

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 \$
- 3rd 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 17th 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 19th 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 1970s to WWI
 - average annual growth of GDP = 3% (estimates from 2,4 to 3,6%)
 - ↑ manufacturing industry by 5%
- ↑ EX: in 1980s = 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



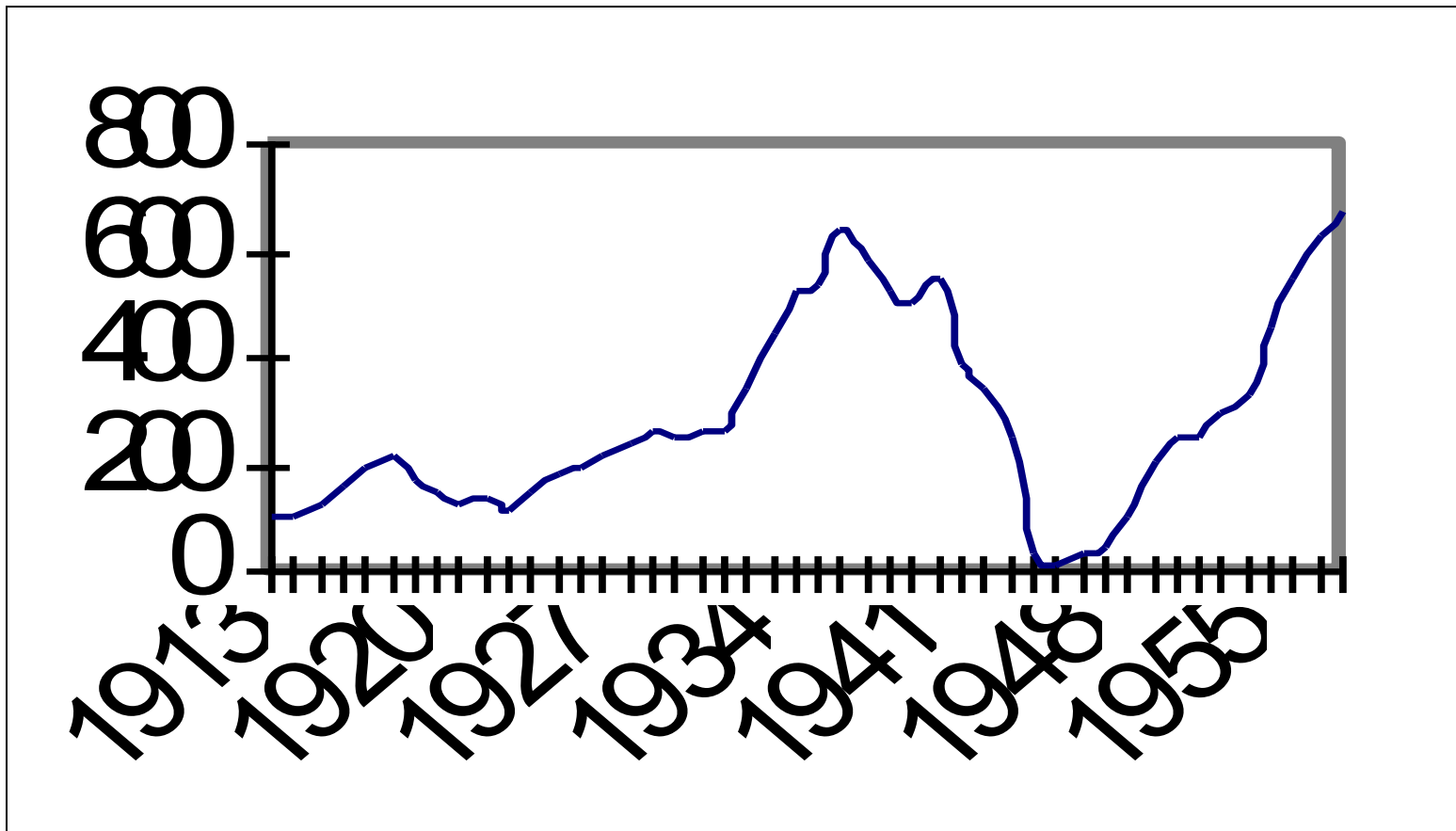
December 1931- gold standard abandoned

- **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 velmocí, 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 \Rightarrow agricultural reform
 - Finance
- \uparrow **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

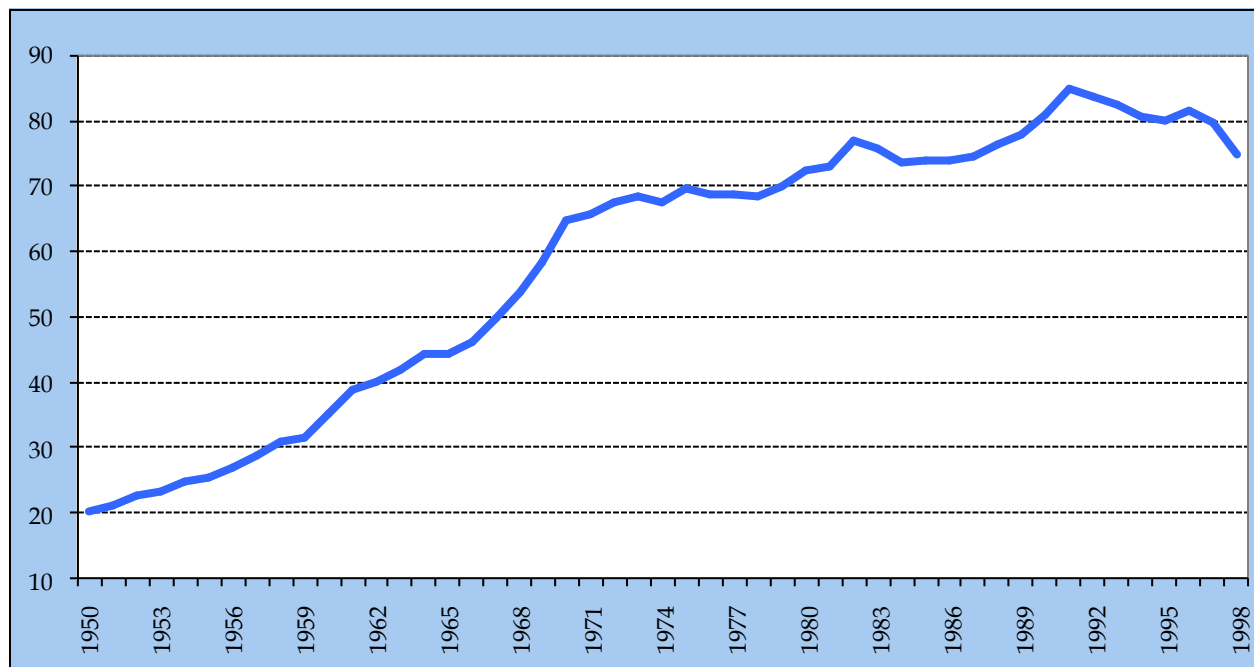


Japan - > economic power

• **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.ggdc.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**

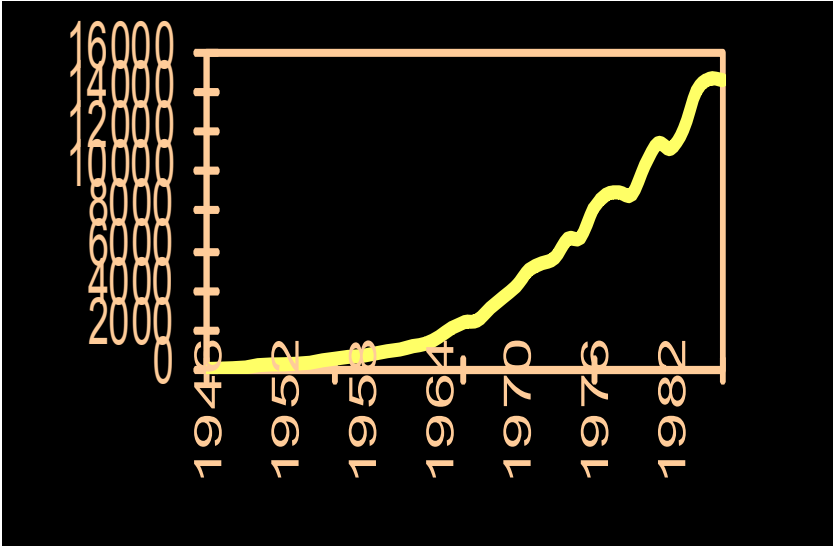
- subcontractors often absorbed ↓ demand

- **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 Π
- ↑ EX + BofP surpluses
- ⇒ ⇒ **Japan as regional superpower and one of the world economic centers**

The 1970_s

G. The 1970s

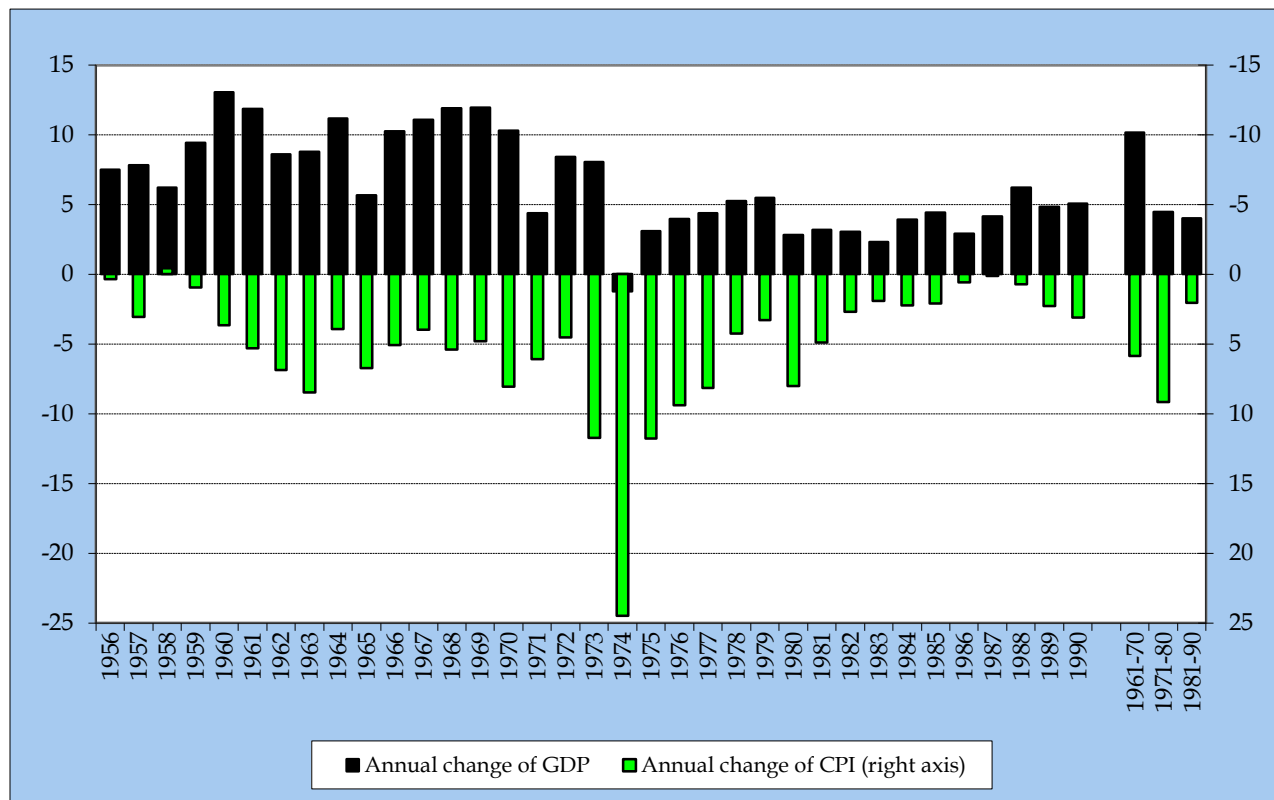
- the beginning of 1970s = **the peak of miracle** → later ↓
dynamics
 - **serious impact of the raw material crisis**
 - diversion from raw material-demanding production
 - implementation of energy-saving facilities + new technologies
 - ↓ **capital accumulation**
 - ↓ **LF growth**
 - ↑ **inflation**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

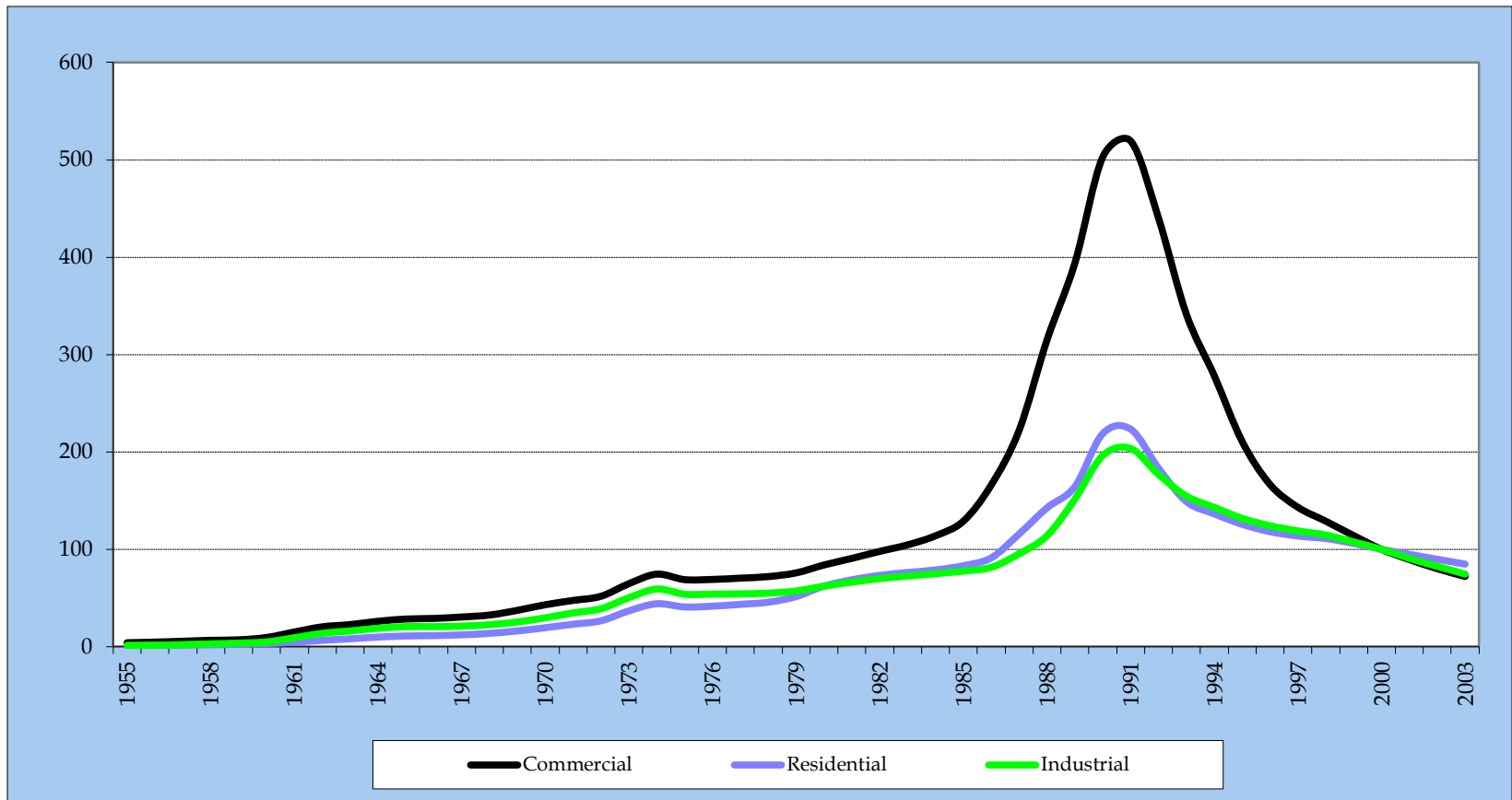
The 1980_s

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
 - 2nd 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)

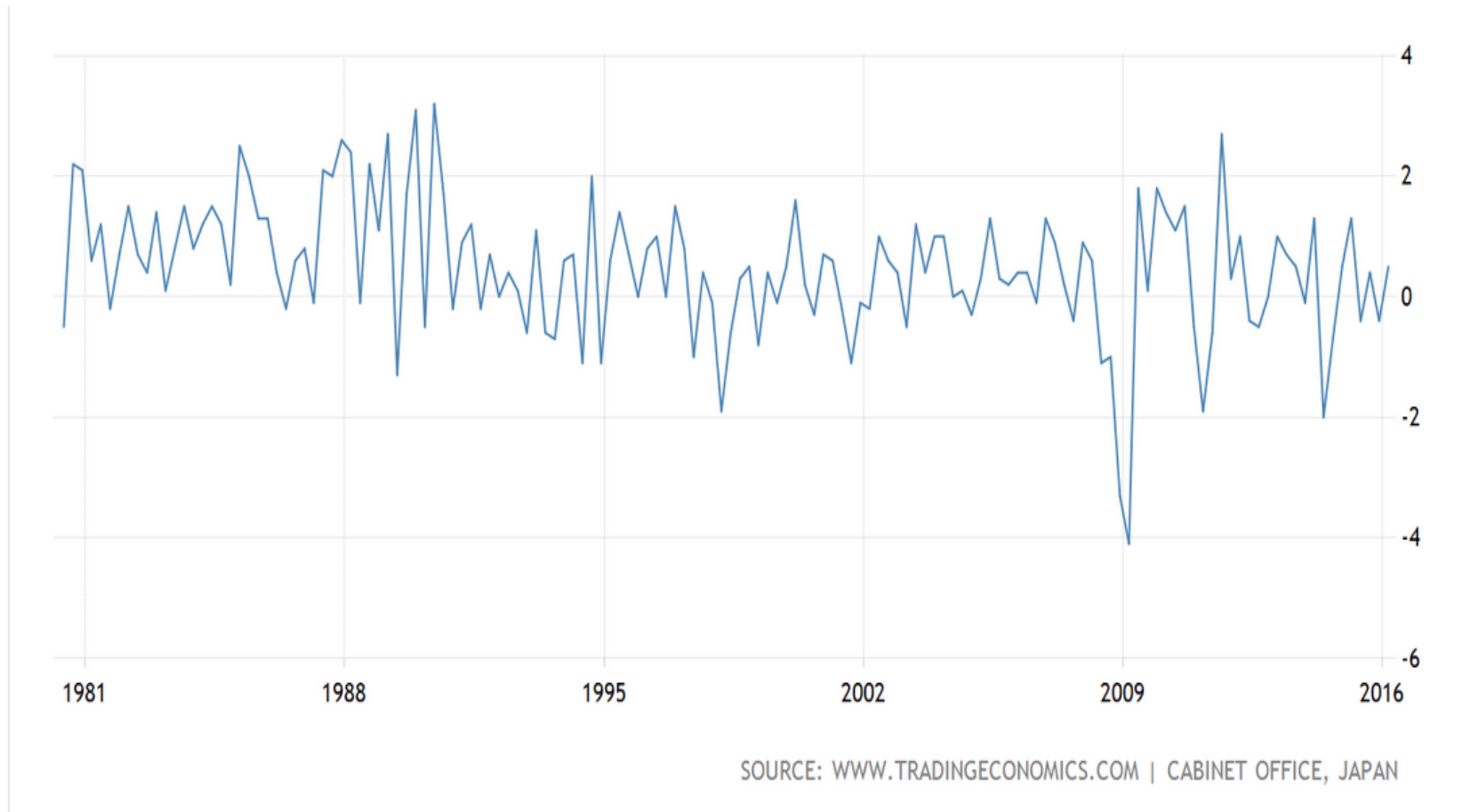
TOPIX Tokyo Stock Exchange Index and the volume of trade



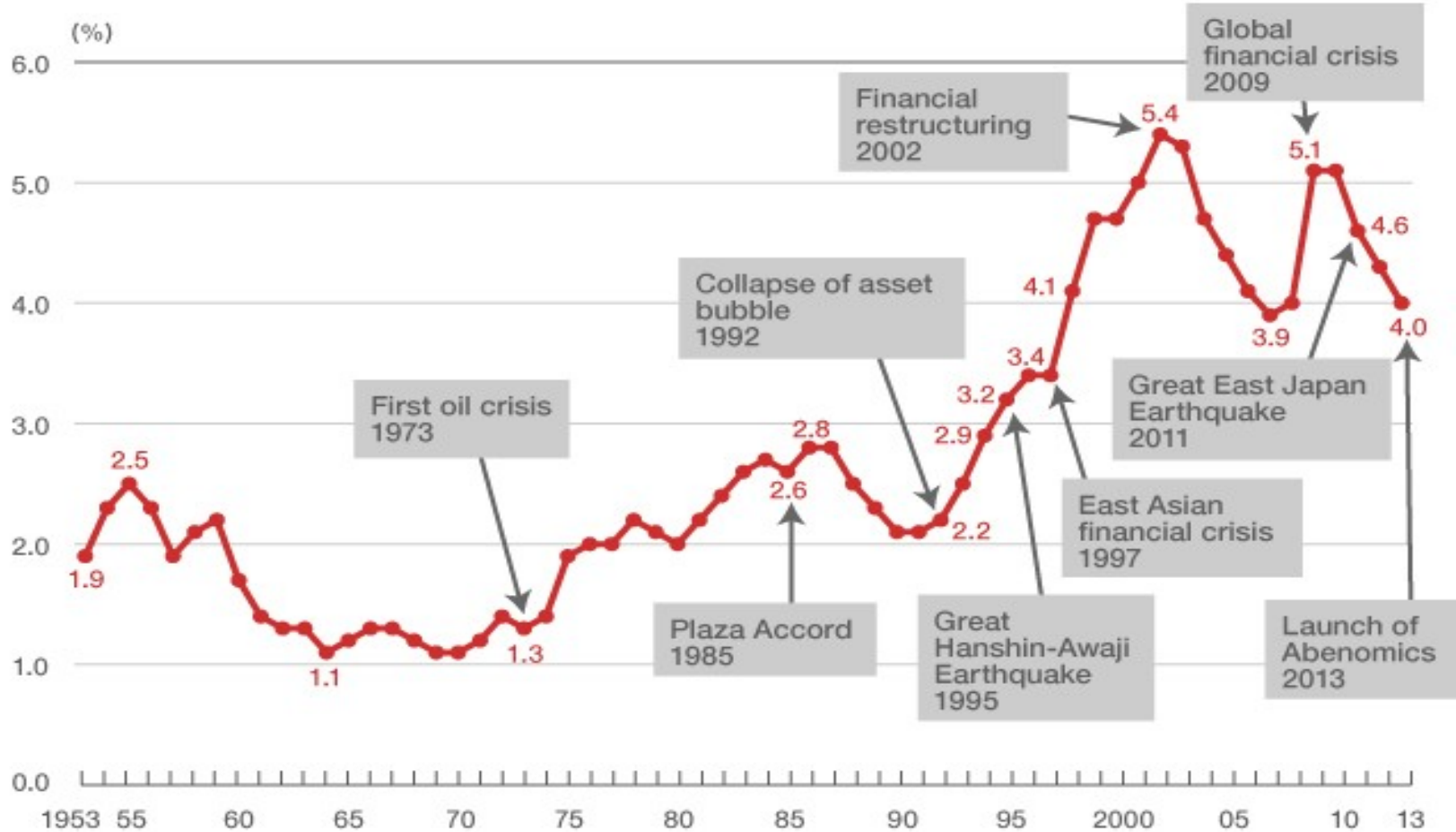
The 1990s

- **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

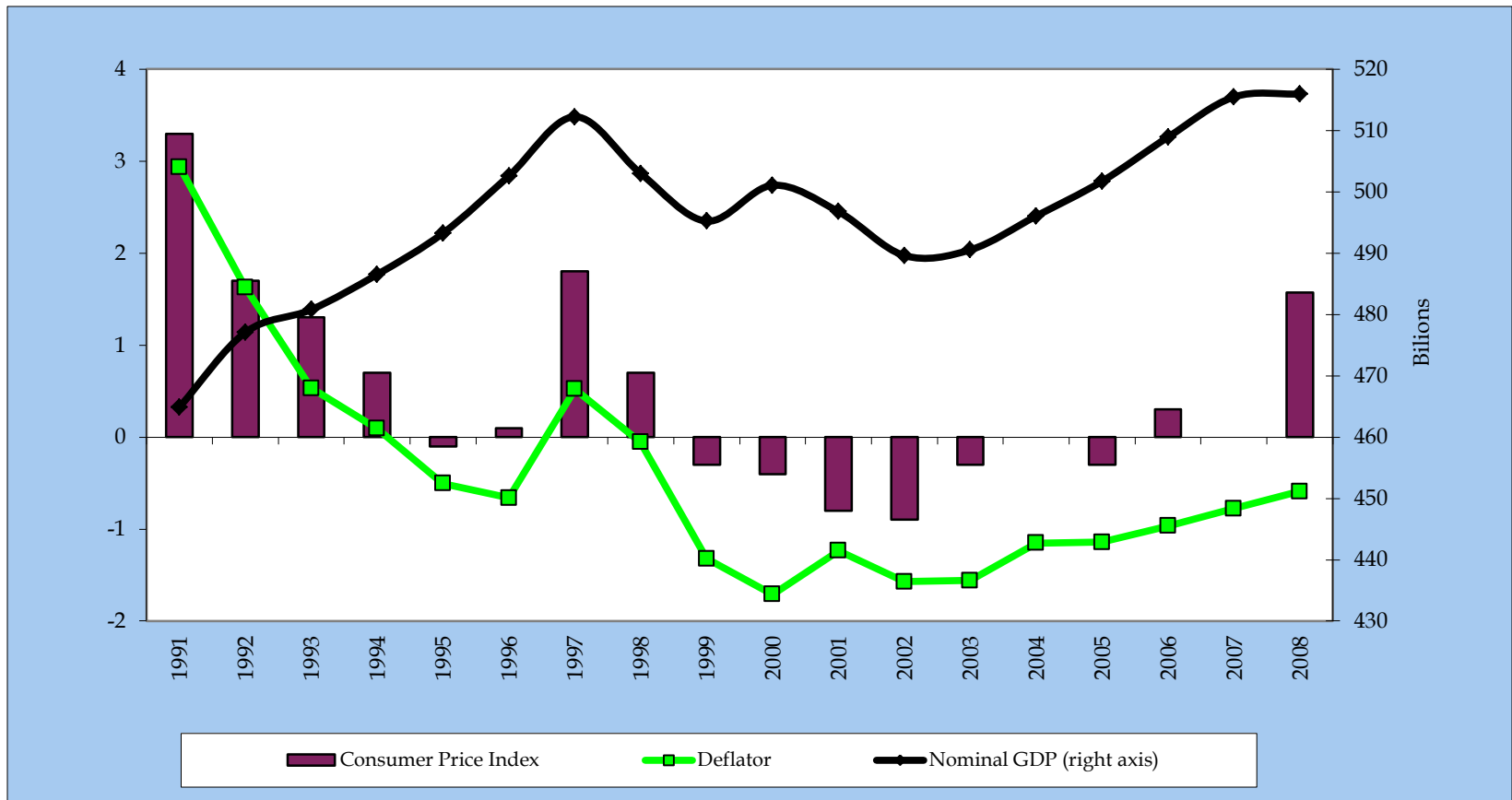


Japan's Unemployment Rate, 1953–2013



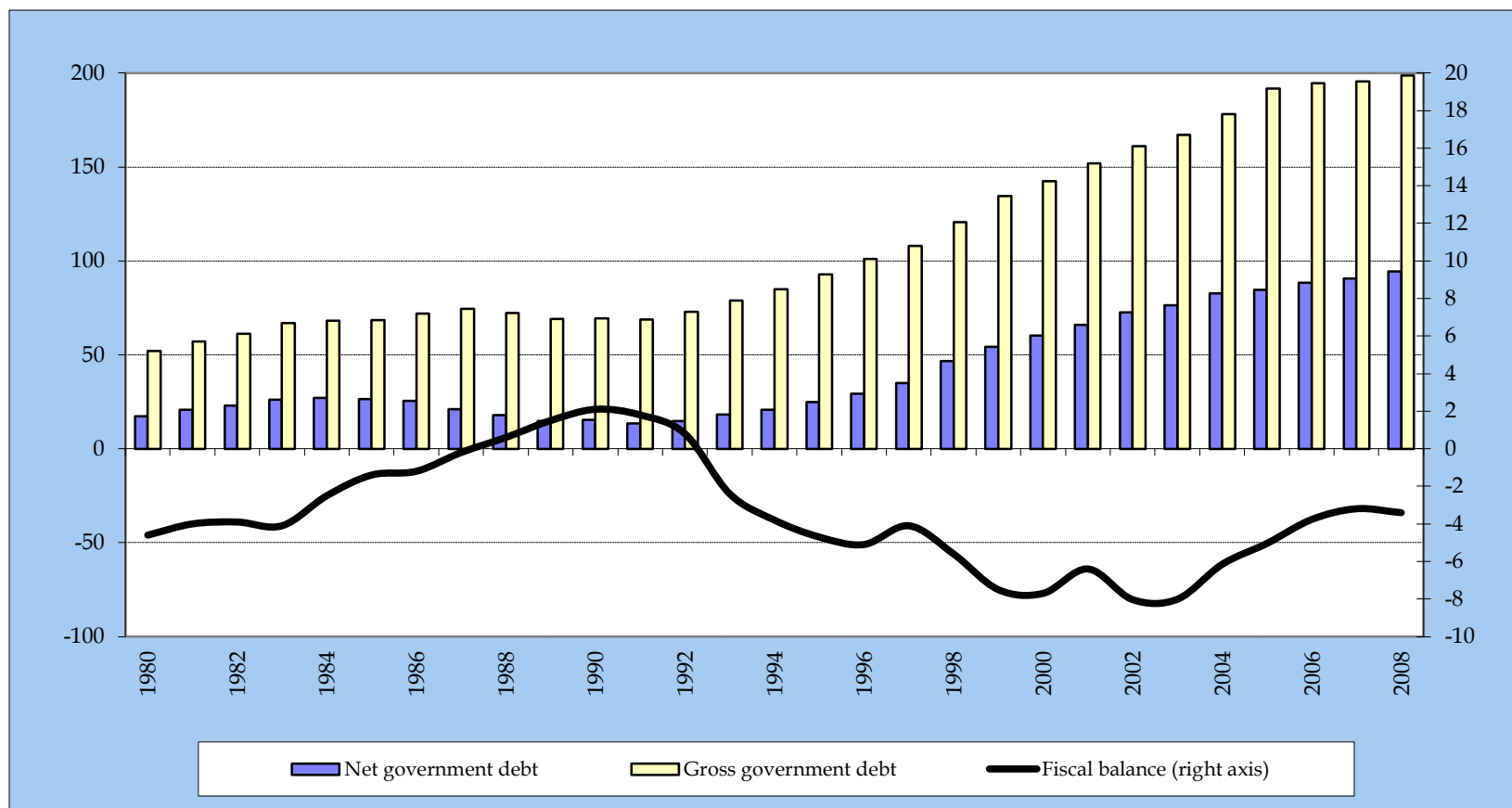
Source: Statistics Bureau of Japan, Labor Force Survey.

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)

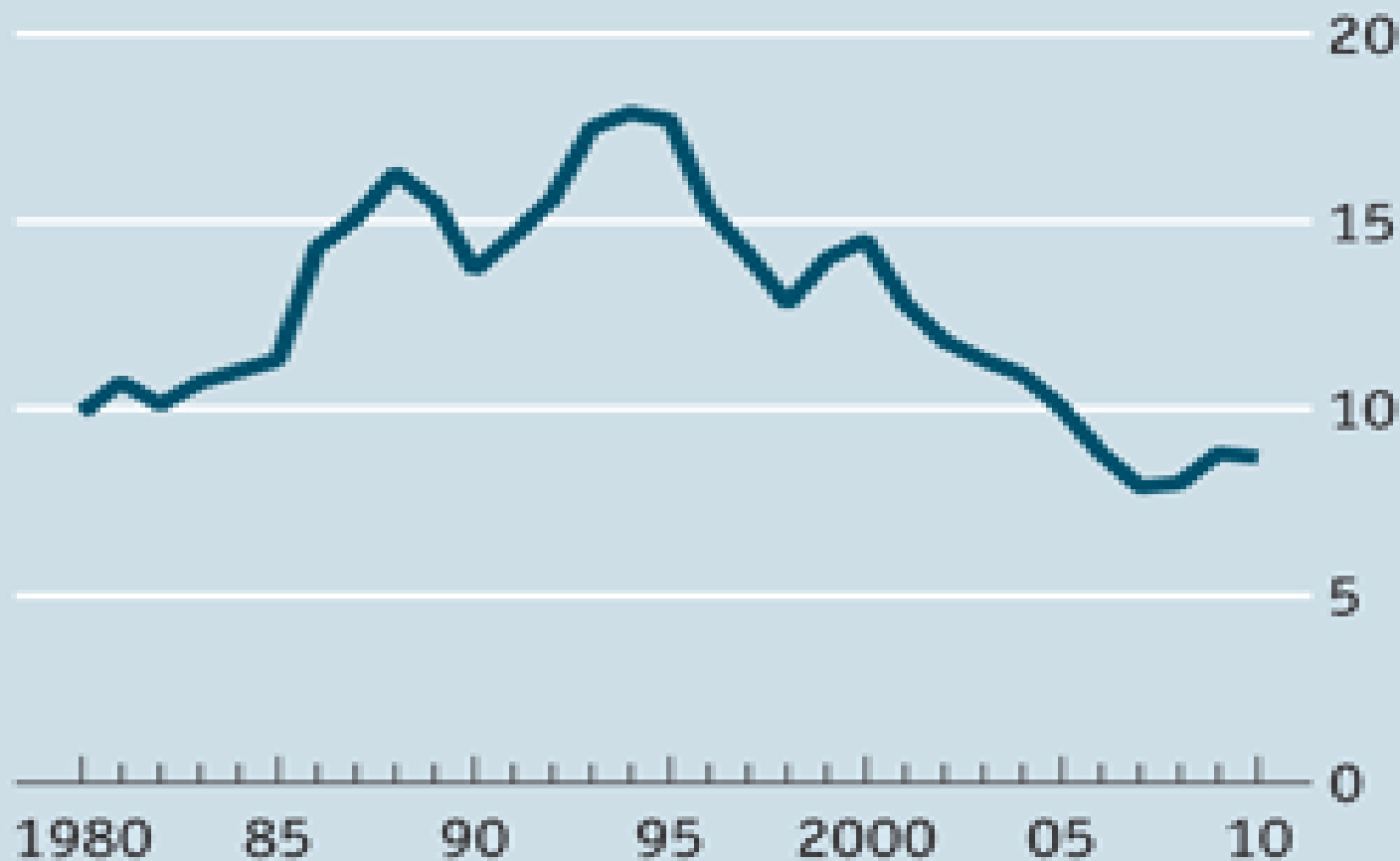
Japanese fiscal balance, net and gross national debt, 1980-2008 (% of GDP)



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

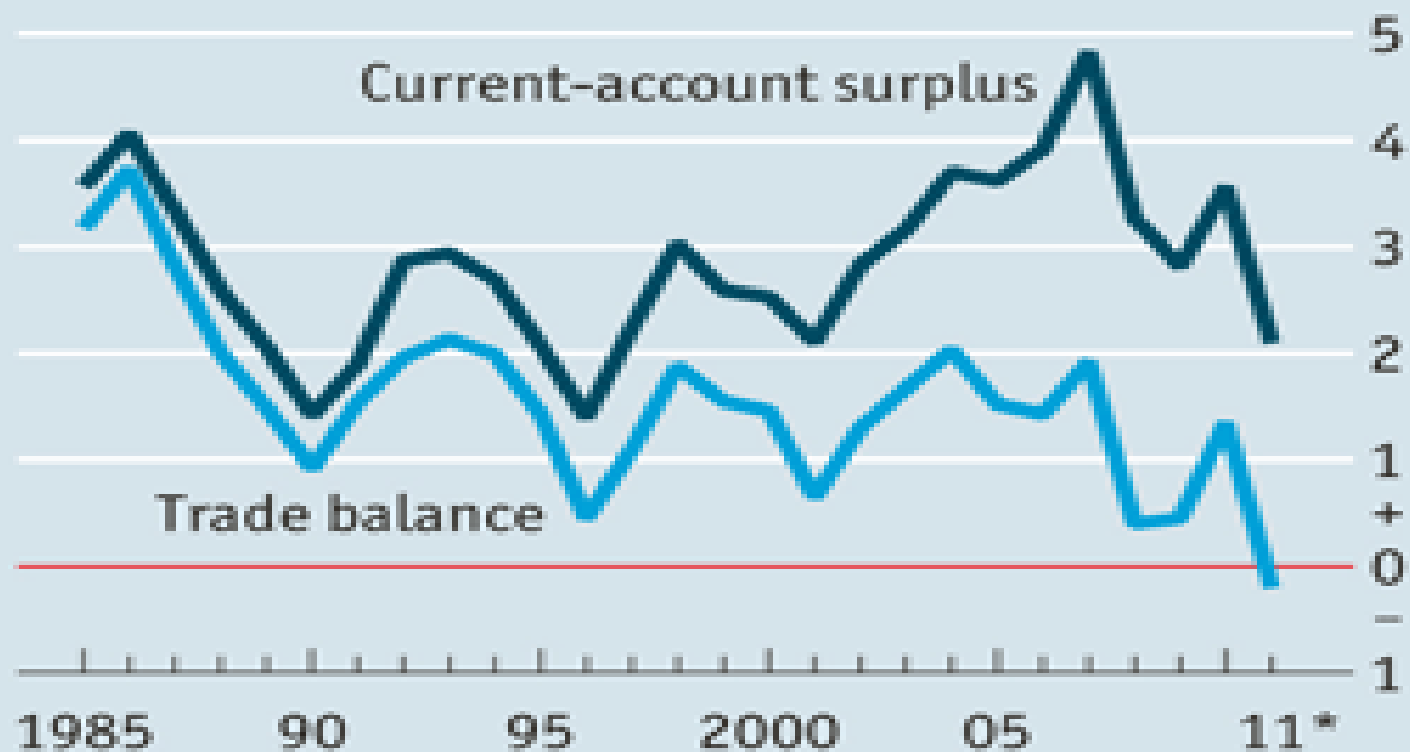


Source: IMF

*At market-exchange rates

Sushinomics

Japan, % of GDP

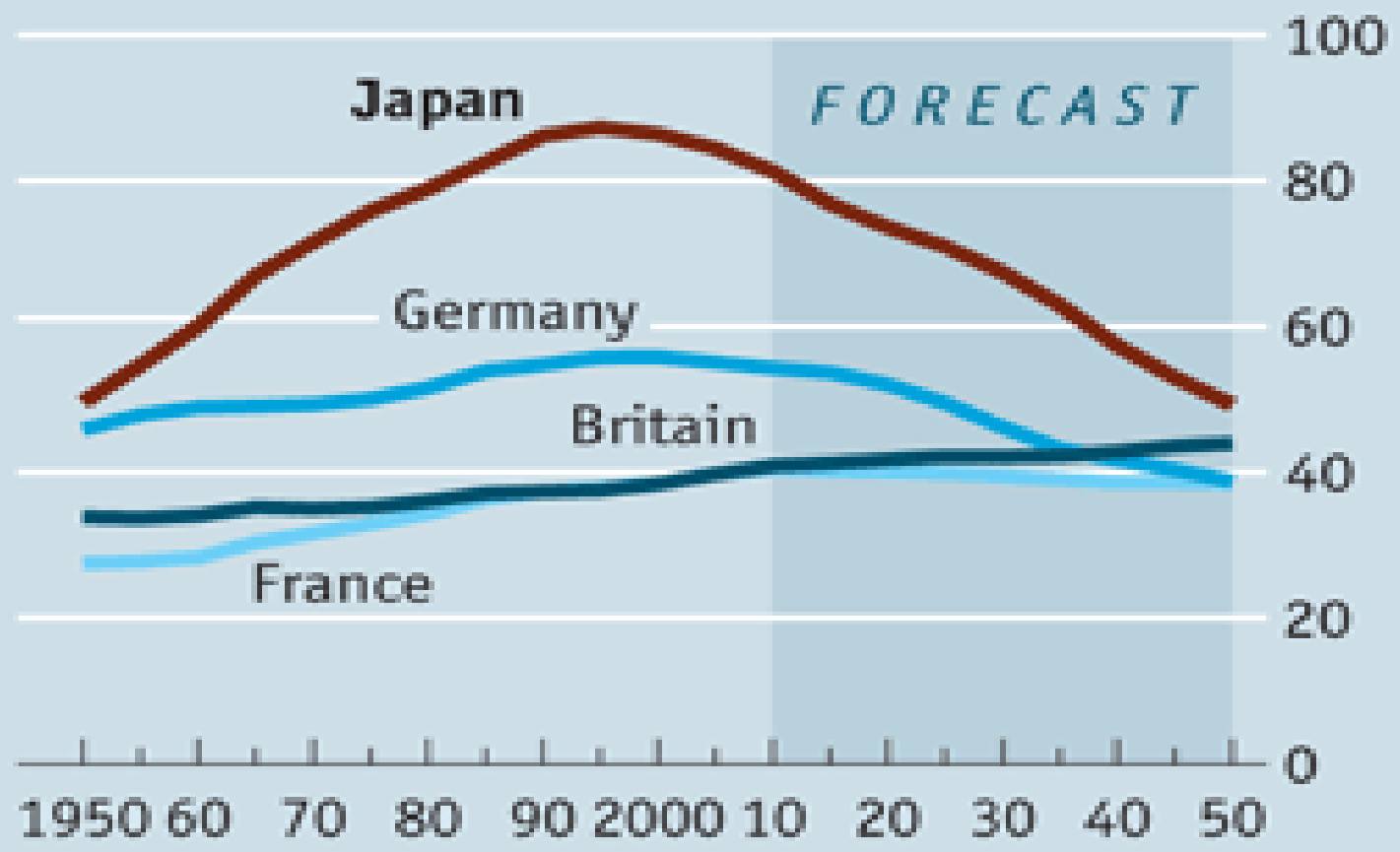


Sources: Haver Analytics;
The Economist

**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