed
  - 17 soldiers captured
  - 129 laborers captured
- US casualties 1,696

# D2.Economic development

- after WWI
  - inflation
  - 1922 stabilization of prices
- gold standard
  - late return in January 1930
  - within Sterling block
- at the end of 1920s slower growth x others
- 1927 bank crisis BUT WE not affected
  - less intensive engagement in WE
- The Great Depression
  - not effected as much as the other countries
  - rapid recovery
  - problems:
    - a) commodity market
    - b) finance

# Industrial production in selected countries (1929=100)

	1927	1928	1929	1930	1931	1932	1933	1934	1935
France	79	91	100	100	89	69	77	71	67
Germany	102	99	100	86	68	53	61	80	94
Italy		92	100	92	78	67	74	81	92
Japan	83	90	100	95	92	98	113	129	142
Poland	87	100	100	82	70	54	56	63	66
GB	96	94	100	92	84	84	88	99	106
USA	89	93	100	81	68	54	64	66	76

*Source: Fearon, The Origins and Nature of the Great Slump 1929-1932, 1979*

## a) Commodity market

- silk as very important export commodity
- dramatic fall in prices

### Prices of silk in (dollars/pound) during the Great Depression

1929			1930			
June	September	December	March	June	September	December
4.96	5.2	4.68	4.68	3.56	2.93	2.69

*Source: Kindleberger, The World in Depression, 1973*

## **b) finance**

**devaluation of the pound**



**traders - sale of yens**



**outflow of AU**



**Bank of Japan – ban on EX of AU**



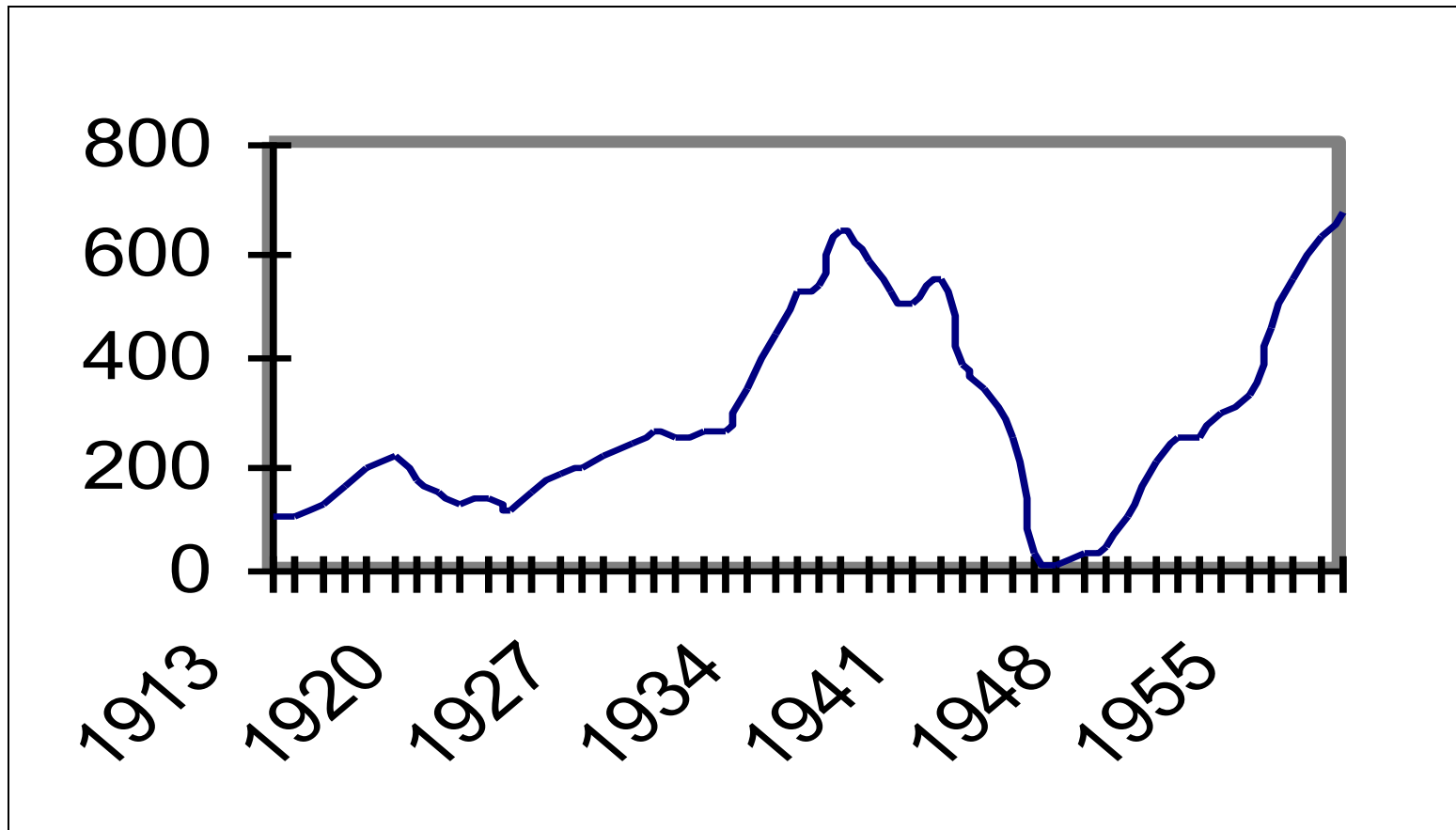
**December 1931- gold standard abandoned**

- **After the crisis:**

- **successful economic policy mix**

- a) **fiscal DEFICIT +  $\uparrow$  G** (mainly military expenditures – China + preparation for WWII)
    - b) **monetary policy -  $\downarrow$  interest rates**
    - c) **wage policy – fixed wages**
    - d) **foreign exchange policy – devaluation of yen and flexible EX rate  $\Rightarrow \uparrow$  EX**
    - e) **+ exploration of northern China – human and material resources**

# Volume of Japanese exports in 1913-1958 (1913=100)



# Results

- fast recovery followed by uninterrupted growth after 1932
- ↓ unemployment and in the first stage also ↓ of inflation

## Inflation in Japan in the 1930s (1913=100)

1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
174	159	160	167	171	174	178	193	214	231	295

*Source: Maddison, Dynamic forces in Capitalist Development, 1991*

- The war could not be won because of economic reasons



# Armament production, 1940-1943 (in USD billion of 1944)

	1940	1941	1943
GB	3.5	6.5	11.1
USSR	(5)	8.5	13.9
USA	(1.5)	4.5	37.5
Allies total	3.5	19.5	62.5
Germany	6	6	13.8
Japan	(1)	2	4.5
Italy	0.75	1	-
Axis total	6.75	9	18.3

*Source: Kennedy, Vzestup a pád velmoci, 1996*

**Post-WWII PEriod**

# E. After WWII

- **situation:**

- economy destroyed
- hyperinflation
- return of repatriates
- loss of colonies = loss of raw materials
- loss of foreign INV
- reparation (small and temporary)
- total isolation

- **main problems for allies (USA)**

- **demilitarization** of the economy and society

- **democratization** of the society

- 1945 restoration of political parties

- 1946 – elections ⇒ government led by Shigeru Yoshida

- US system of indirect management ⇒ decisions of the occupation authorities put into practice by the Japanese government

- ⇒ new (dictated) constitution

- limits on military expenditures ⇒ more effective use

- ban on participation of JP military troops abroad

- decrease of inflation

Consumer prices index in Japan (1914=100)

year	1944	1945	1946	1947	1948	1949	1950
CPI	688	1,011	60,048	129,104	235,896	311,386	298,944

*Source: Maddison, Dynamic forces in Capitalist Development, 1991*

- demonopolization
  - abolition of zaibatsu
  - agriculture ⇒ agricultural reform
  - Finance
- ↑ **economy** – especially industry

# Structure of the Japanese economy (shares in %)

Year	Workforce		
	Agriculture	Industry	Services
1870	70.1	-	-
1950	48.5	21.8	29.6
1975	13.8	34.1	51.8
1985	9.3	33.1	57.3
1995	6.0	31.6	61.8
2000	5.0	29.5	64.3

Source: Statistics Bureau, <http://www.stat.go.jp/english/data/figures/index.htm#b>, (20. 12. 2006)

- **Results:**

- after war ↓ **production** + ↓ standard of living + ↑ social pressure ⇒ **worsening situation** ⇒ USA: ↓ reparations + loans to food...
- **stabilization** of the economy in 1948
- 1950 practically **deflation** + later only one-digit inflation
- **econ. Growth** initiated
- cold war (Korea, China) ⇒ **change of US attitudes**
  - 1951 assignment of the peace treaty + end of the occupation (BUT ...)

**Economic miracle**



# F. Economic miracle

**very fast economic growth**

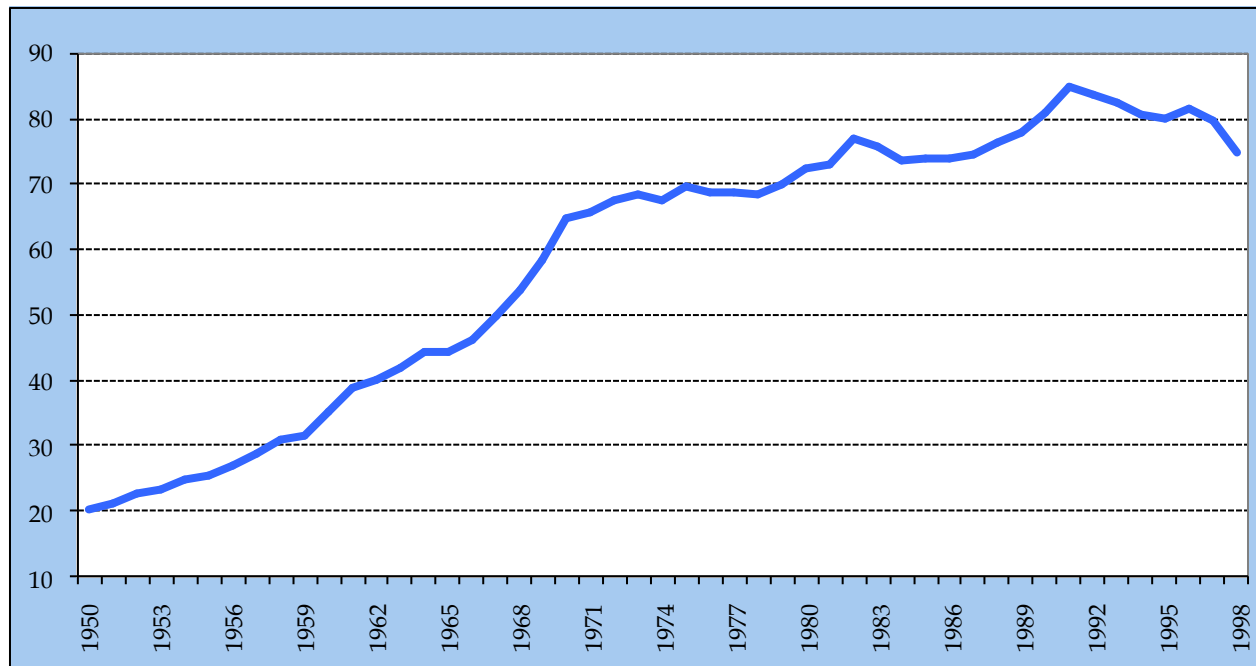


**Japan - > economic power**

## • **Reasons of reconstruction and economic miracle:**

1. post-war recovery plan
2. Korean War
3. high savings and INV
4. technologies
5. labour market
6. managerial methods
7. corporate structure
8. ↑ EX + protection of the domestic market
9. economic policy
10. stable political situation

# Japanese GDP per capita, 1950-1998 (USA = 100)



Source: Maddison, *Historical Statistics* - <http://www.ggd.net/maddison/> (11.10.2008)

# 1. post-war recovery plan (1948 - 1952)

- american experts
- the most important mission led by **J. M. Dodge**

⇒ **Dodge line - successful**

- ↓ growth of prices
- ↑ production
- INV concentrated to 4 sectors
  - coal industry, steel industry, power engineering and shipbuilding

# 2. Korean War

- orders for the US army → **conjuncture in JP**
- ⇒ level of industrial production in 1951 > pre-war level

### 3. savings and investments

- high and growing
- issue of quality of investment projects

Year	Savings as percentage of disposable income	Gross fixed capital formation [% of GDP]	
		nominal	real
1955	13.9	10.8	7.7
1960	17.4	19.6	14
1965	16.8	15.3	13.3
1970	20.3	19.8	20

### 4. Technology

- import of **licenses**
- **Reverse engineering**



## 5. labour market

- educated LF + cultural values (discipline, ...)
- institution of **lifetime employment**
- **seniority principle** = remuneration based on the length of employment rather than on performance
- **FOR IT:**
  - **loyalty and diligence**
  - acceptance of the **authority of superiors**
  - **share on the firm's revenues**
- ⇒ **very low U over a long period**
- ⇒ + many **seniors in the management** of firms+ **big supervisory boards**
- **karoshi**– overwork death

## 6. managerial methods

- attempt to maximize market share nad not profit
- **characteristics:**
  - **strategic management** = establishment of relations between organization + customers + suppliers
    - low introductory prices
    - higher prices for materials but longer contracts
  - **just in time** = to minimalize stocks at all level of production
    - in practice – shift of costs to subcontractor
  - **support of inventions**
  - **total quality management**
    - circles of quality
  - **team work**

# 7. corporate structure

- **strong enterprises + subcontractors**

- subcontractors often absorbed ↓ demand

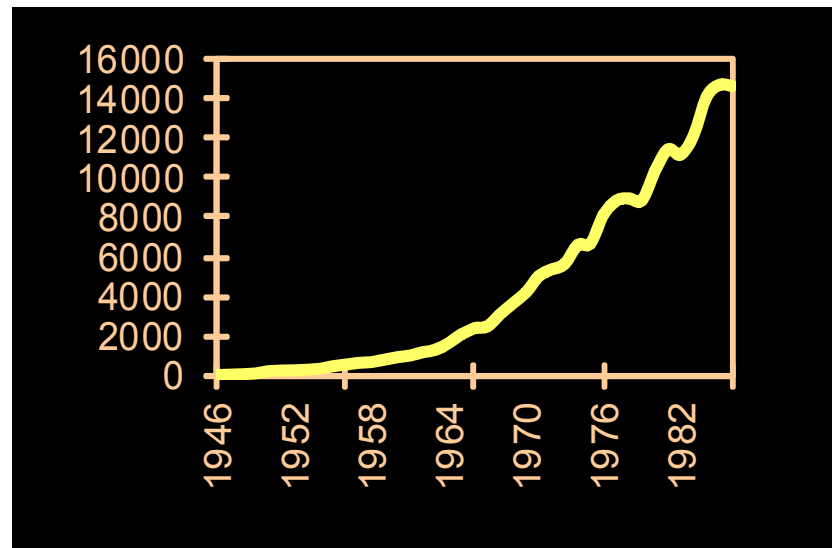
- **keiretsu**

- after WWII dissolution of *zaibatsu*
- in 1950s restoration of conglomerates = *keiretsu*
- industrial companies grouped around a bank + cross-shareholding
- mutual links weaker as in *zaibatsu*

8. ↑ **EX + protection of domestic market**
- ↑ EX but **pre-war level only 1958**
  - since 1954 „**export - led growth strategy**“
  - **support of EX:**
    - EX market **recommendation**
    - **support** of industrial sectors
  - **gradually serious competitor**
  - simultaneously – strict **protection of the domestic market**
    - tariff and non-tariff **barriers**



# Volume of Japanese Exports after Pacific War (1913 = 100)



# 9. economic policy

- **active role of the state**
  - but low degree of formal planning
  - gov - influence on the economy through friendly relations between politicians, industrial authorities and large banks ⇨
- **indicative planning**
  - future conceptions
  - conditions for smooth functioning of the private sector
- simultaneously **low share of the state** and **informal sector**
- **institutions**
  - Economic Planning Agency (EPA)
  - Ministry of International Trade and Industry (MITI)
  - cornerstone of the JP EP
  - „adoration“ of MITI
    - ambiguous results

# 10. political stability

- democracy (forced by USA)
- since 1955 practically governed by only one political party – Liberal Democratic Party of Japan
  - true also for the present

# Results

- dramatic economic ↑
- ↑ GDP p.c.
- low U
- acceptable  $\Pi$
- ↑ EX + BofP surpluses
- ⇒ ⇒ **Japan as regional superpower and one of the world economic centers**

The 1970<sub>s</sub>

## G. The 1970s

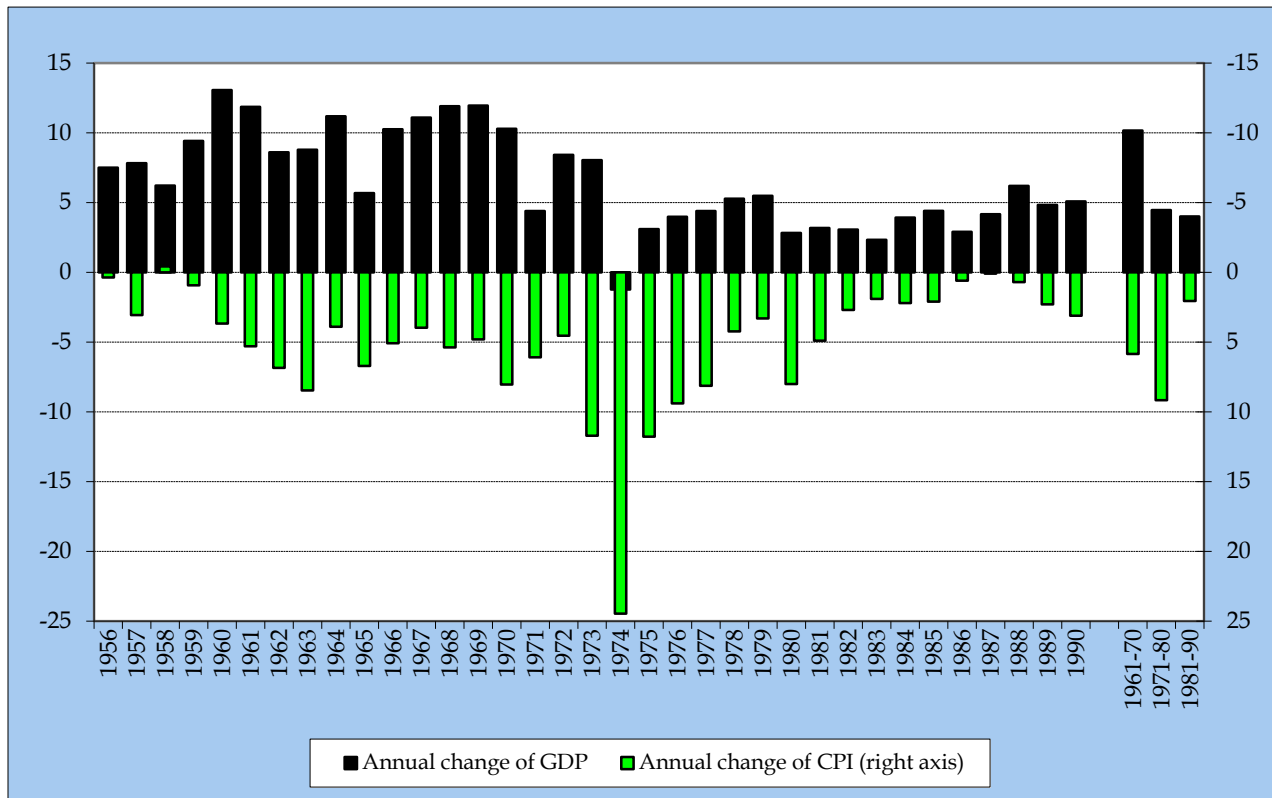
- the beginning of 1970s = **the peak of miracle** → later ↓  
**dynamics**
  - **serious impact of the raw material crisis**
    - diversion from raw material-demanding production
    - implementation of energy-saving facilities + new technologies
  - ↓ **capital accumulation**
  - ↓ **LF growth**
  - ↑ **inflation** (1974 > 20%)
- **2<sup>nd</sup> Oil Shock - less effected** than by the 1<sup>st</sup> Oil Shock
  - energy- and material- saving technologies

# Average annual growth in Japan in five-year periods

Period	Real GNP	Gross fixed capital	Labour
1955-60	8,9	7,9	2,2
1960-65	9,7	11,0	1,7
1965-70	11,6	13,0	1,8
1970-75	4,7	10,3	0,4
1975-80	4,9	6,3	0,9

*Source: Kosai Japan's Growth Problem in Harberger, World Economic Growth, 1991*

# Economic growth and inflation in Japan, 1956-1990 (%)





- **changes in economic policy**
  - liberalization of the financial market
  - EX rate policy
    - floating – appreciation of yen
    - = unfavourable for EX but IM 9/10 raw materials and intermediate products
  - elimination of subsidies and taxes
- in 1970s **one of the most fast economic growth BUT** not the after-war dynamics

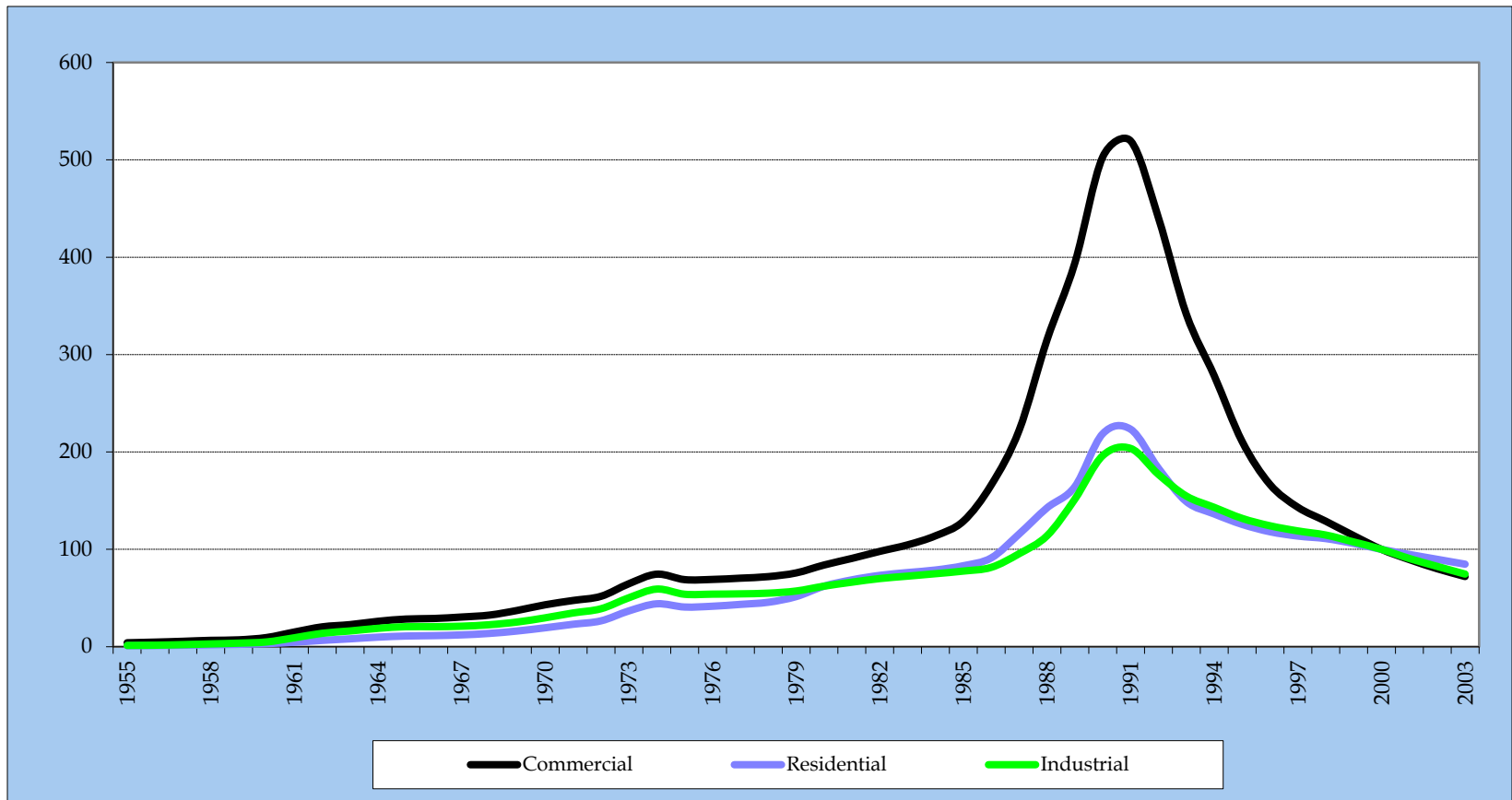
The 1980<sub>s</sub>

# H. The 1980s

- considerable economic ↑
- low U
- low inflation
- BUT large external imbalances = active trade balance
- ⇒ current account surpluses + high S ⇒ the largest exporter of capital
  - FDI to USA and Eur + financing of US budget DEF
- ⇒ 1985 program Maekawa
  - attempt to reduce trade disputes with USA and EU
  - ↓ dependence on EX
  - ↑ importance of domestic D
  - ⇒ liberalization of FT
- 1985 – Plaza Accord – between USA and JP ⇒ interventions ⇒ revaluation of yen

- **expansive monetary policy**  $\Rightarrow$  excess of liquidity
  - **CB only partial responsibility** b/c large pressure of Ministry of finance to **keep low r** to
    - $\uparrow$  AD = help from USA  $\downarrow$  trade deficit
  - 2<sup>nd</sup> 1/2 1980s **speculative**  $\uparrow$  **on the exchange stock**
  - +  $\uparrow$  prices of assets and real estates
  - **banks as guarantee** shares + real estates
- finally **CB**  $\uparrow$  **r**  $\Rightarrow$  **stock exchange crash** (December 1989)
- BUT CB keep high r X repetition of **speculative boom**  $\Rightarrow$  1990s
  - X FED 1987

# Prices of real estates in six major cities in Japan (2000=100)



Source: Statistics Bureau, <http://www.stat.go.jp/english/data/chouki/index.htm> (2. 3. 2007)

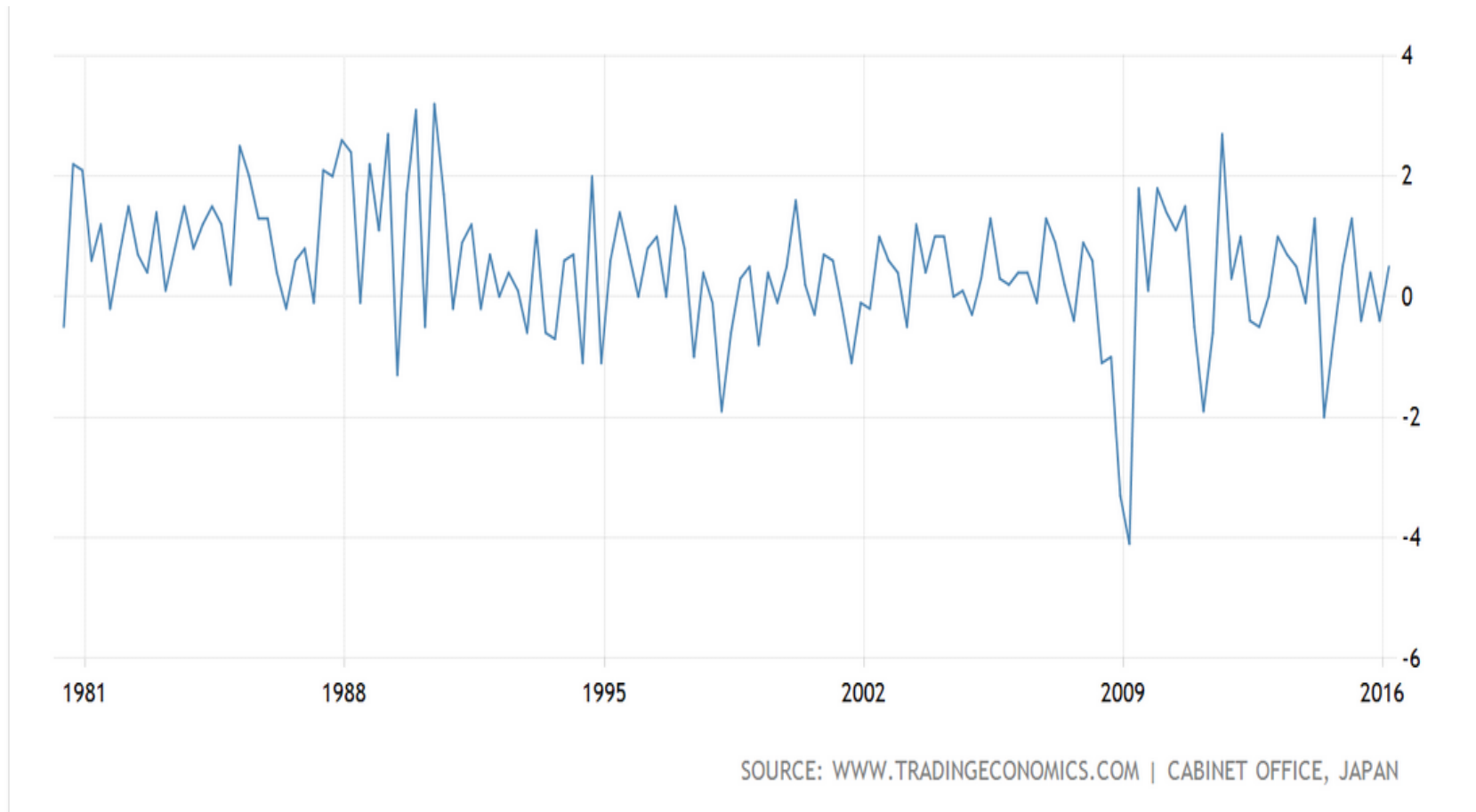
# TOPIX Tokyo Stock Exchange Index and the volume of trade



# The 1990s

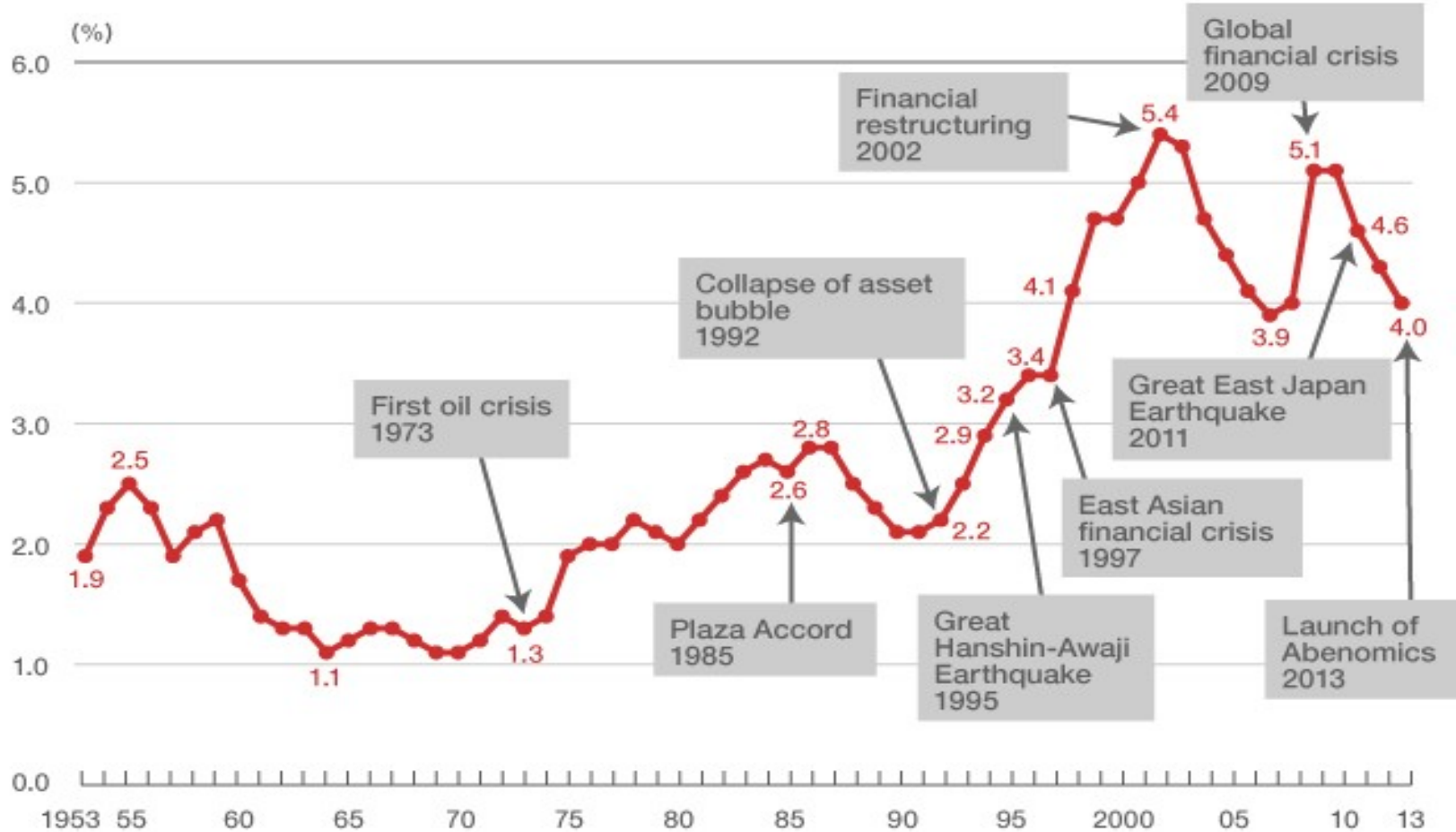
- **economic stagnation** – recession in certain years
  - increasing U + undervaluation
  - weak demand
- + continuous **monetary restriction**  $\Rightarrow$  deflation
- $\Downarrow$  stock exchange and prices of real estates
- continuous problems of banking sector
- **fiscal expansion**
  - 1992-99 8 programs for economic recovery – public services, financing of banks, requalification
  - e.g. 1999 budget deficit = 10% GDP – debt > 120% GDP

# Japanese GDP (year-on-year change in %), 1980-2016



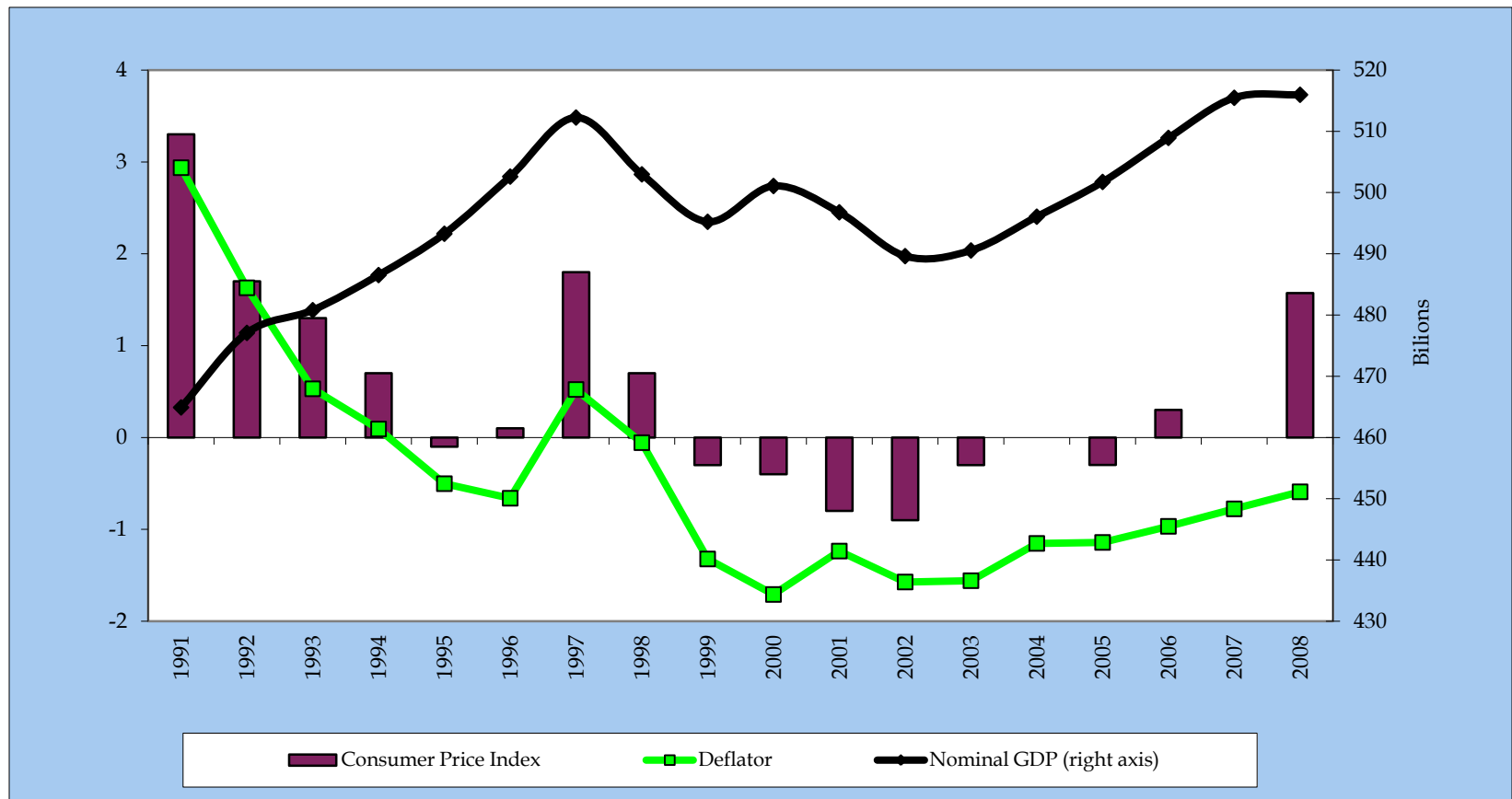


## Japan's Unemployment Rate, 1953–2013



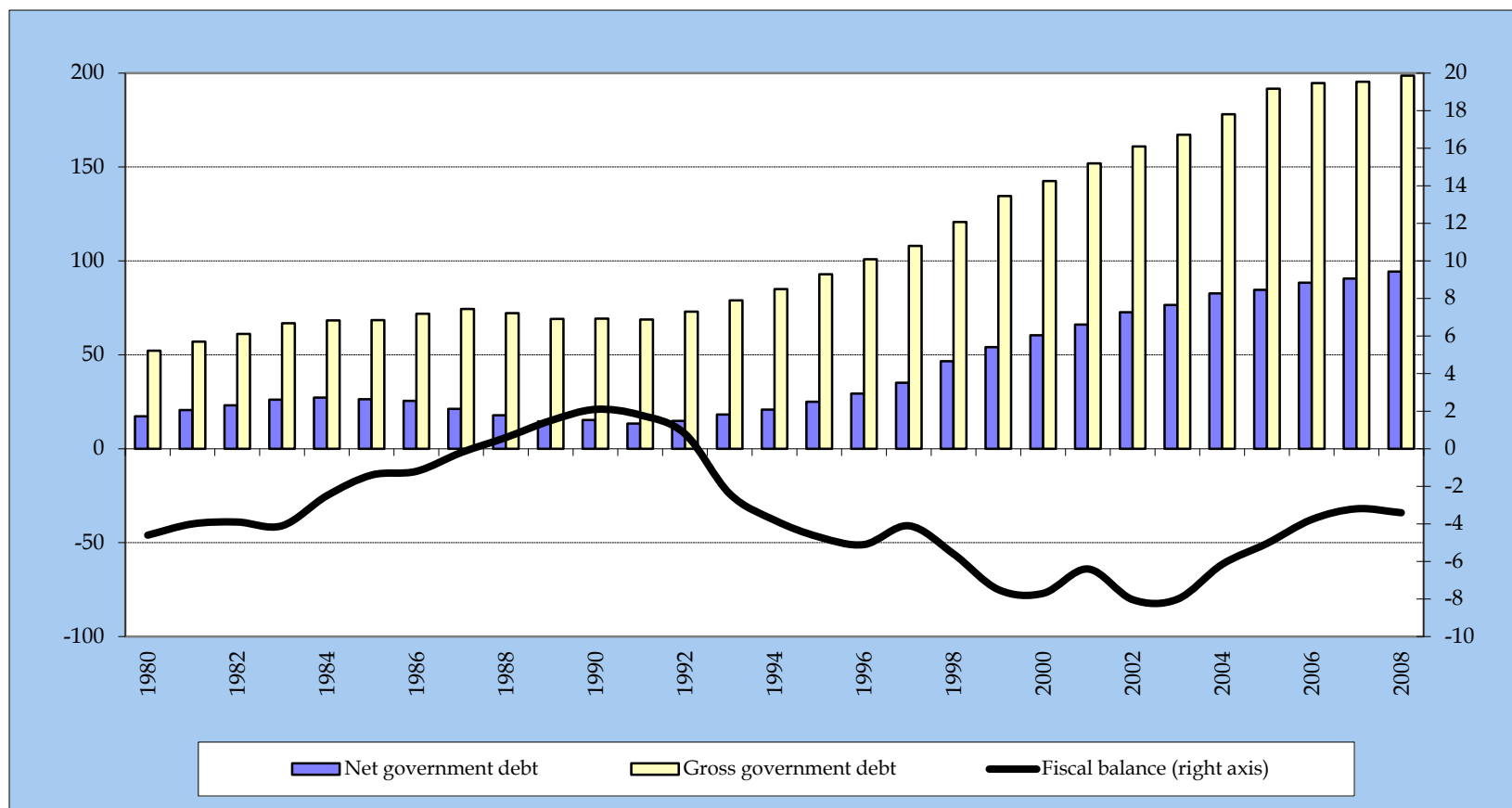
Source: Statistics Bureau of Japan, Labor Force Survey.

# Year-on-year inflation in Japan CPI and deflator (%); volume of nominal GDP (JPY billion), 1991-2008



Source: IMF: World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2008/02/data/index.aspx> (25. 2. 2009)

# Japanese fiscal balance, net and gross national debt, 1980-2008 (% of GDP)



Source: IMF: World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2008/02/data/index.aspx> (25. 2. 2009)

## A giant in decline

Japan's GDP\* as % of world GDP

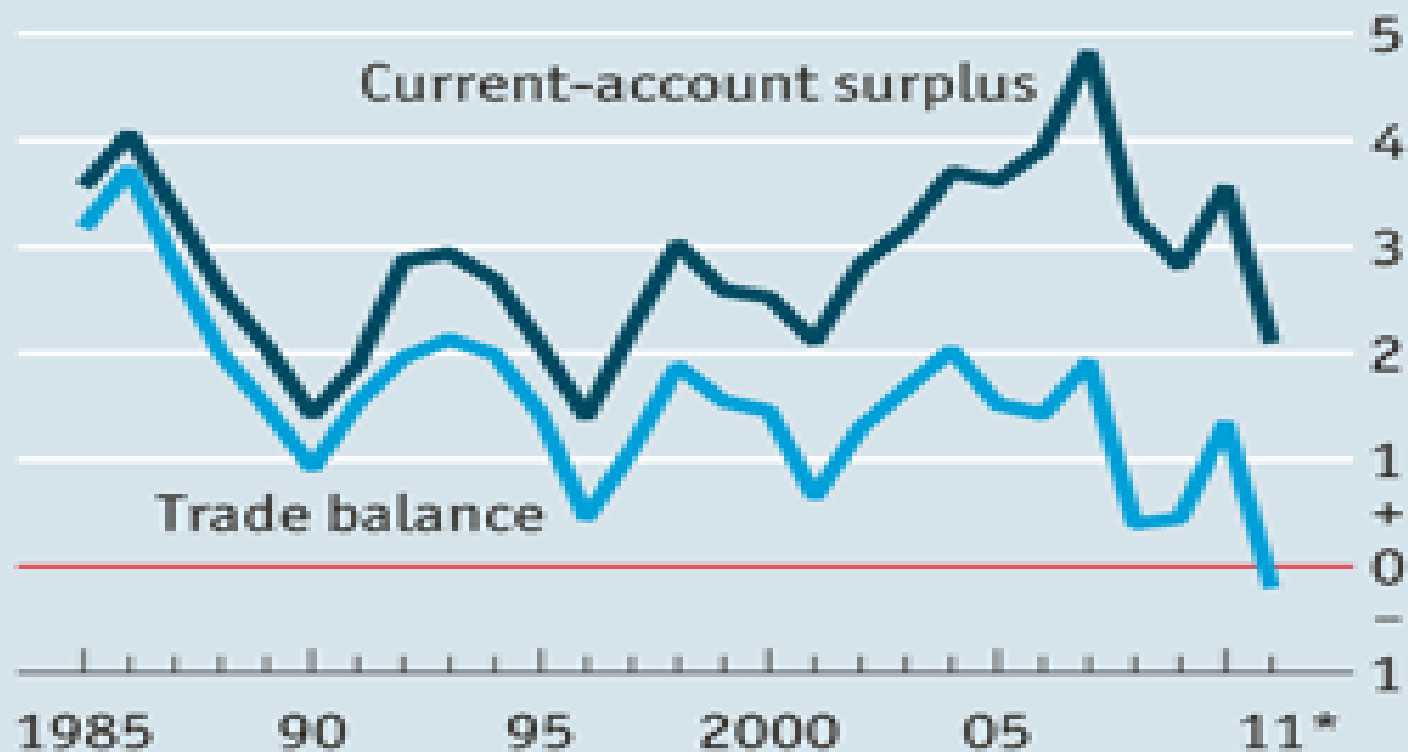


Source: IMF

\*At market-exchange rates

# Sushinomics

Japan, % of GDP

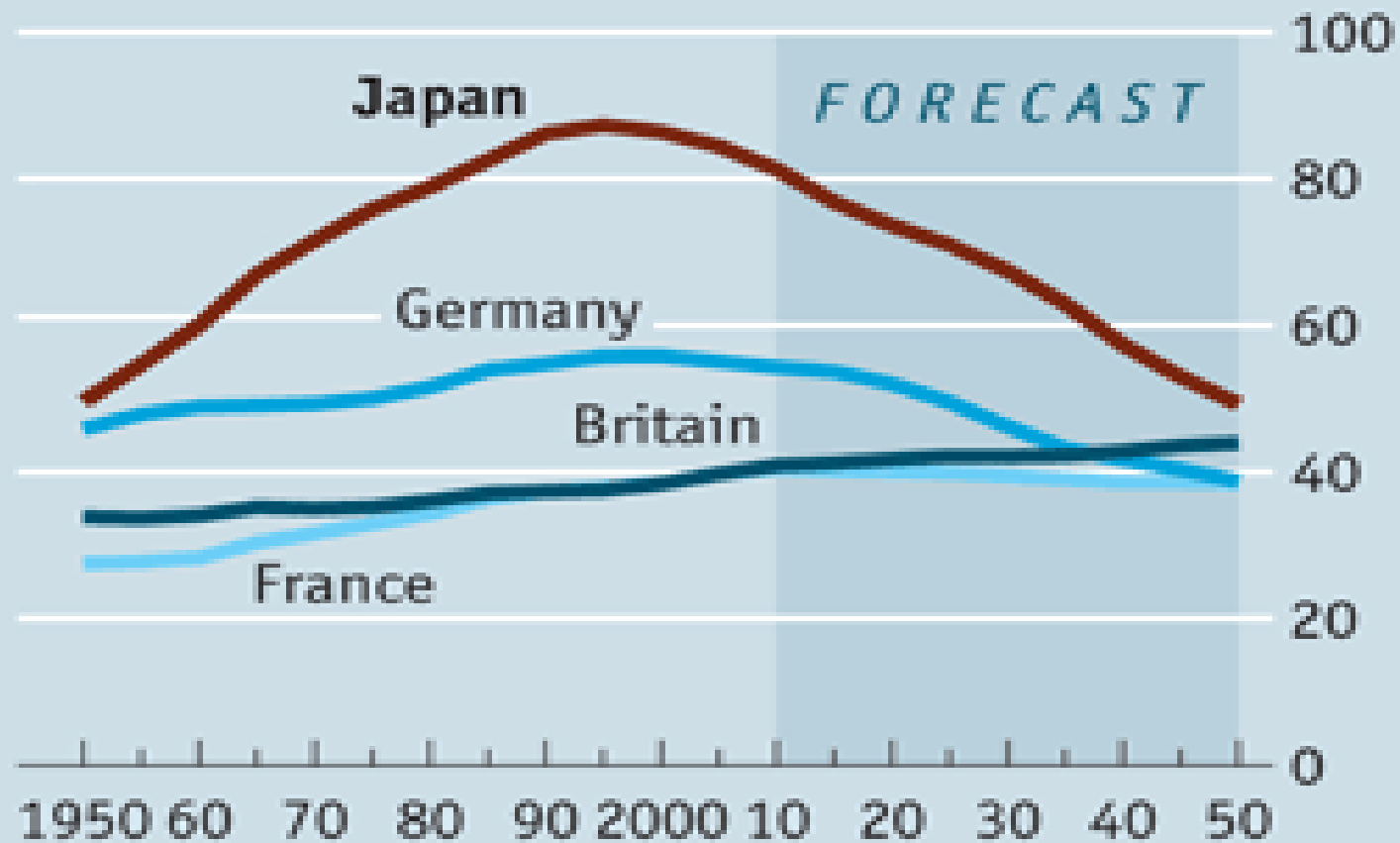


Sources: Haver Analytics;  
*The Economist*

\**The Economist* estimate

## For whom the bell tolls

Working-age population, m



Source: United Nations

## Stealthy invasion

Japanese stockmarkets

Market value owned by foreigners, %



Source: Tokyo Stock Exchange

Thanks for your attention