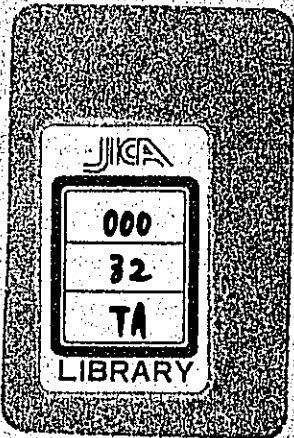


**SURVEY OF THE JAPANESE ECONOMY**



**JAPAN INTERNATIONAL COOPERATION AGENCY**

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# SURVEY OF THE JAPANESE ECONOMY

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## Outline of the Japanese Economy and Its Historical Developments

### I. General View of Japanese Economy

1. Small and poorly endowed with natural resources, Japan nevertheless has a large population and GNP. With an area of only 375,000 km<sup>2</sup> Japan is only one fifth the size of Indonesia or one eighth the size of India and indeed is smaller than the state of California. Furthermore, Japan has no natural resources to speak of. Seventy percent of her land is covered with rugged mountains and only 16% is arable.
2. Her population of 110 million, sixth largest in the world, is highly concentrated in 5 major urban areas. (Tokyo, Osaka-Kobe-Kyoto, Nagoya, Northern Kyushu, and Southern Hokkaido). Indeed, population density in Japan is among the highest in the world with 35 million people crammed into less than 1% of the country's total area.
3. This population will produce an estimated GNP of approximately \$483 billion with a per capita GNP of about \$4,390 in 1975.
4. Until 1973, the economy had continuously grown at an average rate of 10% per year in terms of real GNP. But in 1974, affected by the "oil shock", the annual growth rate dropped to minus 1.2%, the first experience of negative growth in the post-war period. In 1975, the growth rate was only 2 percent. The average annual growth rate in the coming decade is projected to be 5 ~ 7%, considerably lower than 10%, of the past two decades.

### II. Modern Economic History until World War II

1. Japan started her efforts to modernize and industrialize her economy with Meiji Restoration in 1868.
2. The new Meiji government drastically changed the entire economic, political and social systems. The feudalistic class system under which Samurai (warriors) was top-ranked and followed by farmers, craftsmen and merchants at the bottom was discontinued. Restraints on domestic and international transportation were greatly reduced and people were given right to select their jobs and places to live. Rights to own and transact private property were authorized.
3. Economic development was one of the basic policy targets of the Meiji government. The government took initiative to induce from abroad advanced economic systems. Banking system, inland and coastal transportation systems and mining industry were developed with priority. The government actively engaged itself in the induction of foreign technologies and construction of model factories in various manufacturing sectors such as shipbuilding, steel, telecommunication, machinery and textiles. Those state-owned factories were later sold to the private business.
4. At the time of World War I (from 1914 through 1918) the Japanese economy grew vigorously. However, around 1920, the economy began to slip into a long slump. The

world-wide great depression of the late 1920s hit hard the Japanese economy. The depression and other factors at the time eventually led the country to the disastrous World War II.

### III. Rapid Economic Growth after World War II

1. Production in 1946 was only 28 percent of the prewar peak (1936 ~ 37). Most of economic indicators, however, restored the prewar level in 1955, 10 years after the war ended.
2. In the two decades from 1950 through 1970, the average annual growth of real GNP was 9.8 percent. In the 1960 ~ 70 period, it was 11.1 percent. They represented the highest rates among the industrialized countries.
3. After the War, the Allied Force compelled the Japanese government to change drastically political, economic and social system. The change was so drastic and properly comparable with the reform in 1868. Zaibatsu families or extremely powerful industrial groups were disbanded. The farmland reform enabled numerous tenants to have their own farming lands. Labor unions were authorized and labor movements were encouraged. These reforms gave a great stimulus to the economy through promoting competition, and stimulating renovation.
4. In the years that immediately followed the war, when most of production facilities in Japan were not yet reconstructed, priorities were given to selected industries such as coal mining, steel or fertilizer. But in the 1950's light industries headed by textile led Japan's industrial development.
5. In the latter half of 1950's active induction of foreign technology resulted in increasing private investments in machinery and equipments. One example to show the technological development achieved in the period: In 1952, the production of one metric ton of blast furnace pig iron required 6 m/h, but in 1957 it was reduced to 3.75 m/h and in 1962 only 1.86 m/h. Investments in some sectors stimulated investments in other related sectors and the cumulative effect brought about a great investment boom.
6. In 1960, an ambitious "national income doubling plan" was announced by the government. The plan projected to double GNP in 10 years with an average annual growth rate of 7.2 percent. The target was fulfilled in 5 years instead of 10.
7. Meanwhile, during the decade of 1960's the liberalization of trade and capital had proceeded with a rapid pace. In April 1960, when the government announced a basic plan of liberalizing trade and foreign exchange, only 42 percent of Japan's total imports was free from restriction. But by April 1964, four years later, the rate of free import had risen to 93 percent. In regard to capital transaction, Japan joined the Organization of Economic Cooperation and Development in 1964 and pledged to discontinue strict regulation on capital movements in conformity with the OECD Code of capital liberalization.
8. In 1960's, heavy and chemical industries became the prime mover of the Japanese industry replacing the textile and other light industries. Today more than two-thirds of Japan's manufacturing output represent heavy industry and chemical products such as steel, cars, ships, machines, fertilizer, and petrochemicals. The shift to the heavy and chemical industries in

Japan met quite effectively to the growing world demand for those products. The tempo of Japan's export expansion, therefore, was twice as rapid as the world average.

9. In 1970's, the Japanese economy faces an entirely new period it has never experienced before. At the end of 1971, the yen was first revalued in relation with the dollar by 17 percent. About one year later, in February 1973, Japan adopted the floating rate system and the yen has substantially appreciated again. These successive changes of the foreign exchange rate made Japanese exports more expensive in foreign markets. In winter 1973, Japan faced energy crisis. Import price of crude oil was drastically raised. The price of other natural resources increased sharply. The stable supply of raw materials and foodstuffs were thus threatened and the Japanese began to have a great concern on future import of them.

#### IV. Sources of Japan's Rapid Economic Growth

1. The whole Japanese economy was crushed down at the end of World War II. Economic recovery started from the very low level, which resulted in very high economic growth rate. Economic assistance by the U.S. and the special procurements by the American Army during the Korean War contributed to the economic recovery of Japan.

2. Various changes of social systems enforced by the Allied Force gave healthy stimulus to the people for economic development and induced competition in the economy. The constitutional renunciation of war has diminished the military burden and released resources — including human and capital — to be used exclusively for economic recovery efforts. Dissolution of Zaibatsu families with enactment of the anti-monopoly law, farm-land reform, encouragement of labor movements; those social innovations vitalized the economic activity in Japan. Developments of social security system have functioned as built-in-stabilizer.

3. One of the most basic underpinnings of growth is a highly skilled and motivated labor force which welcomes the introduction of new technology. Education, therefore, is the base upon which everything must rest. Highly effective mass education system was established in the early Meiji era.

4. Japan has developed a rather unique labor-management system. Lifetime employment is the essence of this system. It succeeds in satisfying the desires of both employers and employees. Employees assured of lifetime employment develop a deep sense of identification with their company and are highly receptive to technological changes having no fear of replacement. The employer assured of labor force continuity and confident of a return on his investment is, therefore, willing to spend more on training his workers. Other features of Japan's labor-management relations can be seen in its labor unions which are established on a basis of individual enterprise. They are quite different from the industry-wide trade unions or craft unions. Enterprise unions tend to identify their interests with those of the company adjusting wage demands to the business condition of the firm and trying to avoid crippling strikes.

5. Bold decisions of companies to adopt new technology, which was developed domestically or induced from abroad, and to expand their production facilities through investments are another factor to note. Percentage share of gross fixed capital formation in GNP has been

more than one-third compared with 18 percent in U.S. or 26 percent in West Germany. Severe competition among companies has contributed to high investment rate and rapid technological developments.

6. This high rate of capital investment has been stretched even further by Japan's unique banking system. In Japan companies employ large amounts of debt with debt-equity ratios of 5:1. Unheard of in the West this system does however ensure that financing will be available for rapid and sustained growth. However, without government concurrence and backing — they do in fact ultimately guarantee the debt — this system would not be possible. Behind the banking system, there is a very high saving ratio of households. The rate is more than 20 percent compared with 7 percent in the U.S. and 16 percent in W. Germany.

7. The implicit cooperation between government and business is another factor to enable high economic growth. This differs markedly from the restraint and regulation role performed by governments in the West. Reasoned industrial policy based on broad, and long-range planning and careful selection of priority industries made by consensus among the government and businesses are features of the cooperation.

8. But all efforts can go to waste if goods cannot be marketed or raw materials supplied on a continuous basis. For Japan, highly dependent on overseas supplies of raw materials as well as exports to pay for these imports, a highly efficient overseas marketing channel was necessary. Japan's trading companies, then, are today the most efficient international marketing channel and handle 88 percent of Japan's international trade.

## V. Japan's Involvement on the International Economic Scene

### A. Trade

1. Being lack of natural resources, Japan must import practically all her energy and raw material requirements. To pay for these imports needed to feed Japan's voracious domestic demand, we must export. Japan's economy is, therefore, critically dependent on free trade.

2. In 1975, Japanese export totaled \$55.8 billion and import \$57.8 billion on a customs clearance basis. The export leveled off. The import decreased by 7 percent. The decline of trade is the result of the worldwide recession.

3. The proportion of Japan's exports and imports in the Gross National Products is around 12 percent. Commodity composition of Japanese trade is rather unique. The proportion of food, raw materials and fuels in her total imports amounted to 76 percent in 1974. In the export, however, the share of heavy and chemical industry products is 75 percent.

4. The import of crude oil jumped up to \$19 billion in 1974 from \$6 billion in 1973 in terms of value. But in quantity import declined 4 percent over previous year. In 1975, oil import reached \$20 billion but volume of import was 5 percent smaller than 1974. The share of oil in total import jumped up to 34 percent in 1975 from 16 percent in 1973.

## **B. Investment and Aid**

1. Japan's foreign investment has increased rapidly in the past several years. The cumulative total of outward direct investment at the end of 1975 amounted to \$15 billion on an approval basis. It slowed down in the past few years reflecting the increasing balance of payments deficits and the business slump.
2. Foreign direct investment into Japan amounted to more than \$13 billion at the end of 1974. Activities of the foreign-affiliated firms cover practically the whole spectrum of business, finance and industry.
3. Japan started from 1971 the preferential tariff system on imports from developing countries. Currently 138 countries and regions are covered by the system. Number of items and their quotas are expected to be increased continuously.
4. Japan's economic aid or total flow of funds to the developing countries amounted to \$3 billion in 1974, a sharp decline from \$5.8 billion in 1973. The ratio of total aid to GNP also dropped to 0.65 percent in 1974 from 1.44 percent in 1973. The recession and resulting decline of flow of private capital were major reason for the decline. The ratio of the official development assistance was 0.25 percent in 1974, the same level with the previous year. There is much room for improvement especially in quality.

#### **Brief Introduction of The Instructor**

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