

## 8 The Heisei Period (1989 – 2019) – Economic Stagnation and the Rise of China

### Introduction

Japan's wartime Emperor Hirohito died in 1989 and with his death ended the Showa Period.

Hirohito's son Akihito then became Emperor ushering in the Hesei Period in modern Japanese

history, the name symbolising the achievement of 'full peace'.<sup>1639</sup> The practice of assigning a specific

name with its unique meaning to the time period associated with each Emperor's reign was started

after the Meiji Restoration.<sup>1640</sup> The purpose of the practice was to better associate the Emperor of a

particular period with the peoples of the time.<sup>1641</sup> The meaning of the 'Heisei' Period may have been

indicative of the idea that the nation had been rebuilt; and that the time had come for the people of

Japan to enjoy the fruits of their hard work.<sup>1642</sup> Another major difference between the Hesei Period

and other periods in Japanese history, was that Emperor Akihito married the Empress for love and the

marriage broke tradition by not being 'brokered' by third parties according to the status of the

couple.<sup>1643</sup>

Unfortunately for Japan, 1989 was not only the beginning of the Hesei Period but also the

beginning of a prolonged economic crisis which would last well into the 21<sup>st</sup> century.<sup>1644</sup> However,

although economic crisis provided the fabric of the Hesei period, there were also political and social

changes as well as natural events which fell under its wings. Two damaging earthquakes featured

during the Hesei Period.<sup>1645</sup> The first was the Kobe Earthquake of 1995 in which 6000 people were

killed and infrastructure severely damaged.<sup>1646</sup> The second was the Tohoku region earthquake and

Tsunami in March 2011 which caused 20,000 deaths and the meltdown of the Fukushima Dai-Ichi

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<sup>1639</sup> Henshall K.G. (2012), *A Superpower Adrift: the Heisei Years*. In: *A History of Japan: From Stone Age to Superpower*, Palgrave Macmillan, London.

<sup>1640</sup> Morris-Suzuki, T. (1989), *The meaning of Heisei*, *Japanese Studies*, 9:1, 23-24, DOI: 10.1080/10371398908522088

<sup>1641</sup> *Ibid.*

<sup>1642</sup> Henshall K.G. (2012), *A Superpower Adrift: the Heisei Years*. In: *A History of Japan: From Stone Age to Superpower*, Palgrave Macmillan, London.

<sup>1643</sup> Lebra, T. (1997), *Self and Other in Esteemed States: The Changing Culture of the Japanese Royalty from Showa to Hesei*, *The Journal of Japanese Studies*, Vol.23, No.2, pp.257-289.

<sup>1644</sup> *Ibid.*

<sup>1645</sup> Dunscomb, P. (2018), *The Reign of Emperor Akihito 1989-2019: A History in Five Words*, *Education About Asia*, Vol.23, No.3.

<sup>1646</sup> *Ibid.*

nuclear facility.<sup>1647</sup> This necessitated the mass evacuation of the surrounding areas. Both disasters evidenced the ineptitude and inefficiency of the Japanese government in relieving and supporting the afflicted areas within a reasonable period of time.<sup>1648</sup> On the other hand in the socio-economic context divorce rates were rising during the Hesei period and marriage and family life was falling out of fashion. As Japan entered the 21<sup>st</sup> century, divorce rates reached levels not seen since the start of the 20th century, but not the high levels of divorce seen in the last two decades of the 19<sup>th</sup> century.<sup>1649</sup> People were embracing their jobs and had little time left for leisure activities during which they could meet their potential partners.<sup>1650</sup> As a result of fewer marriages, fewer babies were being born and the population growth rate began to decline.<sup>1651</sup> The same thing in contemporary China is happening today. Despite the increase in divorce rates during the Hesei Period, there was also an increase in the trend of other socio-economic phenomena such as single parent families, the abuse of children, suicide and domestic violence.<sup>1652</sup>

The economic crisis in Japan began in 1989 when the Bank of Japan started to increase interest rates in order to control rapidly rising inflation.<sup>1653</sup> As a result of the increase in interest rates the bubble burst and this would send the economy into a recession for over two decades.<sup>1654</sup> The economic contraction was severe with land prices falling and rapidly rising bankruptcies, bad debts, crime rates and suicides.<sup>1655</sup> The latter may have resulted because due to the lack of economic growth, falling profits and inability to repay corporate debts, Japanese firms were simply abandoning ‘jobs for life’ which the Japanese had taken for granted.<sup>1656</sup> The fall in corporate profits increased towards the

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<sup>1647</sup> Dunscomb, P. (2018), *The Reign of Emperor Akihito 1989-2019: A History in Five Words*, Education About Asia, Vol.23, No.3.

<sup>1648</sup> Ibid.

<sup>1649</sup> Fuess, H. (2004), *Divorce in Japan: Family, Gender, and the State, 1600-2000*, Stanford University Press, Stanford, California.

<sup>1650</sup> Dunscomb, P. (2018), *The Reign of Emperor Akihito 1989-2019: A History in Five Words*, Education About Asia, Vol.23, No.3.

<sup>1651</sup> Ibid.

<sup>1652</sup> Kingston, J. (2013), *Contemporary Japan: History, Politics and Social Change Since the 1980's*, 2<sup>nd</sup> Edition, John Wiley & Sons, Chichester, West Sussex.

<sup>1653</sup> Henshall K.G. (2012), *A Superpower Adrift: the Heisei Years*. In: *A History of Japan: From Stone Age to Superpower*, Palgrave Macmillan, London.

<sup>1654</sup> Ibid.

<sup>1655</sup> Ibid.

<sup>1656</sup> Ibid.

late 1990's as the Japanese economy went into deflation.<sup>1657</sup> Yet another feature of the economic crisis which began in 1989 was a prolonged fall in the value of corporate stock, in other words a stock market slump.<sup>1658</sup> The result was rising unemployment and rising homelessness especially amongst the generation who had been accustomed to the job for life. Unemployment meant that men lost their dignity and could not face their families, ending up homeless and on the street. Day labourers were the category which was most affected as they relied upon government spending on public works for employment. If government did not release funds for public works, day labourers would not be able to earn an income resulting in homelessness.<sup>1659</sup>

During the Heisei Period, Japan developed further as America's ally and key strategic local partner to counter threats from North Korea and the People's Republic of China.<sup>1660</sup> In the case of North Korea this alliance between Japan and the US was against its nuclear programme, which in recent years has become more advanced and threatening to both Japanese and US security. The mistake had been made in 1994 when diplomatic negotiations had removed the threat of a military strike on North Korea's emergent plutonium complex at Yongbyon.<sup>1661</sup> This had allowed North Korea to deepen its nuclear programme by developing ballistic missiles and uranium enrichment capabilities and other locations.<sup>1662</sup> Moreover, the United States as the guarantor of Taiwanese independence.<sup>1663</sup> With US military bases on Japanese soil, any attack by China on Taiwan would lead to war with not only the US but also with Japan. Finally, in the context of ASEAN, the United States has wanted Japan to be more international in its approach by allowing for countries outside the region such as India and Australia to join, whereas China's strategy has been a regional one.<sup>1664</sup>

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<sup>1657</sup> Henshall K.G. (2012), *A Superpower Adrift: the Heisei Years*. In: *A History of Japan: From Stone Age to Superpower*, Palgrave Macmillan, London.

<sup>1658</sup> Ibid.

<sup>1659</sup> Gill T. (1994), *Sanya street life under the Heisei recession*. *Jpn. Q.* 41:270-86

<sup>1660</sup> Rozman, G. (2008), *Internationalism and Asianism in Japanese Strategic Thought from Meiji to Heisei*, *Japanese Journal of Political Science*, 9, 2, pp.209-232.

<sup>1661</sup> Volpe, T. (2017), *The Unravelling of North Korea's Proliferation Blackmail Strategy*, IN *North Korea and Nuclear Weapons: Entering the New Era of Deterrence*, Kim, S., and Cohen, M. (Eds), Georgetown University Press, Washington D.C.

<sup>1662</sup> Ibid.

<sup>1663</sup> Hickey, D. (2013) *U.S. Policy Toward Taiwan: Time For Change?*, *Asian Affairs: An American Review*, 40:4, 175-198, DOI: 10.1080/00927678.2013.847747

<sup>1664</sup> Rozman, G. (2008), *Internationalism and Asianism in Japanese Strategic Thought from Meiji to Heisei*, *Japanese Journal of Political Science*, 9, 2, pp.209-232.

## **Economic Crisis**

There were essentially four economic features which lent themselves to facilitating the stagnation of the Japanese economy after 1990.<sup>1665</sup> Firstly, there was the higher Yen syndrome. This arose through the Plaza Accord<sup>1666</sup> which facilitated the appreciation of the Yen making Japanese exports expensive and imports cheaper, creating an environment suitable to generating negative trade balances. The Plaza Accord of 1985 was essentially a macroeconomic level agreement under which the currencies of Germany and Japan were objectively allowed to increase in value relative to the value of the US dollar.<sup>1667</sup> The need for the Plaza accord arose because of the American's argument that the Japanese trade surplus with the United States was essentially because the value of the Yen was undervalued in comparison to the US dollar.<sup>1668</sup> In the contemporary world a similar situation exists with regards to the size of the US-China trade balance which has been in China's favour for a few years. This has led to a trade war between the two countries, with the Trump administration first imposing tariffs on Chinese exports to the US. In retaliation, the Chinese then imposed tariffs on US exports to China with negotiations between the two sides to remedy the situation ongoing. However, as with Japan, the United States also asserts that China is manipulating its currency in order to undervalue it, giving Chinese exports a competitive advantage over American goods. In this case, during the period 1994 to 2005, China pegged the value of the Yuan to the US dollar at 8.3.<sup>1669</sup> The People's Bank of China (PBC) would then buy or sell either US dollars or dollar denominated deposits in order to maintain the desired value of the Yuan to the US dollar. Under this fixed exchange rate regime, it is clear to see that there is the possibility that the Yuan-US dollar value could have been undervalued by as much as 40%.<sup>1670</sup> As a result, America's products would be too expensive, America would suffer a trade deficit

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<sup>1665</sup> Wakatabe, M. (2015), *Japan's Great Stagnation and Abenomics: Lessons for the World*, Palgrave Macmillan, New York.

<sup>1666</sup> Ibid.

<sup>1667</sup> Holroyd, C. (2002), *International Trade, and Laissez-Faire Capitalism, Canada, Australia, and New Zealand's Relations with Japan*, McGill-Queen's University Press, Montreal.

<sup>1668</sup> Ibid.

<sup>1669</sup> Salitan, C. (2010), *China's Currency Regime: The Perceived Threat to the US Economy*, *International Affairs Review*, Vol. XIX, No.1

<sup>1670</sup> Sanford, J. (2006), *China's Currency: US Options*, IN *China's Currency and Economic Issues*, Morrison, W., Labonte, M., and Sanford, J. (Eds), Novinka Books, New York.

with China and America's unemployment rate will have increased.<sup>1671</sup> On the other hand, the Chinese counter the American argument by citing the need to maintain economic stability with a managed currency.<sup>1672</sup> However, maintaining an undervalued currency and building up a surplus of foreign reserves necessitates the use of monetary policy to control inflationary pressures in the economy.<sup>1673</sup> But the problem is that overtime, this may cause imbalances in the Chinese economy.<sup>1674</sup> In July 2005, the fixed exchange rate regime was abandoned by the PBOC and replaced by a 'managed float' regime.<sup>1675</sup> This involved free market forces in the determination of the value of the currency alongside state intervention to reduce volatility.<sup>1676</sup> Nevertheless, despite the move to a managed economy it was still felt that China was undervaluing its currency to give its exports a competitive advantage. A further change to China's exchange rate regime occurred in August 2015 when the PBOC announced that the exchange rate would be determined by market forces.<sup>1677</sup> However, to all intents and purposes this was still a 'managed float' in which case the RMB-Dollar exchange rate was allowed to move within a 2% trading band around a rate which had been set by the PBOC on each morning.<sup>1678</sup> However, in the case of the Plaza Accord of 1985, the strengthening Yen did cause a recession in Japan until late 1986.<sup>1679</sup> So in the short term the impact on the Japanese economy was negative. But in the long term, there were two effects at play which ensured that despite the doubling of the value of the Yen compared to the US dollar between 1985 and 1987, the visible impact on Japan's trade balance with the US was not noticeable.<sup>1680</sup> The first effect was that the Yen increased in value, Japanese imports of raw materials became cheaper by as much as fifty percent in value.<sup>1681</sup> The second effect was because Japanese firms were willing to operate at either minimal profit levels or

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<sup>1671</sup> Sanford, J. (2006), *China's Currency: US Options*, IN *China's Currency and Economic Issues*, Morrison, W., Labonte, M., and Sanford, J. (Eds), Novinka Books, New York.

<sup>1672</sup> Ibid.

<sup>1673</sup> Ibid.

<sup>1674</sup> Ibid.

<sup>1675</sup> Ibid.

<sup>1676</sup> Ibid.

<sup>1677</sup> Prasad, E. (2017), *Gaining Currency: The Rise of the Renminbi*, Oxford University Press, Oxford.

<sup>1678</sup> Ibid.

<sup>1679</sup> Holroyd, C. (2002), *International Trade, and Laissez-Faire Capitalism, Canada, Australia, and New Zealand's Relations with Japan*, McGill-Queen's University Press, Montreal.

<sup>1680</sup> Ibid.

<sup>1681</sup> Ibid.

even to suffer losses in order to maintain market share.<sup>1682</sup> This was possible because Japanese firms knew that they could rely upon financial assistance from the Japanese government.<sup>1683</sup> This was particularly beneficial to the Japanese economy as Japan did not have the natural resources to power an industrial economy.<sup>1684</sup> Secondly, the policies towards dealing with the asset price bubble were not able to mitigate the problem. In order to mitigate the negative effects of the appreciation of the Yen, the government and the BoJ then instigated policies which facilitated asset price inflation.<sup>1685</sup> Thirdly, in the face of economic volatility, macroeconomic policies remained uncoordinated. Lastly, asset price deflation should have been met with an expansionary monetary policy but was instead met with deregulation and liberalisation.<sup>1686</sup> As the Japanese economy moved out of recession in late 1986, following the implementation of the 1985 Plaza Accord, the economy began to expand over the subsequent years such that by mid-1990, a bubble economy had emerged.<sup>1687</sup> In the process there had been substantial increases in capital spending by firms as well as in increase in consumption expenditure by households, financed by cheap borrowing. The features of the bubble economy were particularly visible in the over pricing of real estate and stock.<sup>1688</sup> These were being used as collateral for loans from banks such as Sumitomo, Fuji and the Industrial Bank of Japan in order to buy more real estate.<sup>1689</sup>

The Nikkei hit a peak average of Yen 38,915 in the last session of trading on December 29<sup>th</sup> 1989.<sup>1690</sup> Nevertheless, the first symptoms of economic crisis began with the crash of the Nikkei Stock Exchange in 1990.<sup>1691</sup> This began the bursting of the stock market and the real estate bubble leading to

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<sup>1682</sup> Holroyd, C. (2002), *International Trade, and Laissez-Faire Capitalism, Canada, Australia, and New Zealand's Relations with Japan*, McGill-Queen's University Press, Montreal.

<sup>1683</sup> Ibid.

<sup>1684</sup> Nafziger, E. (2006), *Economic Development*, Fourth Edition, Cambridge University Press, NY, USA.

<sup>1685</sup> Wakatabe, M. (2015), *Japan's Great Stagnation and Abenomics: Lessons for the World*, Palgrave Macmillan, New York.

<sup>1686</sup> Ibid.

<sup>1687</sup> Holroyd, C. (2002), *International Trade, and Laissez-Faire Capitalism, Canada, Australia, and New Zealand's Relations with Japan*, McGill-Queen's University Press, Montreal.

<sup>1688</sup> Ibid.

<sup>1689</sup> Ibid.

<sup>1690</sup> Komine, T. (2018) A Retrospective View of the Heisei Economy, *Asia-Pacific Review*, 25:1, 19-37, DOI: 10.1080/13439006.2018.1475705

<sup>1691</sup> Carroll, M. (2018), Production, reproduction, and crisis in Heisei Japan, *The Japanese Political Economy*, DOI: 10.1080/2329194X.2018.1466180

a wave of bad debts for firms as well as corporate in individual bankruptcies.<sup>1692</sup> By October 1990, the Nikkei average had fallen to below Yen 20,000.<sup>1693</sup> And in March 1990, the Ministry of Finance implemented a regulation regarding the control of the size of the volume of loans to financial institutions.<sup>1694</sup> It was this new regulation which is widely perceived as the single biggest reason for the land price collapse in Japan; and the prime cause of the bad debt problems of Japanese financial institutions.<sup>1695</sup> This in turn led to a monetary contraction in the Japanese economy which denigrated the efficiency of financial intermediation between financial institutions and the real economy.<sup>1696</sup> The bursting of the stock market and real estate bubble in 1990 led to over twenty years of economic stagnation during which the holy grails of Japanese company practice such as life time employment came to an end, replaced by a more flexible labour market.<sup>1697</sup> The economic and social costs of Japan's economic stagnation has been very high.<sup>1698</sup> For the next twenty years, the inflation adjusted rate of annual economic growth was only 1.1%, lower by 1.4% in comparison to the inflation adjusted economic growth rate of the United States.<sup>1699</sup> Economically, Japan's public debt is at a level which is an all-time high.<sup>1700</sup> Socially, Japan's population is shrinking at an alarming level as fewer and fewer babies are being born as both men and women turn away from the traditional life cycle associated with a nuclear family.<sup>1701</sup> Japan's falling birth rate has created labour shortages. This has necessitated

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<sup>1692</sup> Holroyd, C. (2002), *International Trade, and Laissez-Faire Capitalism, Canada, Australia, and New Zealand's Relations with Japan*, McGill-Queen's University Press, Montreal.

<sup>1693</sup> Komine, T. (2018) A Retrospective View of the Heisei Economy, *Asia-Pacific Review*, 25:1, 19-37, DOI: 10.1080/13439006.2018.1475705

<sup>1694</sup> Ibid.

<sup>1695</sup> Ibid.

<sup>1696</sup> Hamada, K. (2003), *The Heisei Recession: An Overview*, The ESRI International Forum, The Social and Economic Research Institute, Cabinet Office of Japan.

<sup>1697</sup> Osawa, M., Kim, M and Kingston, J. (2013), Precarious work in Japan, *American Behavioral Scientist* 57, 3, pp. 309–34.

<sup>1698</sup> Carroll, M. (2018), Production, reproduction, and crisis in Heisei Japan, *The Japanese Political Economy*, DOI: 10.1080/2329194X.2018.1466180

<sup>1699</sup> Lincoln, E. (2011), The Heisei Economy: Puzzles, Problems, Prospects, *The Journal of Japanese Studies*, Vol.37, No.2, pp.351-375.

<sup>1700</sup> Carroll, M. (2018), Production, reproduction, and crisis in Heisei Japan, *The Japanese Political Economy*, DOI: 10.1080/2329194X.2018.1466180

<sup>1701</sup> Nemoto, K. (2008), Postponed marriage: Exploring women's views of matrimony and work in Japan, *Gender and Society* 22 (2), pp.219–37.

both women to fill labour shortages as well as carrying on with their traditional gender biased roles of being mothers and bringing up children in order to reduce the fall in birth rates.<sup>1702</sup>

Japan's post-war economic miracle began in an unsettled economic, political and social environment after Japan's surrender to the United States and its allies in 1945. However, as the economy progressed through the 1950's, the export-oriented economy began to take off as economic growth took hold. The take-off of Japan's economy in the 1950's can be associated with a partnership between stable and consistent government over a period of time by the Liberal Democratic Party, the Ministry of International Trade and Industry (MITI) and the way in which firms were organised in the Japanese economy through the Keiretsu.<sup>1703</sup> This tripartite partnership facilitated the double digit growth of the Japanese economy in the late 1950's and in the 1960's although this had slowed to an economic growth rate of 4% in the 1970's and the 1980's.<sup>1704</sup> However, relative to world economic growth during these years, the economic growth rates experienced by the Japanese economy was the best.<sup>1705</sup> The reason for this was that the Japanese corporate system was flexible enough to adapt to the volatile and changing global economic environment.<sup>1706</sup> In this case, while avoiding large scale layoffs, Japanese firms nevertheless reduced labour costs by terminating the positions of part-time workers and temporary female workers.<sup>1707</sup> But at the same time the profits of Japanese firms were falling while the Japanese government was using contractionary monetary and fiscal policy in order to contain inflation.<sup>1708</sup> In a country such as the United Kingdom, entrenched trade union practice would have meant that workers had to be kept on for fear of industrial action. Nevertheless, at the heart of post-war Japanese expansion was high levels of profitability and economic growth which resulted from the combination of imported advanced technology with relatively low-cost labour.<sup>1709</sup> However,

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<sup>1702</sup> Kawai, Y (2009), Neoliberalism, nationalism, and intercultural communication: A critical analysis of Japan's neoliberal nationalism discourse under globalization, *Journal of International and Intercultural Communication* 2 (1), pp.16–43.

<sup>1703</sup> Carroll, M. (2018), Production, reproduction, and crisis in Heisei Japan, *The Japanese Political Economy*, DOI: 10.1080/2329194X.2018.1466180

<sup>1704</sup> Itoh, M. (2000), *The Japanese Economy Reconsidered*, Houndmills, Basingstoke, UK.

<sup>1705</sup> Shibata, T. (1998), An Evolutionary Interpretation of the Japanese Depression in the 1990's, *Journal of Economic Issues*, 32, 2, pp.411-418.

<sup>1706</sup> Ibid.

<sup>1707</sup> Ibid.

<sup>1708</sup> Ibid.

<sup>1709</sup> Lincoln, E. (2011), The Heisei Economy: Puzzles, Problems, Prospects, *The Journal of Japanese Studies*, Vol.37, No.2, pp.351-375.



the economic and institutional model from which the high levels of economic growth occurred was no match for the global economy of the 1990's and beyond. In this case, there were a number of structural and institutional flaws which Japan's post-1990 economic model.<sup>1710</sup> Firstly, financial intermediation was mainly through the banks rather than through the stock and the bond markets. There was also a lack of competition in the banking sector which was effectively protected by the government. The close association between financial institutions and the Ministry of Finance ensure that there was a lack of government oversight regarding the efficacy of bank lending. Moreover, government would grant loans to firms from government-controlled banks and this would be a signal to other commercial banks to also lend to these firms.<sup>1711</sup> Firms also lacked accountability to shareholders as well as a lack of oversight by them. In this case, firms would increase investment in capital expenditure leading to overcapacity and a decrease in their profitability.<sup>1712</sup> The labour market was also inflexible as workers enjoyed the security of knowing that they had a job for life, denigrating the motivation to be productive. Firms were also protected from competition in an oligopolistic market structure by regulations preventing the entry into the market of new firms. Lack of competition and the vertical integration of firms through Keiretsu allowed for the costs of production of Japanese firms to rise.<sup>1713</sup> The lack of a competitive market for high tech start-up firms also contributed to established manufacturing firms losing global market share because of the lack of the diffusion of technological innovation in the Japanese economy. To some extent the economic system was plagued by moral hazard as both firms as well as financial institutions knew that whatever actions they took they could always rely upon government support.

In the case of Japan, economic growth continued until the Plaza Accord of 1985 after which the Japanese economy went into recession, not picking up growth until towards the end of 1986.<sup>1714</sup> In fact the period between December 1986 and January 1991 was known as the 'Hesei Boom' in which

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<sup>1710</sup> Lincoln, E. (2011), The Heisei Economy: Puzzles, Problems, Prospects, *The Journal of Japanese Studies*, Vol.37, No.2, pp.351-375.

<sup>1711</sup> Ibid.

<sup>1712</sup> Ibid.

<sup>1713</sup> Ibid.

<sup>1714</sup> Shibata, T. (1998), An Evolutionary Interpretation of the Japanese Depression in the 1990's, *Journal of Economic Issues*, 32, 2, pp.411-418.

firms increased investment in fixed capital and households increased consumption expenditure.<sup>1715</sup> In contrast to the other economic booms of post-war Japan, the ‘Hesei Boom’ was the second longest after the ‘Izanagi Boom’.<sup>1716</sup> The latter occurred between October 1965 and July 1970.<sup>1717</sup> Although the ‘Hesei Boom’ was facilitated by increased fixed capital investment and increased consumption expenditure by 1992 both had begun to decline.<sup>1718</sup> Both declines could be attributed to the bursting of the stock market bubble and the real estate bubble. The decline in fixed capital investment by firms would have occurred due to a decline in the under usage of existing fixed capital as well as a decline in firms profit/sales ratio.<sup>1719</sup> The decline in consumption expenditure on durable goods, which became negative in 1992, occurred due to decline in the growth rate of household income as well as a decline in household wealth due to the bursting of the property and equity bubble.<sup>1720</sup> To make matters worse the Japanese government followed a contractionary fiscal policy in 1997 in order to reduce the budget deficit by increasing sales tax from 3% to 5% and terminating a personal tax income allowance.<sup>1721</sup> Both strands of policy had the effect of decreasing consumption expenditure further by making goods more expensive and reducing available disposable income to spend. The overseas demand for Japanese goods also became negative after 1993.<sup>1722</sup>

Japan’s pattern of economic growth has been very similar to that experienced by the Chinese economy. In fact between 1978 to 2000, the average economic growth rate of the Chinese economy was 9.7%, between 2000 and 2010 it was 10.5% and between 2010 to 2016 it was 7.7%.<sup>1723</sup> Over the same period, China’s the average yearly population growth rate also began to decline.<sup>1724</sup> Between 1978 and 2000, China’s average yearly population growth rate was 1.3%, between 2000 and 2010 it

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<sup>1715</sup> Shibata, T. (1998), An Evolutionary Interpretation of the Japanese Depression in the 1990’s, *Journal of Economic Issues*, 32, 2, pp.411-418.

<sup>1716</sup> Ibid.

<sup>1717</sup> Bird, A. (2002), *Encyclopedia of Japanese Business and Management*, Routledge, London.

<sup>1718</sup> Shibata, T. (1998), An Evolutionary Interpretation of the Japanese Depression in the 1990’s, *Journal of Economic Issues*, 32, 2, pp.411-418.

<sup>1719</sup> Ibid.

<sup>1720</sup> Ibid.

<sup>1721</sup> Ibid.

<sup>1722</sup> Higuchi, Y. (1997), Trends in Japanese Labour Markets, IN *Japanese Labour and Management in Transition*, Sako, M., and Sato, H. (1997), Routledge, London.

<sup>1723</sup> China Statistical Yearbook 2017, China Statistical Press, <http://www.stats.gov.cn/tjsj/ndsj/2017/indexeh.htm>

<sup>1724</sup> Ibid.

was 0.6% and between 2010 to 2016 it had fallen to 0.5%.<sup>1725</sup> This pattern of decline in China's economic growth rate and its population growth rate bears a historical resemblance to the fall in Japan's economic growth rate and the fall in its population growth rate in the seventy-three years following the end of the Second World War. While this tripartite partnership may have facilitated the resurgence of the post-war Japanese economy, it may also have acted as a constraint to the remodelling of the Japanese economy in the years of economic stagnation following the post-1989 economic crisis.<sup>1726</sup> In this case, economic stagnation may have resulted because of an imbalance between its productive economy and its social reproduction.<sup>1727</sup> But the policies required to facilitate the re-emergence of capital accumulation are quite different from those required to stimulate social reproduction.<sup>1728</sup> However, this did not prevent Japanese politicians from trying to bring about change. This was associated with both domestic market reform as well as Japan's interactions with the global economy. At the domestic level, in order to improve financial intermediation in the Japanese economy a number of reforms was facilitated.<sup>1729</sup> In 1996, legal and regulatory measures were introduced to better integrate Japan's stock and bond market with the role of the banking sector; and to promote Tokyo as an international financial centre.<sup>1730</sup> And in 1998, oversight of the Japanese financial institutions was taken away from the Ministry of Finance and placed in the hands of a new Financial Services Agency.<sup>1731</sup> And sixteen large financial institutions were merged into four, disrupting the traditional horizontal lineage of firms and financial institutions.<sup>1732</sup> At the start of the Heisei Period, the first of these policies was the Takeshita Doctrine which spanned from 1987 to 1996.<sup>1733</sup> The Takeshita Doctrine had a number of Macroeconomic aspects.<sup>1734</sup> These included, firstly

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<sup>1725</sup> China Statistical Yearbook 2017, China Statistical Press, <http://www.stats.gov.cn/tjsj/ndsj/2017/indexeh.htm>.

<sup>1726</sup> Ibid.

<sup>1727</sup> Miura, M. (2012), *Welfare through Work: Conservative Ideas, Partisan Dynamics, and Social Protection in Japan*. Cornell University Press, New York.

<sup>1728</sup> Carroll, M. (2018), Production, reproduction, and crisis in Heisei Japan, *The Japanese Political Economy*, DOI: 10.1080/2329194X.2018.1466180

<sup>1729</sup> Lincoln, E. (2011), The Heisei Economy: Puzzles, Problems, Prospects, *The Journal of Japanese Studies*, Vol.37, No.2, pp.351-375.

<sup>1730</sup> Shirai, S. (2009), Promoting Tokyo as an International Financial Centre, IN *Competition among Financial Centres in Asia Pacific*, Young, S., Choi, D., Seande, J., and Shirai, S. (Eds), (Singapore: Institute of Southeast Asian Studies.

<sup>1731</sup> Lincoln, E. (2011), The Heisei Economy: Puzzles, Problems, Prospects, *The Journal of Japanese Studies*, Vol.37, No.2, pp.351-375.

<sup>1732</sup> Ibid.

<sup>1733</sup> Sudo, S. (2003), *Evolution of ASEAN-Japan Relations*, Flipside Digital Content Company Inc.

<sup>1734</sup> Pringsheim, K. (1989), The Takeshita Doctrine and the advent of the Hesei Era, *American Foreign Policy Newsletter*,

more Macroeconomic policy co-ordination with the United States, Western European countries and Canada. Second, a focus on expanding domestic Japanese demand at a target GNP growth rate of 4%. Thirdly, structural changes to the Japanese economy which would facilitate a reduction in the export surplus. Fourthly, Japan should contribute positively to global prosperity by making better use of the finances arising from its trade surpluses. Fifthly, Japan would advance debt reducing policies to African countries. Lastly, the 1988 fiscal year defence expenditure would increase by 5.2 % so that Japan could pay its contribution towards the cost of keeping the US military on Japanese soil. Nevertheless, as a result of a political crisis Prime Minister Takeshita was forced to resign in April 1989, before the commencement of the Heisei Period, Furthermore, between 1987 and 1991, the period encompassing a phase of economic growth following the Plaza Accord and the beginning of the stagnation of the Japanese economy, Japan had four Prime Ministers. The political instability could have resulted in the mismanagement of the economy, and politicians not being able to spot and effectively deal with the symptoms of the emerging economic crisis. However, despite the political instability the Takeshita Doctrine seemed to have prevailed until 1996, when in 1997 it was supplanted by the Hashimoto Doctrine which itself lasted until 2003.<sup>1735</sup> The Hashimoto Doctrine was international in orientation with a focus on recognising the Association of Southeast Asian Nations (ASEAN) as an equal partner; and on encouraging greater exchanges between the private sectors of Japan and ASEAN.<sup>1736</sup> Moreover, there was also to be cultural exchanges between Japan and ASEAN as well as greater co-operation between the two countries in international forums associated with counter-terrorism, drug trafficking, climate change as well as food security.<sup>1737</sup> Nonetheless, Prime Minister Hashimoto did not only develop policies for Japan's international role. In this case, Hashimoto instigated the Hesei Reforms which would continue under successive Prime Minister's from Obuchi to Koizumi.<sup>1738</sup> The Hesei Reforms were intended to improve the efficiency and

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<sup>1735</sup> Sudo, S. (2003), *Evolution of ASEAN-Japan Relations*, Flipside Digital Content Company Inc.

<sup>1736</sup> Hashimoto, R. (1997), *Reforms for the New Era of Japan and ASEAN: For a Broader and a Deeper Partnership*, Institute of Southeast Asian Studies, Singapore.

<sup>1737</sup> Ibid.

<sup>1738</sup> Rose, C. (2006), *The Battle for Hearts and Minds; Patriotic Education in Japan in the 1990's and Beyond*, IN *Nationalism in Japan*, Shimazu, N. (Ed), Routledge, London.

productivity of the Japanese economy through reforms associated with the disclosure of information, the management of firms and the equality of the sexes in the work place. The objective of the reforms associated with improving the disclosure of information was associated with elevating the levels of accountability and transparency.<sup>1739</sup> Furthermore, the part of the Hesei Reforms associated with the management of the firms focused on better protecting shareholders' interests as opposed to the interests of institutional investors and employees as it had been.<sup>1740</sup> The third aspect of the Hesei Reforms focused on gender equality in the work place so that women could join the work force in order to compensate for the decline in the number of workers due to the rapidly ageing population.<sup>1741</sup>

The Japanese Ministry of Finance and the Japanese government have also been taking action to try and mitigate the bad debt problems of Japanese financial institutions.<sup>1742</sup> This involved the establishment of a new financial structure to mitigate bank failures as well as the instigation of a mechanism to recapitalise banks with bad debts, in October 1998.<sup>1743</sup> However, it would seem that the practices of Japanese banks could be more transparent than they actually are.<sup>1744</sup> Nonetheless, the other major problem associated with the Japanese economy are the high levels of bureaucracy and regulation which has a tendency to reduce productivity, innovation and entrepreneurship in the economy.<sup>1745</sup> This kind of high level deregulation of the Japanese economy is essential because it has been recognised that despite the productivity of Japan's export sector, the overall productivity of the Japanese economy tends to be low in comparison.<sup>1746</sup> Increasing the productivity of the Japanese economy as a whole is important at a time when the population is ageing rapidly and more workers are required to support those who have retired. Nevertheless, despite the productivity of Japan's export sector it is itself burdened with low profit margins and over capacity. In an entrepreneurial

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<sup>1739</sup> Uga, K. (2007). Development of the Concepts of Transparency, and Accountability in Japanese Administrative Law' IN Law in Japan: A Turning Point, Foote, D. (Ed), University of Washington Press.

<sup>1740</sup> Okuno-Fujiwara, M.(1999), Japan's Present-Day Economic System: Its Structure and Potential for Reform. IN The Japanese Economic System and Its Historical Origins, Okazaki, T., and Okuno-Fujiwara, M. (Eds), Oxford University Press, Oxford.

<sup>1741</sup> Osawa, M. (2000), Government Approaches to Gender Equality in the Mid-1990s, Social Science Japan Journal 3, 3–5.

<sup>1742</sup> Gilpin, R. (2002), The Challenge of Global Capitalism: The World Economy in the 21<sup>st</sup> Century, Princeton University Press, Princeton.

<sup>1743</sup> Ibid.

<sup>1744</sup> Ibid.

<sup>1745</sup> Ibid.

<sup>1746</sup> Ibid.

economy this would not exist. It is therefore clear that while Japan's economy has been over-regulated to maintain the social harmony of the nation, the result has been that innovation and entrepreneurship are being stifled.<sup>1747</sup> Furthermore, too many regulations results in a lack of incentives for initiative, low worker productivity in non-export-oriented sectors of the economy as well as the inefficient allocation of capital and labour in general.<sup>1748</sup> In this case, introducing free market reforms to deregulate the Japanese economy would allow for the more efficient allocation of labour and capital and increases in productivity through greater entrepreneurship.<sup>1749</sup> But nonetheless, the kind of deregulation required to kick start the Japanese economy may not happen because this may threaten the wealth, the privilege and the positions of those who hold the reins of political and corporate power. In this case, it is necessary to wonder whether Japan has entered the late stage of economic development whereby the political system has not been resilient and robust enough to facilitate a dynamic economic which is tune with both its external and internal environments. So perhaps, like Britain, Japan is at a late state of economic development where economic growth rates are at low levels; and the economy is no longer seen to be dynamic.<sup>1750</sup> However, two decades of economic stagnation did result in a shift from the thinking that rural areas should depend for their economic development on the central government to a line of thinking which necessitated the idea that the actions of local government were more important to local development.<sup>1751</sup> In order to cut costs services were rationalised through the merger of rural municipalities, but this also led to a loss of local identity.<sup>1752</sup> The transition from a state led development philosophy to a neoliberal agenda in Japan meant that between 2000 and 2010, the number of municipalities fell from 3000 to 1800.<sup>1753</sup> However, in Japan's modern history, the Hesei Period municipal mergers were the third such mergers. In this

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<sup>1747</sup> Gilpin, R. (2002), *The Challenge of Global Capitalism: The World Economy in the 21<sup>st</sup> Century*, Princeton University Press, Princeton.

<sup>1748</sup> Ibid.

<sup>1749</sup> Ibid.

<sup>1750</sup> Karan, P. (2005), *Japan in the 21<sup>st</sup> Century, Environment, Economy and Society*, The University Press of Kentucky.

<sup>1751</sup> Rausch, A. (2009), *Japanese Revitalization: The Reality and Potential of Cultural Commodities as Local Brands*, *Japanstudien*, 20:1, 223-245, DOI:10.1080/09386491.2009.11826981

<sup>1752</sup> Rausch, A. (2014), *Japan's Heisei municipal mergers and the contradictions of neo-liberal administrative planning*, *Asia Pacific Journal of Public Administration*, 36:2, 135-149, DOI: 10.1080/23276665.2014.911490

<sup>1753</sup> Ibid.

case, the first series of mergers occurred after the Meiji Restoration from between 1888 and 1889.<sup>1754</sup> During this period 71,314 settlements were merged into 15,859 cities, towns and villages.<sup>1755</sup> The second phase of mergers occurred in the period 1953 to 1956 when 9868 cities, towns and villages were merged to form 4668 municipalities.<sup>1756</sup>

The evidence that the Japanese economy still has not recovered from the economic stagnation which began in 1989 is clear and incontrovertible. Even in January 2019, the annualised rate of economic growth for the last three months of 2018 was only 1.8%.<sup>1757</sup> In addition to the low rates of economic growth experienced by the Japanese economy, the government is expected to increase Japan's consumption tax from 8% to 10% in order to finance increasing social costs associated with an ageing population.<sup>1758</sup> Nevertheless, in January 2019, Japan's industrial production had fallen by 3.7% on a year on year basis, while retail sales had only increased by 0.6% on the same basis.<sup>1759</sup> This is in contrast to retail sales growth of 1.3% in December 2018; and 0.5% lower than the level of growth which had been forecast.<sup>1760</sup> These economic data are evidence for the fact that if the Japanese government goes ahead with increasing consumption tax in October 2019, this may again send the Japanese economy into recession. This is the same policy mistake which the Japanese government made in the 1990's, that by increasing the rate of the consumption tax and effectively decreasing income tax thresholds, consumer expenditure was negatively affected. So, the chances are high of the Japanese economy going into recession after October 2019 if the government goes ahead with the increase in the rate of the consumption tax.

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<sup>1754</sup> Rausch, A. (2012), A framework for Japan's new municipal reality: assessing the Heisei gappei mergers, Japan Forum, 24:2, 185-204, DOI: 10.1080/09555803.2012.671845

<sup>1755</sup> Ibid.

<sup>1756</sup> Ibid.

<sup>1757</sup> White, E., and Harding, R. (2019), Japan's economy returns to growth despite trade worries, The Financial Times, <https://www.ft.com/content/80fc68ea-2fe7-11e9-8744-e7016697f225>

<sup>1758</sup> Kyodo Staff Report (2018), Abe says he's going ahead with Japan's consumption tax hike in October 2019 <https://www.japantimes.co.jp/news/2018/10/15/business/economy-business/abe-says-hes-going-ahead-japans-consumption-tax-hike-october-2019/#.XIVzIUx2uUI>

<sup>1759</sup> Woodhouse, A. (2019), Japan industrial production records largest fall in a year, The Financial Times, <https://www.ft.com/content/092e4fac-3af2-11e9-b72b-2c7f526ca5d0>

<sup>1760</sup> Ibid.

## Japan, China and Globalisation

Over the last thirty to forty years the economies of countries have become more and more connected through increased trade and technological innovations associated with travel, shipping and telecommunications. In this case, the economic and political institutions of countries had to be dynamic and flexible in embracing the global environment in order to allow economies to thrive and prosper. Early scholarly works on the Political Economy of Japan, in particular institutional stability, investigated the linkages and co-operation between the economic actors of the Japanese economy which had facilitated Japan's 'co-ordinated market economy', CME.<sup>1761</sup> The CME had facilitated the double-digit growth of the Japanese economy in the 1950's and the 1960's.<sup>1762</sup> And although economic growth continued into the 1970's and the 1980's it was not at lower levels in comparison to the 1950's and the 1960's.<sup>1763</sup> However, with the development of a world order, with neoliberalism as its foundation, towards the beginning of the 1990's, the Japanese CME was no longer the best institutional structure to deliver prosperity and economic growth for Japan. In other words, while the CME had been fine tuned to function effectively in an environment which fostered control, co-operation and incremental change, it could no longer do so in a neoliberal global environment in which innovation, competition and market openness were the ingredients which would accommodate economic success.<sup>1764</sup> Therefore, in order to bring about institutional change in the Japanese economy which would facilitate economic growth and prosperity in the new global environment, some public policy reforms were started in the 1990's as well as in the 21<sup>st</sup> century.<sup>1765</sup> However, even though Japanese politicians and business leaders recognised that labour market inflexibility, market access, distortions in the financial system and dense linkages between firms was making the Japanese economy less competitive compared to the US economy, which was more competitive, there was little mood for change. Therefore, instead of shifting the Japanese economy from CME to the US

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<sup>1761</sup> Suzuki, M. (2016), *Globalisation and the Politics of Institutional Reform in Japan*, Edward Elgar Publishing Limited, Cheltenham, UK.

<sup>1762</sup> Ibid.

<sup>1763</sup> Ibid.

<sup>1764</sup> Ibid.

<sup>1765</sup> Ibid.



competitive model, existing institutions were either reinforced or modified instead of being replaced.<sup>1766</sup>

Government reforms were associated with the postal service, the labour market and the financial system.<sup>1767</sup> The reforms in the labour market were intended to lower firms labour costs by allowing for more labour market flexibility. However, while this may be the perception with the rise of temping and the end of life-time employment, the opposite was the case. This is because the Japanese governments overall strategy encompassed the goal of preserving employment rather than making it easier for firms to sack workers.<sup>1768</sup> In this case, the Japanese government would boost spending on public works projects in outlying areas so that small businesses and construction companies would be protected from the adverse economic climate.<sup>1769</sup> Moreover, the government also made slow progress with labour market deregulation because it was seen that non-competitive practices would allow for job protection which would not have happened with the market competition that deregulation would bring specifically to protected sectors such as retail and distribution.<sup>1770</sup> Nevertheless, there was some easing of labour standards.<sup>1771</sup> This included the passing of the Temporary Worker Law of 1999 which abolished restrictions on the occupations which could be staffed by temporary workers.<sup>1772</sup> Furthermore, in order to protect small businesses, the government did not put in place measures to ensure that the non-performing loans held by banks should be liquidated.<sup>1773</sup> This evidences the fact that both the Japanese government and Japanese financial institutions did not fully embrace market forces.<sup>1774</sup> The reforms in the financial system were meant to allow for better financial intermediation

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<sup>1766</sup> Gronning, T. (1998), Whither the Japanese Employment System? The Position of the Japan Employers Federation, *Industrial Relations Journal*, 29, pp.295-303.

<sup>1767</sup> Suzuki, M. (2016), *Globalisation and the Politics of Institutional Reform in Japan*, Edward Elgar Publishing Limited, Cheltenham, UK.

<sup>1768</sup> Vogel, S. (2006), *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Cornell University Press, Ithaca and London.

<sup>1769</sup> *Ibid.*

<sup>1770</sup> Vogel, S. (2006), *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Cornell University Press, Ithaca and London.

<sup>1771</sup> *Ibid.*

<sup>1772</sup> Weathers, C. (2004) Temporary workers, women and labour policymaking in Japan, *Japan Forum*, 16:3, 423-447, DOI: 10.1080/0955580042000257918

<sup>1773</sup> Vogel, S. (2006), *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Cornell University Press, Ithaca and London.

<sup>1774</sup> Malcolm, J. (2001), *Financial Globalisation and the Opening of the Japanese Economy*, RoutledgeCurzon, Abingdon, Oxon, UK.

between financial institutions and the commercial sector so that savings could be more efficiently translated into investments in the real economy. To this end there was a liberalisation of financial flows.<sup>1775</sup> Japan's economic malaise may have been caused by the misallocation of capital to industries and sectors of the economy which were not competitive in the global context. In this case, the traditional means of allocation of capital to industries was through the bank associated with that industry. This was due to the Keiretsu form of industrial organisation in post-war Japan. Traditionally, industries in Japan had been selected for capital allocation and government support based on an analysis by MITI using a criteria reflecting technological innovation, comparative advantage and increasing returns to scale.<sup>1776</sup> On the other hand, industries which were seen to be in decline and experiencing decreasing returns to scale were to be deprived of government support.<sup>1777</sup> However, the problem is that it is not so clear cut as to how the analysis carried out by MITI would have been able to recognise long term trends in successful technologies and which industries this would encompass in a dynamic and fluid global market environment.<sup>1778</sup> The identification of an industry which would not be globally competitive in the long term would mean that capital and government support would be misallocated. Therefore, it is important that the allocation of capital and government support should not be based on institutionalised government bureaucracy but in the context of free market forces. Moreover, the allocation of capital through the Keiretsu based industrial structure in which banks are associated with specific industries also leads to the inefficient allocation of capital. An efficient allocation of capital occurs when international and domestic investors decide to invest in a venture based on the criterion that investment in the venture will deliver the highest rate of return in the future.<sup>1779</sup> The marketisation of finance in Japan would allow for the efficient allocation of capital especially in industries which are experiencing rapid and dynamic technological change.<sup>1780</sup> This

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<sup>1775</sup> Vogel, S. (2006), *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Cornell University Press, Ithaca and London

<sup>1776</sup> Beason, D., and Patterson, D. (2004), *The Japan That Never Was: Explaining the Rise and Decline of a Misunderstood Country*, State of New York Press, Albany.

<sup>1777</sup> *Ibid.*

<sup>1778</sup> *Ibid.*

<sup>1779</sup> Cerny, P. (2001), *Financial Globalisation and the Unravelling of the Japanese Model*, IN *The Political Economy of Japanese Globalisation*, Hook, G., and Hasegawa, H. (Eds), Routledge, London.

<sup>1780</sup> *Ibid.*

would be difficult to achieve if capital was allocated on a mechanism associated with state planning and a Keiretsu based industrial structure.<sup>1781</sup> However, it may be the case that due to the traditional nature of the state-industry relationship that the Japanese economy may have evolved into a hybrid structure with one part of the economy populated by export competitive industries and the other part populated by declining industries which cannot compete globally acting as a weight on the entire Japanese economy.<sup>1782</sup> Nevertheless, the Japanese economy should be seen as being split in three ways – the competitive export industries, the protected industries and the emerging high tech industries.<sup>1783</sup> In the case of the latter, it has been more of a case of providing support for a specific sector of the economy rather than as an industrial policy.<sup>1784</sup> Moreover, government expenditure has focused not only on the development of ongoing basic research but also for the award of patents for commercial applications.<sup>1785</sup> Furthermore, the government has also provided for the preferential tax treatment of expenditure by the private sector on research.<sup>1786</sup> However, Japanese government support for the development of high technology industries is not something that is a recent phenomenon.<sup>1787</sup> In this case, it was government support for high technology industries which facilitated the development of the Tomioka Silk Reeling plant in the Meiji Period and the manufacture of DRAM silicone semi-conductors in the 1970's following its invention in America by Intel in 1970.<sup>1788</sup> Other reforms focused on experimentation with economic policy in order to revive the economy, lowering interest rates and changing public spending levels and tax levels, a revision of corporate law and the pension system, bank finance rejuvenation and the privatisation of public corporations.<sup>1789</sup> On the other hand, Japanese firms focused on corporate governance reforms, updating logistics, attaining a lean corporate structure and sourcing finance from the stock market rather than through the traditional bank

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<sup>1781</sup> Cerny, P. (2001), *Financial Globalisation and the Unravelling of the Japanese Model*, IN *The Political Economy of Japanese Globalisation*, Hook, G., and Hasegawa, H. (Eds), Routledge, London.

<sup>1782</sup> Katz, R. (1998) *The system that soured: Toward a new paradigm to guide Japan policy*, *Washington Quarterly*, 21:4, 43-78, DOI: 10.1080/01636609809550350

<sup>1783</sup> Cerny, P. (2001), *Financial Globalisation and the Unravelling of the Japanese Model*, IN *The Political Economy of Japanese Globalisation*, Hook, G., and Hasegawa, H. (Eds), Routledge, London.

<sup>1784</sup> Flath, D. (2014), *The Japanese Economy*, Third Edition, Oxford University Press, Oxford.

<sup>1785</sup> *Ibid.*

<sup>1786</sup> *Ibid.*

<sup>1787</sup> *Ibid.*

<sup>1788</sup> *Ibid.*

<sup>1789</sup> Vogel, S. (2006), *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Cornell University Press, Ithaca and London.

method.<sup>1790</sup> At the same time, the Japanese government also reorganised itself.<sup>1791</sup> However, because of stakeholder interest and the rent seeking behaviour of Japanese politicians, these reforms could not be implemented without difficulty.<sup>1792</sup> Moreover, the post-war emphasis on government ministries extending their bureaucratic control over specific sectors of the Japanese economy has become so pervasive and rooted in Japan's political economy that the necessary structural, economic and social required to reinvigorate Japan's economic performance cannot be implemented thoroughly.<sup>1793</sup> This is also in the context of the current economic problems which the Japanese economy faces having survived the collapse of the bubble economy, which was followed by negative economic growth rates and deflation.<sup>1794</sup> These current economic problems can be associated with a lack of domestic demand, a dependence on export's, the increased vulnerability of the Japanese economy to external shocks in the global economy; and decline in the growth potential of firms due to lack of historical investment.<sup>1795</sup> In order, to revitalise the Japanese economy the incoming government of Shinzo Abe, in 2013, instigated an economic program which was termed Abenomics. The latter emphasised an ultra-loose monetary policy to facilitate a target inflation rate of 2% accompanied by rising wages levels<sup>1796</sup>, the establishment of Free Trade Agreements<sup>1797</sup>; and the promotion of inward bound Foreign Direct Investment.<sup>1798</sup> However, the rate of inflation in Japan was barely above 0% in March 2019<sup>1799</sup>; and growth in wage levels remained questionable.<sup>1800</sup> With regards to the share of Japanese

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<sup>1790</sup> Vogel, S. (2006), *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Cornell University Press, Ithaca and London.

<sup>1791</sup> Ibid.

<sup>1792</sup> Ibid.

<sup>1793</sup> Carpenter, S. (2016), *Why Japan Can't Reform: Inside the System*, Palgrave Macmillan.

<sup>1794</sup> Aramaki, K. (2019), *Japan's Long Stagnation, Deflation and Abenomics: Mechanisms and Lessons*, Palgrave Macmillan.

<sup>1795</sup> Ibid.

<sup>1796</sup> Yoshida, R. (2019), *Abenomics under heavy fire after dodgy data hid apparent drop in wages across Japan in 2018*, The Japan Times, <https://www.japantimes.co.jp/news/2019/02/06/national/politics-diplomacy/abenomics-heavy-fire-dodgy-data-hid-apparent-drop-wages-across-japan-2018/#.XI1UbHd2vb0>

<sup>1797</sup> Solis, M., and Urata, S. (2018), *Abenomics and Japan's Trade Policy in a New Era*, *Asian Economic Policy Review*, 13, pp.106-123.

<sup>1798</sup> Hoshi, T. (2018), *Has Abenomics Succeeded in Raising Japan's Inward Foreign Direct Investment*, *Asian Economic Policy Review*, Vol.13, Issue 1, pp.149-168.

<sup>1799</sup> Bloomberg (2019), *Japan inflation barometer points to zero price growth by summer, weighed down by oil and phones*, <https://www.japantimes.co.jp/news/2019/03/04/business/economy-business/flat-line-japan-inflation-barometer-points-zero-price-growth-summer/#.XI1Ya3d2vb0>

<sup>1800</sup> Yoshida, R. (2019), *Abenomics under heavy fire after dodgy data hid apparent drop in wages across Japan in 2018*, The Japan Times, <https://www.japantimes.co.jp/news/2019/02/06/national/politics-diplomacy/abenomics-heavy-fire-dodgy-data-hid-apparent-drop-wages-across-japan-2018/#.XI1UbHd2vb0>

trade encompassing Free Trade Agreements (FTA), this is expected to rise from 19% in 2013 to 70% in 2018.<sup>1801</sup> In context recent successes for a liberalising Japan under Shinzo Abe has been signing the EU-Japan FTA and the Trans-Pacific Partnership FTA.<sup>1802</sup> On the other hand, the structural reform component of Abenomics associated with increasing inward bound Foreign Direct Investment seems to have been less successful due to the bureaucratic and regulatory nature of the Japanese economy which makes it costly for foreign firms to do business with Japan.<sup>1803</sup>

## **Conclusion**

Japan's high levels of economic growth in the 1950's and in the 1960's was based, as was the case of the rise of the contemporary Chinese economy post 1978, on a combination of the use of imported advanced technology and the abundant availability of low-cost labour. Moreover, the co-ordinated market economy featuring intervention in the economy by government departments such as MITI to support industry and the structuring of industries through Keiretsu's allowed for an efficient allocation of resources. The American defence of Japan also ensured that state financial resources could be diverted to industry rather than to military expenditure. Furthermore, there was a diffusion of technology from America to Japan whose industries became technologically advanced manufacturers due to government support. The global economic environment between 1945 and the early 1970's was also conducive to supporting Japan's export led growth. This was because Keynesian economic ideology, that of supporting aggregate demand, was in favour in the post-war global economies. As western governments supported domestic aggregate demand this served as a source of demand for Japanese products. However, after the mid-1970's inflation and unemployment were on the rise while economic growth was falling. The world economy had encountered stagflation and governmental economic ideology in the west began to shift away from Keynes and Monetarism. This also marked a shift towards neo-liberal, Washington Consensus set of policies which embraced free trade, private property rights, low levels of inflation, little government intervention in the economy and fiscal

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<sup>1801</sup> Solis, M., and Urata, S. (2018), Abenomics and Japan's Trade Policy in a New Era, *Asian Economic Policy Review*, 13, pp.106-123.

<sup>1802</sup> Porter, S. (2018), A whole new world for free trade?, <https://www.bbc.co.uk/news/business-46601315>

<sup>1803</sup> Hoshi, T. (2018), Has Abenomics Succeeded in Raising Japan's Inward Foreign Direct Investment, *Asian Economic Policy Review*, Vol.13, Issue 1, pp.149-168.

responsibility. However, neo-liberalism was at odds with the function of the Japanese economy which was heavily regulated, relatively closed, featuring high levels of government intervention with industries structured in an oligopoly fashion; and therefore, lacking competition. By the late 1980's, the Japanese economy was no longer competitive in the context of a growing neo-liberal global economic environment. Moreover, while in the 1950's and the 1960's Japanese economic growth had been double digits by the 70's and the 80's economic growth had fallen to single figures.

Furthermore, while Japan was able to reduce its budget deficit in the early 1980's, this was only because the Americans were increasing their budget deficit.<sup>1804</sup> But by the end of the 1980's as America began to reduce its budget deficit, Japan's budget deficit began to grow.<sup>1805</sup> At the same time, Japan was also running a very big trade surplus with America by sending it goods and capital.<sup>1806</sup> In order to address American concerns regarding its trade imbalance with Japan, the G5 group of countries agreed to a managed decline in value of the US dollar as well as an appreciation of the Japanese Yen.<sup>1807</sup> As the Japanese Yen appreciated over the short term, this led to a fall in Japanese exports, causing the Japanese economy to go into recession.<sup>1808</sup> In order to stimulate the economy, the Japanese government introduced a huge spending package and the BoJ reduced its lending rates to a historic low of 2.5%.<sup>1809</sup> The lowering of interest rates in Japan led to an increase in the uptake of loans for stock market and real estate investment.<sup>1810</sup> As a result there was a surge in stock market valuations and real estate prices. In this case, between 1985 and 1989, the Nikkei 225 stock market index grew at an annualised rate of 31% reaching a peak of 39,000 on the last day of trading in December 1989.<sup>1811</sup> Similarly, between 1985 and 1989 housing loans values doubled in size from Yen 12,800 billion to Yen 28,990 billion.<sup>1812</sup> And land became an important part of a Japanese

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<sup>1804</sup> Katz, R. (1998), *Japan, The System That Soured, The Rise and Fall of the Japanese Economic Miracle*, M.E Sharpe, London, England.

<sup>1805</sup> Ibid.

<sup>1806</sup> Ibid.

<sup>1807</sup> Iyoda, M. (2010), *Post-war Japanese Economy: Lessons of Economic Growth and the Bubble Economy*, Springer.

<sup>1808</sup> Ibid.

<sup>1809</sup> Ibid.

<sup>1810</sup> Ibid.

<sup>1811</sup> Kahkonen, J. (1985), *Movements in Asset Prices Since the Mid-1980's*, IN *Saving Behaviour and the Asset Price Bubble in Japan*, Analytical Studies, Baumgartner, U., et al (Eds), Occasional Paper 124, International Monetary Fund.

<sup>1812</sup> Renaud, B., Kim, K., and Cho, M. (2016), *Dynamics of Housing in East Asia*, John Wiley & Sons, Chichester, West Sussex, UK.

companies assets, as land prices went up so did stock prices.<sup>1813</sup> However, by May 1989 the Bank of Japan decided to end the era of easy money which had lasted for nearly ten years and started to follow a contractionary monetary policy.<sup>1814</sup> Between May 1989 and August 1990, the Bank of Japan had increased the discount rate by five times leaving it at a level higher than it was in 1985 at the time of the Plaza Accord.<sup>1815</sup> At the same time, the Japanese Ministry of Finance constrained land transactions by introducing laws and regulations.<sup>1816</sup> The effect of this was to restrict the supply of land such that it could no so straight forwardly be sold. So, nearly two decades after the stock market and real estate bubble bursting in 1990/1991, the value of house prices in Japan had fallen by nearly 60% in real terms whereas the value of household debt had not.<sup>1817</sup> In the years that followed 1990, the Japanese economy experienced stagnation and deflation and even after this economic growth has been moribund. The contemporary explanation for Japan's economic malaise is that its economy has fallen into a liquidity trap in which case the interest rate has fallen so low that it can fall no more so people would prefer to hold cash rather than borrow.<sup>1818</sup> However, empirical and theoretical analysis indicates that the stagnation of the Japanese economy is due to a vertical Investment-Savings (IS) curve, with regards to the IS-LM model.<sup>1819</sup> This suggests that the interest rate is no longer able to affect any economic variable which implies that national output is independent of the interest rate. Therefore, a vertical IS curve implies that Japan's three decades of economic malaise has been due to the structural features of the economy rather than a conventional economic downturn.<sup>1820</sup> These structural features would be associated with a rapidly ageing population, the dependence of regional

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<sup>1813</sup> Renaud, B., Kim, K., and Cho, M. (2016), *Dynamics of Housing in East Asia*, John Wiley & Sons, Chichester, West Sussex, UK.

<sup>1814</sup> Jinushi, T., Kuroki, Y., and Miyao, R. (2000), *Monetary Policy in Japan Since the Late 1980's: Delayed Policy Actions and Some Explanations*, IN *Japan's Financial Crisis and its Parallels to U.S. Experience*, Mikitani, R., and Posen, A. (Eds), Special Report 13, Institute for International Economics, Washington DC.

<sup>1815</sup> Ibid.

<sup>1816</sup> Ibid.

<sup>1817</sup> Renaud, B., Kim, K., and Cho, M. (2016), *Dynamics of Housing in East Asia*, John Wiley & Sons, Chichester, West Sussex, UK.

<sup>1818</sup> Yoshino, N., and Taghizadeh-Hesary, F. (2017), *Japan's Lost Decade: Causes and Remedies*, IN *Japan's Lost Decade: Lessons for Asian Economies*, Yoshino, N., and Taghizadeh-Hesary, F. (Eds), Springer, Singapore.

<sup>1819</sup> Ibid.

<sup>1820</sup> Ibid.

governments on central government funding; and the unwillingness of Japanese banks to lend to Japanese SME's and MSE's due to the Basel capital requirements.<sup>1821</sup>

In order, to revitalise the Japanese economy the incoming government of Shinzo Abe, in 2013, instigated an economic program which was termed Abenomics. The latter emphasised an ultra-loose monetary policy to facilitate a target inflation rate of 2% accompanied by rising wages levels<sup>1822</sup>, the establishment of Free Trade Agreements<sup>1823</sup>; and the promotion of inward bound Foreign Direct Investment.<sup>1824</sup> However, the rate of inflation in Japan was barely above 0% in March 2019<sup>1825</sup>; and growth in wage levels remained questionable.<sup>1826</sup> And even in 2018, the Japanese economy only grew in real terms by 0.7%, although this was a consistent increase in the economy's real growth over several years.<sup>1827</sup>

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