

# **JAPANESE ECONOMY: PAST, PRESENT, AND FUTURE**

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# Summary

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- ❖ **Japanese Economy**
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  - ✓ **Present**
  
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- ❖ **Lesson for Other Economies**

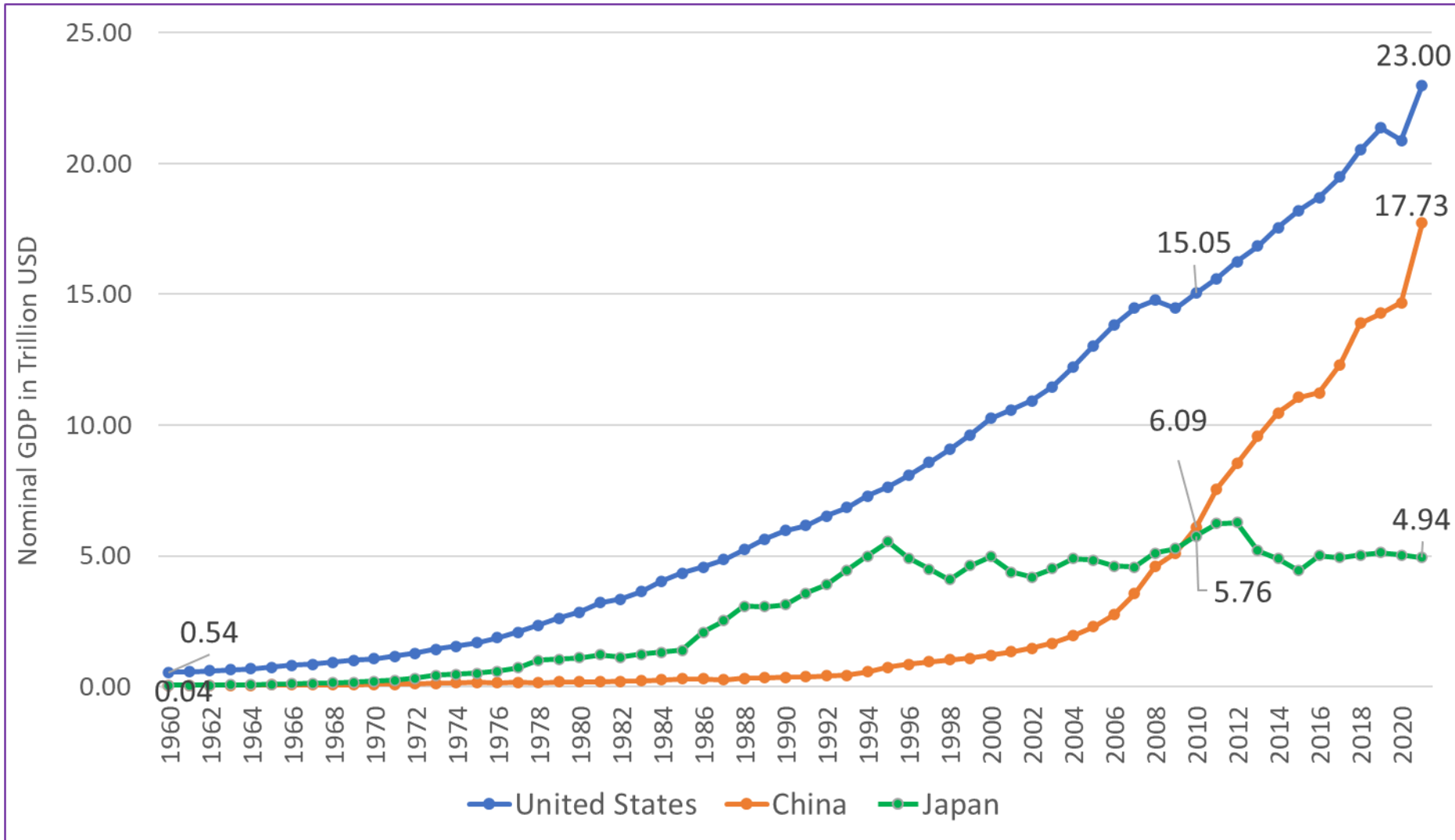
# General Background

# Japan: In Comparison

Category	Rank of Japan	Rank of Nepal	Nepal-Japan Comparison (size)	Top Rank
<b>Area</b>	62	95	Japan = 2.6 x Nepal	<b>Russia</b>
<b>Population (2022)</b>	11	49	Japan = 4.2 x Nepal	<b>China</b>
<b>GDP (2021)</b>	3	100	Japan = 136.01 x Nepal	<b>USA</b>
<b>Per Capita Income (2021)</b>	26	163	Japan = 32.13 x Nepal	<b>Luxembourg</b>
<b>HDI (2019)</b>	19	143	Japan = 1.53 x Nepal	<b>Norway</b>

Source: World Development Indicators (2022), Human Development Report (2020), <https://ceoworld.biz/>

# Trend of the Top Three World Economies



Source: Prepared based on World Economic Indicators 2022

# Japan: The Historical Years

Ruler and Era	Time Line	Description
Tokugawa Era	1603–1868	In 1603, Ieyasu Tokugawa formed government in the city of Edo (renamed Tokyo in 1868) and this era has started.
Meiji Era	1868–1912	In 1868, the 16-year-old Meiji Emperor moved from Kyoto to Tokyo to be the actual ruler of the new Japan. The Tokugawa Shōgun surrendered.
Taisho Era	1912–1926	The reign of the Emperor Taishō, the time of the liberal movement known as Taisho Democracy.
Showa Era	1926–1989	The reign of Emperor Shōwa (Hirohito), World War II, Invasion of China, Great Depression.
Heisei Era	1989–2019	On April 30, 2019, Emperor Akihito became the first emperor in the modern era to abdicate as Japan's emperor while living.
Reiwa Era	May 1, 2019-	Emperor Naruhito acceded to throne, and the Reiwa era has started.

# The Tokugawa Era: 1603-1868

- ❖ Tokugawa family governed Japan for 264 years.
- ❖ The imperial family (residing in Kyoto) had only formal political power; The Tokugawas had the actual power (military, political and economic).
- ❖ The isolation from foreign country policy (1639-1854): Prohibited all trade and contacts with foreigners except at Dejima, an island off Nagasaki where Dutch and Chinese merchants were allowed to trade.
- ❖ The Shinō-Kōshō (a caste like system) divided the citizenry into warriors (shi or samurai), peasants (nō), artisans (kō), and tradesmen (shō), and an underclass of untouchables (eta or hinin).

# The Tokugawa Era: 1603-1868

- ❖ The **peasant class** (70–80 % percent of the population): produced enough rice to sustain the entire population of the country.
- ❖ The ideal samurai class: highly educated; possess the Confucian virtues of loyalty, righteousness, and propriety; and endure material hardship. **But they did not accumulate economic wealth**, despite the privilege of being in the ruling class.
- ❖ The artisans and tradesmen **accumulated capital over the Tokugawa years**, often investing in their children's education.



# The Meiji Era: 1868–1912

- ❖ Tradesmen's capital was **crucial for modern economic growth and industrialization** in the Meiji era.
- ❖ The Tokugawa government **introduced coins made of gold, silver, and copper**.
- ❖ **Paper money emerged earlier in Japan than in Britain**, but later than in China (where it had appeared first at the end of the tenth century).

# The Meiji Era: 1868–1912

- ❖ In 1730, the government approved a plan by Osaka merchants to establish a **rice futures market** in the Dōjima area—the **first futures market in the world**.
- ❖ It had all the modern features, including:
  - ✓ **A clearinghouse,**
  - ✓ **A membership system,**
  - ✓ **Expiration dates (three times a year),**
  - ✓ **Margin requirements,**
- ❖ The **futures market functioned properly until the 1930s**, when rice production and distribution came under government control as a part of the wartime economy.

# The Meiji Era: 1868–1912

- The task of the Meiji government was **to catch up with the Western world** in the aftermath of the Tokugawa isolation.
- The Meiji government's two favorite slogans were: **“Industrialization”** and **“A wealthy nation and strong army”**.
- Japan pursued these goals **to both catch up with** and **avoid being colonized by advanced countries** in the West.
- Kuznets dates the start of modern economic growth in Japan: 1874–1879.
- Rostow dates the takeoff of Japan's economy: 1878–1900.

# The Meiji Era: 1868–1912

## ❖ Achievements of this era:

- ✓ High technological level of Agriculture.
- ✓ Infrastructure
- ✓ Capital accumulation
- ✓ Abolition of social caste system
- ✓ Introduction of mandatory education
- ✓ Land tax reform of 1873
- ✓ Diffusion of foreign technology through industrial policy
- ✓ Industrial development (silk-spinning/cotton-spinning industry)
- ✓ New currency law in 1871, setting 1 yen equal to 1.5 grams of gold
- ✓ The Bank of Japan (BOJ) was established on October 10, 1882

# The Meiji Era: 1868–1912

Japan's rapid economic growth possible due to:

## 1. Favorable conditions inherited from the Tokugawa era:

- ✓ a high educational level,
- ✓ a large amount of accumulated capital,
- ✓ a high technological level of agriculture,
- ✓ a network of roads and irrigation.

## 2. Successful economic policies of the Meiji era:

- ✓ strong and capable central government,
- ✓ labor mobility across regions and economic classes,
- ✓ compulsory education,
- ✓ fiscal reform,
- ✓ the improvement of infrastructure,
- ✓ and the establishment of a central bank.

# The Taisho Era: 1912–1926

- Japan entered World War I and came out as a big victor in the Treaty of Versailles.
- As European countries stopped exporting to Asian markets during the war, Japan filled in, increasing its exports.
- Japan's total exports rose from 0.8 billion yen in 1914 to 3.0 billion yen in 1920, and the amount of foreign reserves jumped from 0.1 billion yen to 1.1 billion yen (Nakamura, 1980).
- The World War I ended in 1919, Japan experienced a recession called *handō* (reactionary) recession. The Japanese economy was further damaged by the Great Kanto Earthquake of 1923.

# The Showa Era: 1926–1989

- Japan faced a financial crisis in 1927 and resumed the gold standard in 1930 and abandoned it in 1931.
- Japan got into another crisis known as the **Showa Depression** caused by **tight monetary policy** that accompanied Japan's efforts to return to the gold standard, which broke down during World War I.
- The **expansionary fiscal policy due to the rise of military expenditure for World War II** helped Japan to recover quickly from economic crisis.
- The World War II lasted for 4 years enormously **damaged human lives and economic assets of Japan**.

# The Showa Era: 1926–1989

## Postwar Recovery: 1945–1950

- ❖ Soon after **General Douglas MacArthur** arrived in Japan as head of the **Allied Occupation Force**, he introduced several measures aimed at **democratizing Japan politically and economically**.
- ❖ The **economic reforms** were not intended to help Japan to regain its **economic productive capacity** but to **destroy the nondemocratic economic structure of Japan**, which many in the Allied Occupation Force believed to have been responsible for Japanese aggression.



# The Showa Era: 1926–1989

- ❖ Policies helped in modern economic development:
  - ✓ an emphasis on education,
  - ✓ a disciplined workforce,
  - ✓ high saving rates,
  - ✓ prudent monetary and fiscal policies.
- ❖ Between 1950 and 1973: average economic growth rate was 10 percent, doubling time was seven years.
- ❖ The pattern of economic development in Japan: central industries and major exports shift from agriculture to light manufacturing, and then to heavy manufacturing.
- ❖ In the second half of the 1970s and the 1980s, the average economic growth rate reduced to 4 percent.

# The Showa Era: 1926–1989

## Major Policy Reforms by Allied Occupation Force :

- ❖ **Antitrust Reform:** The prewar groups of large companies (zaibatsu) were dissolved in 1946 and 1947.
- ❖ **Land Reform:** created middle class farmer contributing income equity in agriculture, increase in agricultural production, stable food supply.
- ❖ **Labor Reform:** The Labor Union Act of 1946 granted workers the right to organize in unions and to engage in collective bargaining.
- ❖ **Education System Reform:** education system was reformed to have a four-stage 6–3–3–4 system: six years of elementary school, three years of junior high school, three years of senior high school, and four years of university (college).
- ❖ **The Political System Reform:** Political regime moved to constitutional monarchy.

# The Heisei Era: 1989–2019

## The Bubble Economy and the Lost Two Decades (1987–2012)

- ❖ In the late 1980s, GDP growth rates were accelerating, and the economy of Japan expanded accompanied by an extraordinary appreciation of asset (stock and land) prices.
- ❖ The sharp increases in stock and land prices in the 1980s were followed by sharp decreases in both in the 1990s.
- ❖ When stock prices started to fall in 1990, the decline was seen as a correction of too-fast increases, but they were unstable and decreased again and again from 1991 to 1995.
- ❖ Land prices started to fall in 1991 with large impacts on the banking system, as many loans to real estate and construction companies became nonperforming and eventually had to be written off.

# The Heisei Era: 1989–2019

- ❖ After this phenomenon, Japan entered a period of very stagnant growth from 1993, which lasted more than two decades. When the bubble burst, this experience of is called the “two lost decades of Japan”.
- ❖ The Japanese economy has been extremely slow in recovering from the bursting of this bubble. Demand shortages were the primary cause of economic stagnation, but the supply-side problem that depressed the potential growth was also important.
- ❖ BOJ gained independence in 1998 and decided to further lower the policy rate gradually, culminating to the adoption of the Zero Interest Rate Policy (ZIRP) on February 12, 1999.

# The Heisei Era: 1989–2019

## Abenomics

- ❖ Since the Japanese economy suffered from both demand- and supply-side problems, in late 2012, and the **Liberal Democratic Party (LDP)** returned to power under Prime Minister Shinzo Abe.
- ❖ The Abe administration quickly announced a policy package nicknamed “Abenomics”.
- ❖ Abenomics is **the combination of expansionary macroeconomic policy and structural reform** to expand potential output.
- ❖ Abenomics consists of **three important elements** that are often described as “three arrows.”

# The Heisei Era: 1989–2019

## 1. The first arrow: “bold monetary policy,”

- ❖ Aims to expand the country’s monetary policy.
- ❖ The BoJ introduced quantitative and qualitative easing (QQE) in April 2013 under Governor Haruhiko Kuroda.
- ❖ The BOJ announced 2 percent inflation targeting to achieve that in two years.

## 2. The second arrow: “flexible fiscal policy,”

- ❖ Expansionary fiscal policy in the short run but eventual fiscal consolidation to retain future flexibility,
- ❖ The government quickly carried out fiscal stimulus,
- ❖ Targeted eliminating the primary deficit by fiscal 2020,
- ❖ Raised the consumption tax rate from 5% to 8% in April 2014.

## 3. The third arrow: “growth strategy to promote private investment.”

- ❖ Deregulation and other measures that aim to make the economy more flexible and responsive to technological and other changes.
- ❖ Industrial policies that target promising industries and try promoting those industries.

# The Heisei Era: 1989–2019

The results of Abenomics are mixed.

- ❖ The 2 percent inflation target was not achieved in two years.
- ❖ Eliminating the primary deficit by 2020 was judged impossible and the target date has been postponed.
- ❖ However, Abenomics successfully implemented many policy measures, and Japan's economic conditions have improved.
- ❖ Abenomics also set a goal of 2 percent real GDP growth which has been achieved in 2021.
- ❖ The Japanese economy no longer in deflation or recession.

# **Japanese Economy: In Present**



# The Reiwa Era: May 1, 2019--

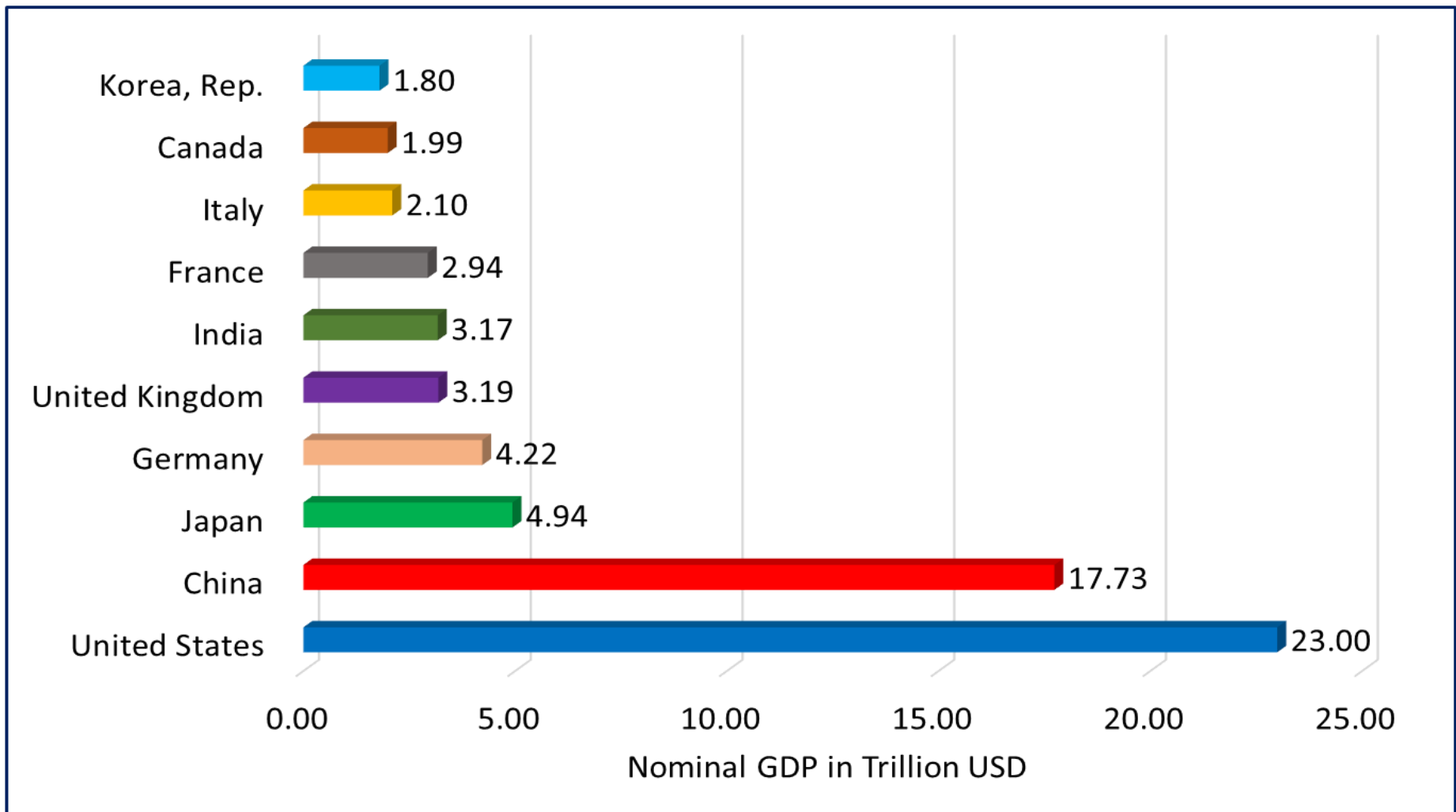
- ❖ The Japanese economy is recovering from the COVID-19 pandemic as related uncertainty and **supply constraints subside and consumption gradually rebounds**.
- ❖ According to IMF, the **GDP growth will accelerate to more than 2 % in 2022, the fastest in 12 years**, and maintain nearly the same pace next year.
- ❖ Japanese economy credits **high vaccination levels** (fully vaccinated 82% as of August 2022).
- ❖ However, the **war in Ukraine pose substantial risks** in economy.
- ❖ The economy also faces longer-term problems from an **aging and shrinking population**, stagnant productivity growth.

# The Reiwa Era: May 1, 2019--

## **Faster digital transformation with government support**

- ❖ Lawmakers in 2021 **abolished most of the authorization of documents by Hanko seals, the personalized ink stamps used for centuries in Japan** for digitalization to increase productivity and growth.
- ❖ This **pivot to electronic signatures from traditional stamps is an important one for digitalizing administrative procedures** that make government more efficient.
- ❖ The **Digital Agency was established in September 2021** under the cabinet to speed digitalization of central and local governments and the private sector.
- ❖ Other **key priorities in accelerating adoption of digital financial services** include:
  - ✓ enhancing public trust by augmenting financial and digital literacy;
  - ✓ improving connectivity between different cashless payment platforms;
  - ✓ and strengthening data privacy, consumer protection, and cybersecurity.

# The Top Ten Economies of the World in 2021

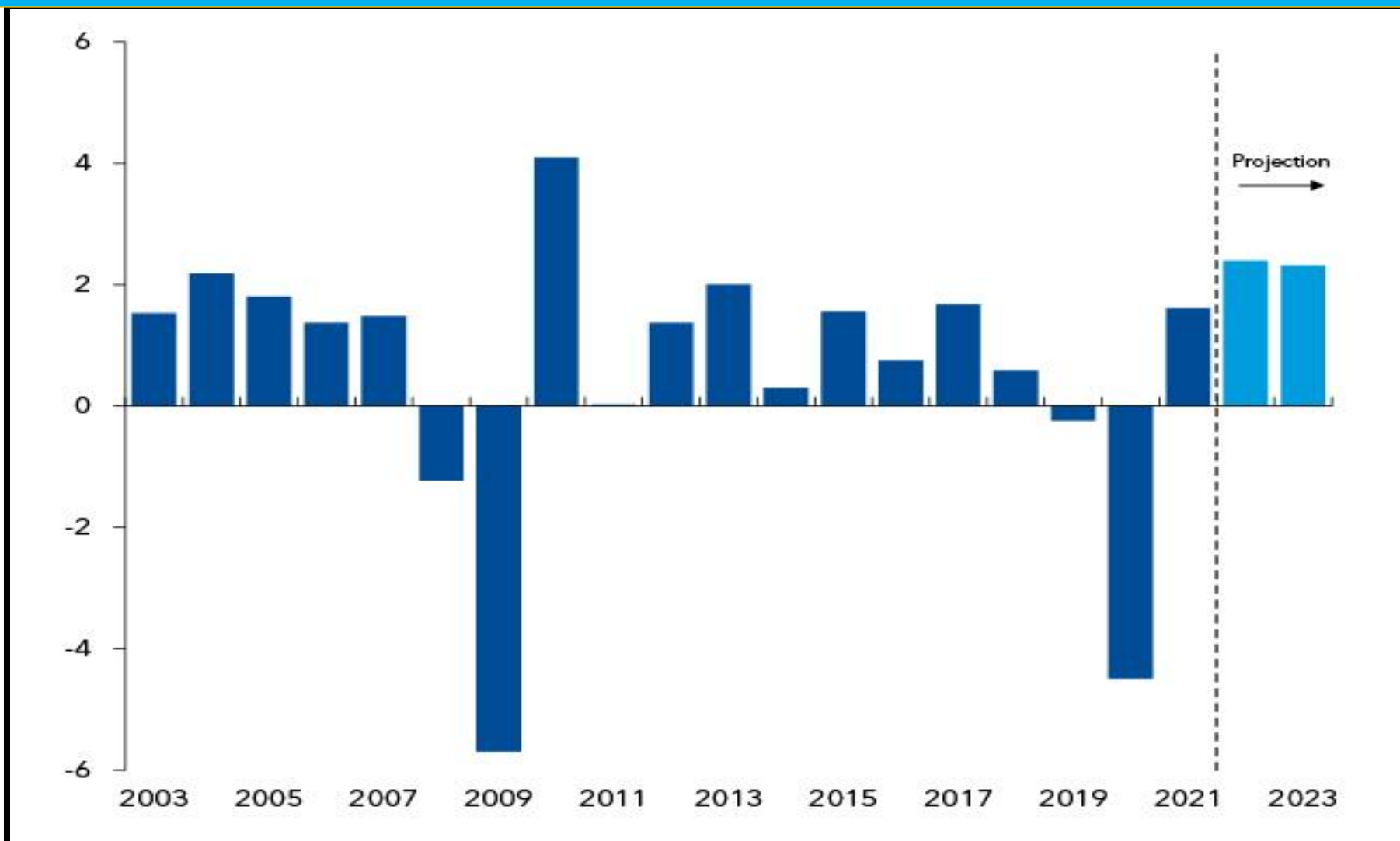


Source: Prepared based on World Economic Indicators 2022

# The GDP Per Capita (Current USD)

Rank	Country Name	2021
1	Luxembourg	135,683
2	Bermuda	110,869
3	Ireland	99,152
4	Switzerland	93,457
5	Norway	89,203
6	Singapore	72,794
7	United States	69,288
8	Iceland	68,384
9	Denmark	67,803
10	Qatar	61,276
26	Japan	39,285
163	Nepal	1,223
191	World Average	12,263

# The Growth Momentum of Japanese Economy



Source: The IMF 2022

# **Japanese Economy: In Future**

# The Future of Japanese Economy

## Demographic Transition, Aging and Social Security Burden

- ❖ According to Nomura Research Institute (NRI):
  - ✓ The world's population is expected to expand to 9.8 billion by 2050, 10 billion by 2055, and 11.2 billion by 2100.
  - ✓ On the other hand, Japan, with its rapidly shrinking and aging population, is expected to see its population decrease to 119.2 million by 2050, crack 100 million by 2053, and decline to 59.72 million by 2100.
  - ✓ By 2100, more than 40% of the population will be composed of elderly people, and it is obvious that society will be very different from how it is now.

# The Future of Japanese Economy

## **The Future of Japanese Economy depends on:**

- ❖ Invention of new technologies
- ❖ Government's contribution in research and development
- ❖ Private sector's interest in new innovations
- ❖ Change in population structure (timely marriage, more children)
- ❖ Creativeness of youth population
- ❖ Significant green investments
- ❖ Reliance on carbon pricing to achieve **carbon neutrality by 2050** as declared strategy of Japan for sustainable future.



# **Lesson for Other Economies**

# Lesson to Learn from Japanese Economy

- ❖ Japan's rapid economic development can be a positive model for developing countries.
- ❖ Japan's high rates of saving and investment, skilled human resource and improved technology greatly contributed to a rapid accumulation of capital are useful to learn.
- ❖ The successful land reform in Japan can be a lesson for developing countries.
- ❖ The long-term relationship between workers and employers in Japan allowed workers to accumulate valuable human capital which can be a lesson to other economies.

# Lesson to Learn from Japanese Economy

- ❖ The industrial structure, with its competing enterprise groups, also contributed to Japan's high economic performance which can be learned by others.
- ❖ Japan shifted from a financially closed economy to a fully liberalized economy without experiencing any crisis. A gradual but steady liberalization of the financial sector in Japan in the 1970s and 1980s can provide a promising way to manage this transition.

# Lesson to Learn from Japanese Economy

- ❖ Japan experience of bubble economy period offers an objective lesson to all other countries. The government could have prevented the problem from developing into a full banking crisis if it had acted early enough.
- ❖ Japan's economy was the first in the world to fall into sustained deflation in the modern era. The Bank of Japan became the first central bank to adopt a zero interest rate policy and quantitative easing. Japan's experience of deflation and unconventional monetary policy showed other developed countries what to do when the global financial crisis broke out in 2008.

# Lesson to Learn from Japanese Economy

- ❖ The declining birth rate and lengthening average life expectancy make the current pension system (pay as you go) unsustainable. This demographic transition, experienced first in Japan, is already happening in many developed economies and will be followed by other countries. The study of the Japanese experience, therefore, will be extremely useful.
- ❖ Japanese public debt is above 260% of GDP in 2020. Many have predicted that the Japanese government bond market will experience a crisis. So far, the predictions have turned out to be false. How high can the government debt to GDP ratio rise without disrupting the market? Japan may provide a valuable trial case for this question.

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**Thank You !**