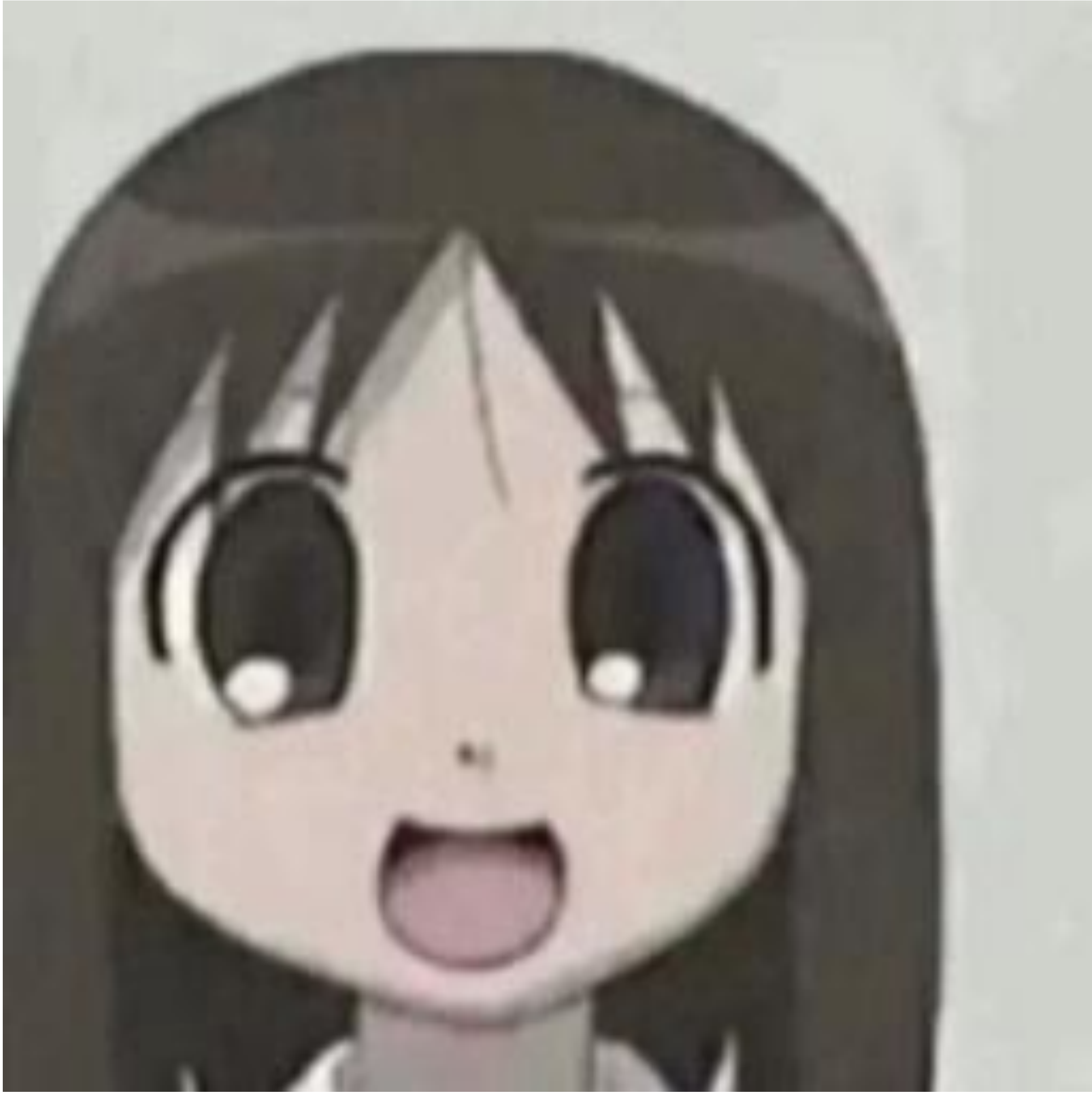
Theme II 2a: Transformation of East Asian Economies (Japan)



"The best way to grow rapidly is to have the country bombarded"

-Milton Friedman

Criteria for Singnificance 1. Rapid Industrialisation- Change to its industrial exports 2. Economic Growth (Characterised by high growth rates and other economic indicators
Rapid Industrialisation - Japan's industrial productivity **increased at the fastest rate in the world** **Economic Growth** - 1970-1980s Annual GNP growth rates ranged from **4%-5%** - Inflation was **modest** and unemployment remained **below 2** - Represented **10% of the world's GNP** and later **increased to 15%** - Provided for **30%** of world's FDI flow and it was the world's **largest single foreign investor**

A. Japan's Economic Recovery

Ai, Government Intervention

1. To rebuild Japan's essential industries, the government created strategies and supportive mechanisms that emphasised on industries. By receiving preferential treatment from the government, these industries development were boosted, enabling Japan's industrial basis to grow
   a. Reconversion Finance Bank (RFB) set up to selectively loan to firms essential to recovering production. The RFB was essential due to a scarcity in capital from the war, **hence RFB provided capital that enabled steel and coal entrepreneurs to reinvest and increase production capability and capacity.** Steel production grew from 40% to 70% pre-war level in a year
   b. Economic Rehabilitation Plan emphasised government control of the economy to promote activities of key industries (coal and steel). **With government focus and resources, their development was accelerated. Instrumental for Japan's industrial production,** their growth enabled Japan's industrial production to recover to 80% prewar levels in 1949

Aii. International Developments

1. Deemed as a strategic location due to its proximity to both US's pacific interests and vulnerability to communist threat, Japan and US entered a cooperative relationship in which America leverages on Japan's strategic geographical location in exchange from economic benefits from American activity.
   a. After UN entered the Korean War in 1950, Japan became the supply depot for Un forces. US placed orders of 7000 trucks worth 13 million with Japanese firms, reviving Japanese automobile industry. **Japan's support against containment and rollback stimulated its economy with war-related goods and services.**
   b. Japan's proximity to China and USSR+ North Korea's aggression made America fearful of communist attacks against Japan, thus establishing *Anpo*, giving legal basis to the hosting of military bases and US troops for maintaining peace and stability. free ride' (Japan was able to consistently keep its military spending under 1% of GNP and concentrate on generating economic growth under an American security umbrella)

B. Japan's Economic Miracle and Growth

Bi. International Development

1. Growth of global economy gave Japan's economy multiple chances to leverage in industrial opportunities because of outbound American MNCs and cheap oil prices. These help to fuel and grow Japan's developing industrial scene who industrialise more quickly and explore advance industries, modernising Japan.
    a. Relatively cheap oil prices ($2.50-$3.00), Japan was well placed to take advantage of the shift to oil as a new energy source to fuel industrial expansion **as much of its industrial plants were new, making it much easier to use oil to form the start instead of having to adapt in older plants.** Japan's use of oil increased 6-fold from 1950s-960s
    b. 1960s outbound American MNCs seemed business opportunities in developing countries like Fairchild Semiconductor. It signed an agreement a with Nippon Electric Company for the former's planer tech to be used. This allowed NECs and eventually a string of Japanese companies like sharp to produce integrated circuits **faster than self research**. Enabled Japan's electronics industry to develop into a pillar of Japan's economy
2. America viewed Japan as an important Cold War ally due to the latter serving as an American foothold in the pacific, America treated Japan preferentially in the form of economic benefits and acting as Japan's protection. This allowed Japan to divert military spending to expand its economy.
    a. Eisenhower Administration approved a reduction in Japanese defence spending, specifically Japan's financial support of US forces. Allowing Japan's defence as a share of GDP to decline by 20%. **Japan was able to divert defence spending that should have increased due to proximity to communist strongholds, to develop its private sector.** Contributed to 80%-90% of Japan's 10.4% growth.
    b. Japan struggled to find markets to tap into due to the infancy of SEA ones and discriminatory policies by GATT countries against Japan. America allowed Japan access to US markets by granting Japan MFN status. **US promoted Japanese exports as Japan could tap into American markets**, expand its consumer base and business opportunities allowing 300 million in trade surplus.
3. Dependence on exports limited its growth during the crisis decades when its trading partners became weary of Japanese products due to its quality and price. They thus sought to protect their economies from the effects of financial crisis by implementing protectionist measures to limit Japanese exports.
    a. 1977 Trigger Price Mechanism imposes tariffs on Japanese steel should they be sold at prices lower than a trigger price to protect the inefficient US steel industry that has been burdened by increased factors of production (oil) due to the 1973 oil Crisis.
    b. Due to the oil shortages caused by the 1970 Oil Crisis, both the EC and US imposed a Voluntary Export Restriction (VER) on Japanese cars to protect the competitiveness of locally produced cars as Japanese cars were more fuel-efficient. Car exports dropped by around 30% and a decrease in sales produced less export revenues

4. As US hegemonic support for the global economy becomes unsustainable due to depleting gold reserves and massive trade deficits, it made unilateral decisions for its own economic interests that posed repercussions for Japan by removing asymmetrical benefits, limiting Japan's trade exports
    a. US gold reserves depleted by 5 billion from 1948-1959, Nixon was forced to devaluate the USD and impose 10% surcharge on all imports. Japan had to appreciate the yen. **Japanese exports faced a considerable rise in their prices, reducing their competitiveness and appeal compared to local products.**
    b. US trade deficit with Japan rose to 40 billion. Reagan used Section 301 of the Omnibus Trade and Competitiveness Act, enabling him to adopt punitive sanctions against unfair trading partners. This was used as leverage to renegotiate trade agreements, forcing Japan to rebalance its trade and decreasing Japan's trade surpluses. US exports to Japan increased by 9%

Bii. Government Intervention

1. The government devised a strategic direction centred around an EOI through preferential policies towards the private sector and plans for trade liberalisation. Enterprises and trade developed as they benefited from the government's policies and in turn, increase Japanese exports.
    a. 1955 5 Year Plan for Economic Self Support and 1958 New Long Range Economic Plan placed greater emphasis on the private sector. **With government emphasis, the private sector received more resources and were able to expand while nascent industries developed.**
    b. 1960 General Plan for Trade and Foreign Exchange Liberalisation (GPTFEL) devised roadmaps for the liberalisation of individual commodities and products, targeting a liberalisation rate of 80% gradually in 3 years. **Ease of regulations made Japan able to export easier while the gradualism employed protected infant industries from foreign competitors.**
2. Government implemented plans ensured that the industry was well poised to benefit from global development and is modernised. These industries then become the pillars of Japan's economies as their products are cutting edge to challenge other giants, becoming Japan's main exports
    a. Due to the boom in international trade and oil demand, there is also a boom in demand for oil-tankers and carriers. MITI, MOF and Bank of Japan encouraged the development of shipbuilding and related (Steel) industries and financed development of ports. The Kure shipyards produced the largest oil tankers in the world by tonnage in the 1950s[1]
    b. The government invested 300 million to establish the Super LSI Technology Research Association with Japan's 6 main computer companies to research fundamental technology for semiconductors. They were able to develop a wide variety of semiconductor design and manufacturing innovation, modernising Japan's electronic industry. Thus, enabled Japan to constitute for 51% of the global semiconductor market.

[1] https://www.construction-physics.com/p/how-japan-invented-modern-shipbuilding

3. Responses to economic challenges were critical to ensuring that its economy did not suffer loses. Though policies and adaptation, it was able to rectify deteriorating economic circumstances while even taking advantage of external challenges. Resulting in continued growth in the face of challenges.
    a. Japan enforced tight fiscal policies to reduce investment rates and alleviate the pressure on the balance of payments to combat its trade imbalance of 1.3 billion caused by uncompetitive Japanese products. Consequently, the balance of trade reversed back to a surplus in 1955 as exports increased by more than 350 million
    b. 1973 oil crisis saw oil prices quadruple. Japan adapted by reducing reliance on Middle Eastern energy imports and pivoting to new less-oil focused industries like electronics and energy sources like hydroelectricity and attractive fuel-efficient cars. **Astute. Reduce oil's effects and produce widely demanded goods.**
4. Although some sectors ignored MITI's plans and directives, they were able to prosper through their own ways, undermining the decisiveness of government intervention in fuelling Japanese economic growth. Furthermore, government intervention also resulted in disastrous economic consequences at times
    a. MITI tried to merge automobile companies as domestic producers were considered too numerous and small to compare with American giants. The industry refused MITI's initiatives and the automobile industry flourished nonetheless. (6% of GDP in 1980s). **Economic success of automobile little to do with MITI**
    b. Japanese government, under request, decreased the interest rates to a superlow of 2.5% to increase the Yen supply. This created asset bubbles due to the speculative rise in prices of real estate and stock exchange. When the BOJ attempted to raise it to 6% in 1990 to surpress the rise in real estate and stocks value, Nikkei crashed, and the real estate bubbles burst. Japan lost over 2 trillion and plunged the nation into the lost decades.

Biii. Kiretsu System

1. The keiretsu implemented horizontal and vertical integration policies, enabling them to lower business costs and maintain the international competitiveness of their exports. As they boost Japan's trade, Japan experienced spectacular economic growth.
    a. 30% of keiretsu transactions were accounted to intra-group trading such as between Hitachi and affiliated companies like Naka instruments which collaborated to develop semiconductors. Big Six controlled 25% of total assets. **Keiretsu's "One-set-of-everything" principle saw more competition between the Keiretsu, keeping the cost down and improve quality. Their control also closed the market to foreign firms, simulating the economy by producing strong incentives for investments in technical and process innovations.**
    b. Major manufacturers like Toyota and Nissan traditionally maintained direct relationships with about 100 suppliers organised into exclusive, cooperative associations. **Vertical integration saw close communication between supplier and manufacturers, developing prime-manufacturer relationships**

that provide insurance to suppliers against fluctuations. During the oil crisis, when the costs of production increased, Japanese automobile manufacturers also shared risks with suppliers, resulting in a smaller variation operating income.

2. Keiretsu system saw member companies own small portions of share in each other's companies, helping to insulate each company from stock market fluctuations. This reduced pressure to increase short-term dividends at the expense of long-term growth, enabling long-term planning in innovative projects that would allow entry into new lucrative fields
    a. Sony licensed US Bell's Lab's transistor technology in the 1950s to create the Sony TR-63 that was slimmer and superior in performance to the US's. It sold millions of units compared to Bell's 150000.
    b. In the 1980s, among the top 50 industrial companies, R and D exceeded capital spending. Industries like fibre-optics were products of massive funding by the Sumitomo Group.
3. Keiretsu system's success relied on government intervention to pick the "strategic industries" that attracted Keiretsu firms and investments that supported the latter's involvement. By channeling resources and preferential policies to aid in their development, only then could they leverage on global opportunities and grow.
    a. Through the Japan Development Bank, Tokyo provided 20% of funds. **Only with funding could the Keiretsu be confident to endeavour in capital-intensive industries which entailed high financial strain.**
    b. The government supported Keiretsu films in "strategic industries", aiding them with government sponsored collaborative projects and R&D subsidies such as the Super LSI Technology Research Initiative (300 million) that developed variety of semiconductor design and manufacturing innovations. 51% of the semiconductor market globally
4. Keiretsu are undermined due to their relationship with labour forces. As Keiretsu affect and are affected by labour relationships, it has forced Keiretsu to action that deteriorate economic stability while labour unions force Keiretsu to change their highly productive, yet life destructive work ethics.
    a. Due to the oil crisis, Japanese ship manufacturers faced soaring energy costs and weak foreign demand. To streamline management, the industry eliminated 115000 jobs, cutting employment by a third. Economic growth fell from 10% to 4%
    b. Shunto negotiations forced Keiretsu to implement shorter work weeks and more paid holidays. Further encouraged by the government who convinced financial markets and institutions to close every Saturday. **Albeit no tangible effects, proves the waning influence of keiretsu on Japanese economy**.

Biv. Socio-Economic Factors

1. Promotion of education made it accessible for every Japanese while an exam-approach curricula produced a highly capable workforce that became the critical of Japan's expanding and adaptive industries.

    a. Japan's egalitarian and exam-focused public schooling produced a academically capable population with 95% literacy rates and scored higher in mathematics and science compared to their American counterparts. **Created a population who could adapt to rapidly changing production and office technologies**
    b. The "Industrial Education Promotion Law" and "Science Education Promotion Law" set out national criteria related to laboratories, facilities and equipment needed for industrial education and science education. Subsidies were incentives for schools to meet the Promotion Law's criteria.[2] **Developing a highly skilled industrial workforce as schools were well equipped to hone students in these areas.**
2. Emphasis on frugality and sacrifice has helped Japan's economic growth by encouraging the Japanese to save, which banks can then use as investment funds and initiative to work. These provided industries with funds to grow while also increasing the output of companies, resulting in economic growth.
    a. Due to the Confucian value of frugality, Japanese household saving rates were high since the 1950s. Japanese banks had an abundance of funds to invest into the economy which translated to capital for industries to grow. Japan's high investment rates facilitated the country's industrial development.
    b. Under the Ie system, typical workers under the lifetime commitment system worked regularly until 11pm. **Highlights the perception of the company as family in which workers must sacrifice their personal needs to extensively to advance company's interest. Abnormally long working periods allow Japanese companies to increase their output.**
3. Socio-economic factors have been limited due to the evolving labour-business relations that places less emphasis on societal values and instead, on welfare and flexibility. As the importance of societal values wane in business practice, its effects on economic growth decrease.
    a. The lifetime employment system has weakened with firm's gradual increase of the number of contract and dispatch workers to 2-% of all employees in 1992. Loyalty is undermined as companies also rely on temporary workers with little attachments, whilst still being able to attain a 10% growth.
    b. Japanese workers increasingly disregard the ie system, evidenced by efforts like the Shunto negotiations that advocate for less working hours and higher wages as they voice concerns about long working hours. **This demonstrates that as the ie system is scrutinised and welfare takes precedence, ie system cannot be regarded as significant due to the continuous economic output regardless of whether the ie system is in place and its waning effect on Japanese work culture**

[2] https://www.nier.go.jp/English/educationjapan/pdf/201103EJPP.pdf