

Interactions between Development Economics and the Japanese Economy: Retrospect and Prospect

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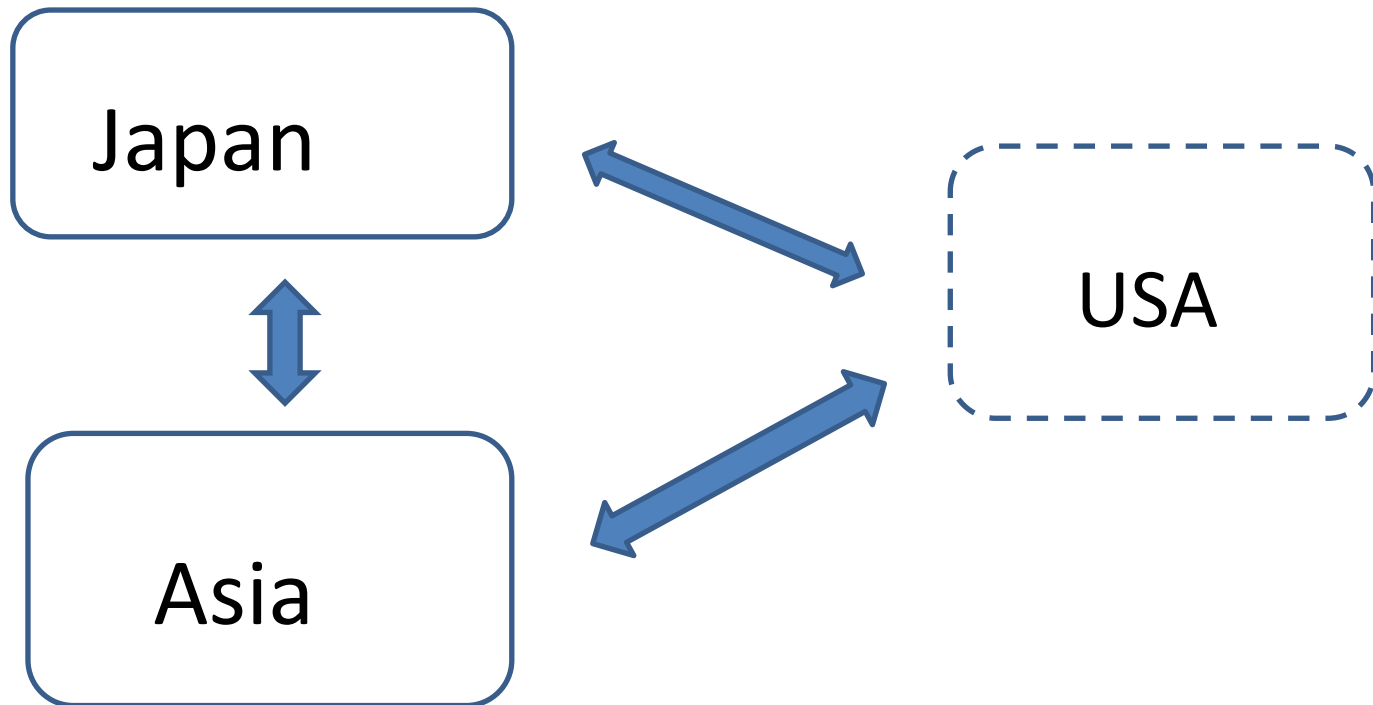
1. Historical development (data)
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4. Exciting days for Asia (till Asian Crisis in 1997)
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1. 3.11 and aging Japan
2. Application of development economics to Japan

Introduction (1)

- I used to study both the Japanese economy and Asian development in the following area-wide framework.



Introduction (2)

➤ Today I will look back the interactions between Japan and Asia from the following three angles:

Angle 1. Economic interdependence (real economy)

Angle 2. Economic development theory and applicability of the lessons from Japan's experience

Angle 3. Entry of Japanese economists with various modern economic disciplines in the study of Asian economic development.

Introduction (3)

- These three dimensional interactions between Japan and Asia have greatly changed overtime. My focus of study moved back and forth between Japan and Asia reflecting the change of these interactions.
- After 3.11 Great Eastern Japan Earthquake , my concern on the Japanese economy has somehow grown rapidly, not only because of the earthquake damage but also because of the unbelievably slow progress in solving structural problems of the Japanese economy (pension systems, aging economy, budget deficit, etc.).
- At the same time, I came to think that there is some bright future in the application of development economics to the aging Japanese economy .

Retrospect

1. Historical development (data)
2. Initial period (from 1950s to mid 1970s)
Japan catches up US economy
3. Good old days (till Plaza Accord in 1985)
Gradual growth in Japan and Asia
4. Exciting days for Asia (till Asian Crisis in 1997)
Adjustment in Japan and FDI boom in ASEAN and China
5. Volatile period without clear exit (till now)
Primary commodity boom(shock), financial crisis, and emergence of BRICs

1. Historical development (data) (1)

| | | 1955 | 1960 | 1970 | 1980 | 1990 | 2000 | 2010 | Note |
|--------------|-------------------------------|------|-----------|------|-------|-------|-------|--------|----------------|
| Japan | | | | | | | | | |
| | Population(millon) | 90 | 94 | 105 | 117 | 123 | 126 | 128 | |
| | Ratio of aged population(%) | 8.7 | 8.9 | 10.3 | 13.5 | 17.3 | 25.5 | 36.5 | 65+/(15to 64) |
| | GDP (current bil.\$) | 24 | 44 | 204 | 992 | 2867 | 4745 | 5875 | |
| | Excahnge rate(per US\$) | 360 | 360 | 360 | 242 | 150 | 106 | 82 | |
| | per capita income(current \$) | 267 | 473 | 1940 | 8483 | 23308 | 37660 | 45901 | |
| | Export to Asia(bil. \$) | - | .67(1962) | 6 | 46 | 94 | 211 | 461 | China2010: 160 |
| | Import from Asia(bil. \$) | - | 1.6(1962) | 5.6 | 80 | 94 | 211 | 336 | China2010: 164 |
| | Export to USA(bil. \$) | - | 1.4(1962) | 5.9 | 29 | 87 | 145 | 127 | |
| | Import from USA(bil. \$) | - | 1.8(1962) | 5.6 | 23 | 51 | 73 | 72 | |
| USA | | | | | | | | | |
| | Population(millon) | 166 | 181 | 205 | 227 | 250 | 282 | 307 | |
| | GDP (current bil. \$) | 415 | 526 | 1038 | 2788 | 5801 | 9952 | 14,119 | |
| | per capita income(current \$) | 2498 | 2908 | 5065 | 12282 | 23202 | 35289 | 45990 | |

1. Historical development (data) (2)

| | | 1980 | 1990 | 2000 | 2010 | Note |
|------------------|-------------------------------|------|-------|-------|-------|----------------|
| Japan | | | | | | |
| | Ratio of aged population(%) | 13.5 | 17.3 | 25.5 | 36.5 | 65+/(15to 64) |
| | GDP (current bil.\$) | 992 | 2867 | 4745 | 5875 | |
| | per capita income(current \$) | 8483 | 23308 | 37660 | 45901 | |
| | Export to Asia(bil. \$) | 46 | 94 | 211 | 461 | China2010: 160 |
| | Import from Asia(bil. \$) | 80 | 94 | 211 | 336 | China2010: 164 |
| China | | | | | | |
| | Population(millon) | 987 | 1143 | 1267 | 1340 | |
| | GDP (current bil. \$) | 298 | 370 | 1198 | 5878 | |
| | per capita income(current \$) | 302 | 324 | 946 | 4387 | |
| Thailand | | | | | | |
| | Population(millon) | 47 | 56 | 62 | 67 | |
| | GDP (current bil. \$) | 32 | 86 | 123 | 319 | |
| | per capita income(current \$) | 692 | 1527 | 1972 | 4737 | |
| Indonesia | | | | | | |
| | Population(millon) | 147 | 179 | 205.8 | 234.2 | |
| | GDP (current bil. \$) | 72 | 106 | 165 | 338 | |
| | per capita income(current \$) | 493 | 593 | 802 | 1441 | |

2. Initial period (from 1950s to mid 1970s)

Angle 1 (Economy)

- Japanese economy: Catch up the US economy and enter the high-income country group through trade liberalization in 1960, industrial policy in the 1960s, emergence of middle class under doubling income policy.
- Asian economy: early stage of development
- Japan- US economic relation was more important than Japan – Asia economic relations for Japan.

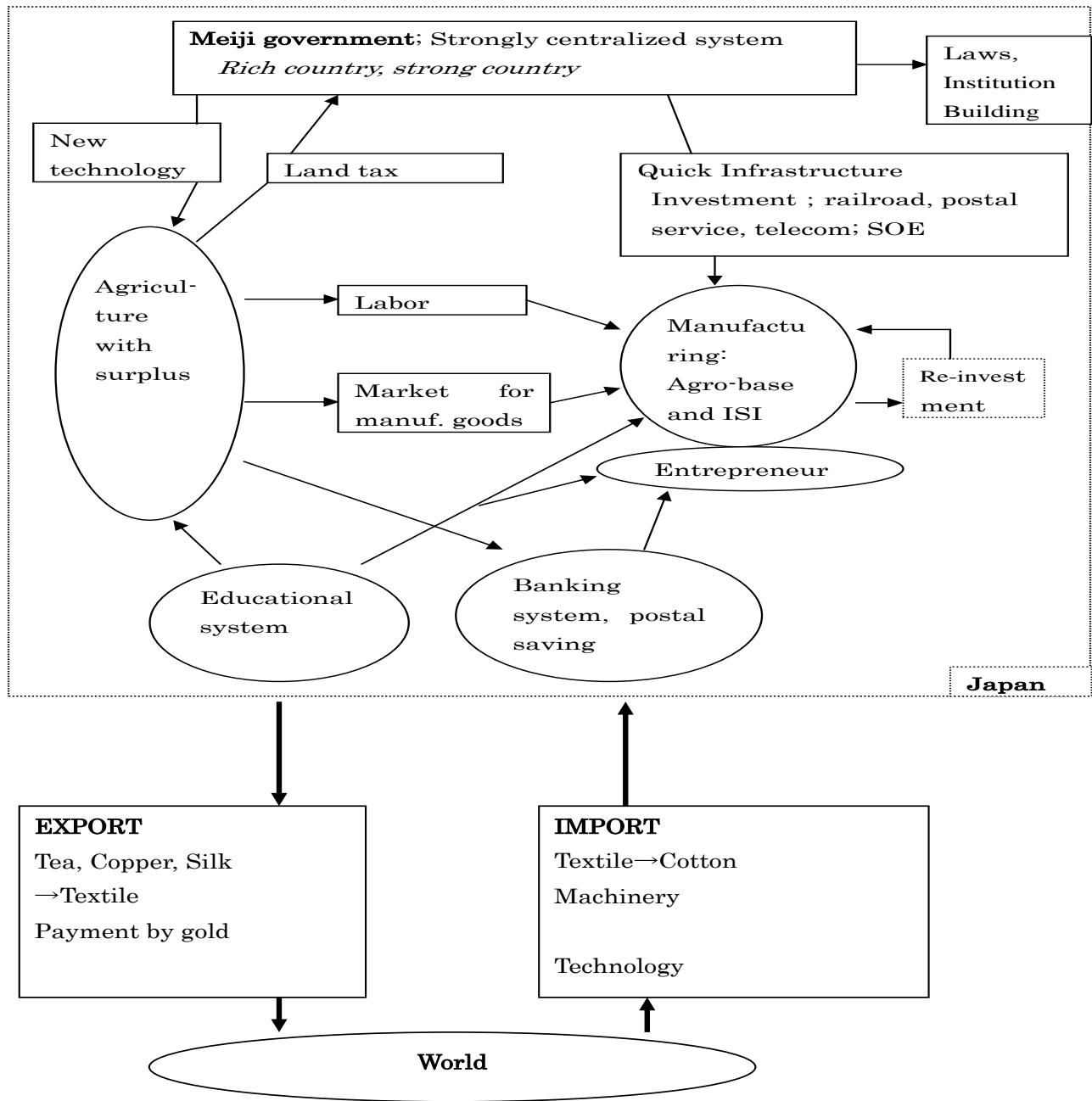
2. Initial period (from 1950s to mid 1970s)

Angle 2 (Lessons from Japan to Asia)

- 1) Although this is well before 1950s, Japan's experience in the late Edo and Meiji periods presents a good example of nation building and overall development . This example fits well into the framework of Rostow's stage of "pre-conditions for economic take off". Japan's experience of nation building became a good lesson to Asian countries in the 1960s at their early stage of development.

See W. W. Rostow (1971), *Stages of Economic Growth*,
second edition, Cambridge university Press

Please see the Next Chart which I made for GSID's "Japan's Development Experience" class.



2. Initial period (from 1950s to mid 1970s)

Angle 2 (Lessons from Japan to Asia)

2) Industrial Policy from mid 1950s through 1960s

- The policy was studied by Japanese leading economists (neoclassical economists) in the 1980s. They found more problems (market distortion & less competition) than advantage in this policy.
- Japanese bureaucrats considered that it contains a lot of lessons to Asia (mobilization of scarce resource to potential leading sectors).
- I said that the problems were minimized when the industrial policy was implemented under the large scale trade liberalization at the beginning of 1960s. The intense exchange of information has lowered coordination cost.

See Osada (2012) "Industrial and Trade Policy" in Toyoda, Nishikawa and Sato (eds.) *Economic Policy Lessons from Japan to Developing Countries*, Palgrave Macmillan.

2. Initial period (from 1950s to mid 1970s)

Angle 3 (Entry of Japanese economist in Asian study)

- Area study approach was popular (multidisciplinary approach with one relatively strong discipline)
- In Japan, international economics was the discipline which deals with the matter of international trade and other economies. So, economic development strategy were mainly discussed in the *The Japan Society of International Economics*.
- And, my major was international economics (trade theory + development theory) .
- Development economics was not yet an independent discipline in Japan.

3. Good old days (till Plaza Accord in 1985) **Angle 1 (Economy)**

- Entering 1980s, Japan became one of the three poles of the world economy. Years of catch-up ended.
- Asian NIEs and ASEAN began to show good growth performance among diversified developing world.
- Japan – Asia economic interdependence became deeper gradually .
- Stable growth with bright future in this region.

3. Good old days (till Plaza Accord in 1985)

Angle 2 (Lessons from Japan+Korea to Asia)

Reexamination of “ ISI vs. EOI” discussion.

Japanese international trade scholars found that:

- Japan’s experience showed that a manufacturing sector became an export sector after the period of proper import substitution.
- In Korea and Taiwan in 1970s, while light manufacturing sectors led export, heavy manufacturing was established and practiced import substitution. The foreign exchange earnings by light manufacturing was used for the development of heavy manufacturing. IDE scholars found the coexistence of ISI and EOI in Korea and taiwan, and named it “*Double track industrialization* =複線型工業化” .
- I also felt that it is almost impossible to export from the beginning, if the industry is not an FDI industry. The idea of EOI is based on the performance of NICs and did not have much theory in it. Correct implementation (=scheduled reduction of tariff protection) of ISI will lead to the birth of an export sector. (Famous discussion between Prof. Murakami and Prof. Ikemoto on the Journal of Kobe University around 1970.)

3. Good old days (till Plaza Accord in 1985)


Angle 3 (Entry of Japanese economist in Asian study)

Scholars in various discipline of economics began to enter the study of Asian economies. The reasons are:

1. Growth of Asian economies has widened the room for the application of standard (=developed country type) economic theory . Also, stabilization of political and institutional system have made it possible to regard political and institutional factors as given conditions in economic analyses.
2. Development of statistical system and increased availability of data for quantitative analysis. For example, compilation of Input-Output Tables in Asia.
3. More interest in Asian economies due to increasing economic interdependence.

4. Exciting days for Asia (till Asian Crisis in 1997)

Angle 1 (Economy)

- Plaza Accord (1985.9.22 and exchange rate alignment (¥235/\$ → ¥150 /\$ one year later)
- Japan now being caught up by Asian NIEs.
- FDI boom to ASEAN from Japan after 1985 and from Korea and Taiwan after 1990. ASEAN's economic liberalization and FDI driven growth.
- Waking up China.
- Regional economic cooperation for further growth: Establishment of APEC in 1989.
- Bubbling economies →  Asian Financial Crisis
- Silly IMF conditionality worsened the situation.
financial crisis → economic crisis

4. Exciting days for Asia (till Asian Crisis in 1997)

Angle 2 (Lessons from Japan+ANIEs to Asia)

World Bank (1993), *The East Asian Miracle*

–Economic Growth and Public Policy–

- Background discussions between neoclassical economists in the WB and JBIC economists: the applicability of the East Asian experience of government interventions in economic development .
- Conclusion: applicable only if the government is wise with capable bureaucrats.
- When the Asian Financial Crisis happened, “Miracle” has burst together with the authoritarian development government. Market is so wise?

4. Exciting days for Asia (till Asian Crisis in 1997)

Angle 3 (Entry of Japanese economist in Asian study)

- Not only economist but also scholars of various discipline continued to enter the Asian study. Two reasons behind this move are:
 - 1) Deepening economic interdependence.
 - 2) Japan became the No.1 ODA supplier in 1991.
- The second reason increased the needs for the aid-related country study and professional practitioners.
- Establishment of new education system for International Development (GSID in 1991 as the first national school)
- Establishment of The Japan Society for International Development in 1990 (Academics=Government=Private)
- 1990s were bad days for economists. The titles of *World Development Report* covered many non-economic factors. Moreover, “Poverty” issue came to the forefront (Title for WDR 1991 was “Poverty” and the one for WDR 2000-2001 was again “Attacking Poverty”. What does it mean?)

5. Volatile period without clear exit (till now)

Angle 1 (Economy)

- Stagnant and slowly-responding Japanese economy to external shocks .
- Accumulation of budget deficits and foreseen deterioration of various economic infrastructures .
- Emerging middle-class economy in Asia.
- Unsound world financial systems, recurrent crises, high commodity prices due to oversupply of money.
- Everything is partly good and partly bad. Difficult to capture the trend if we use the traditional analytical framework.
- Continued Globalization (or Regionalization).

5. Volatile period without clear exit (till now)

Angle 2 (Lessons from Japan to Asia)

- No more lessons as a good example. Asia might be able to know what will be the future problems, learning from the Japanese experience.
- China will face aging population problem in the near future.
- However, Japan's experience does not become a lesson without the clear structural analysis of the problem and effective remedies.

5. Volatile period without clear exit (till now)

Angle 3 (Entry of Japanese economist in Asian study)

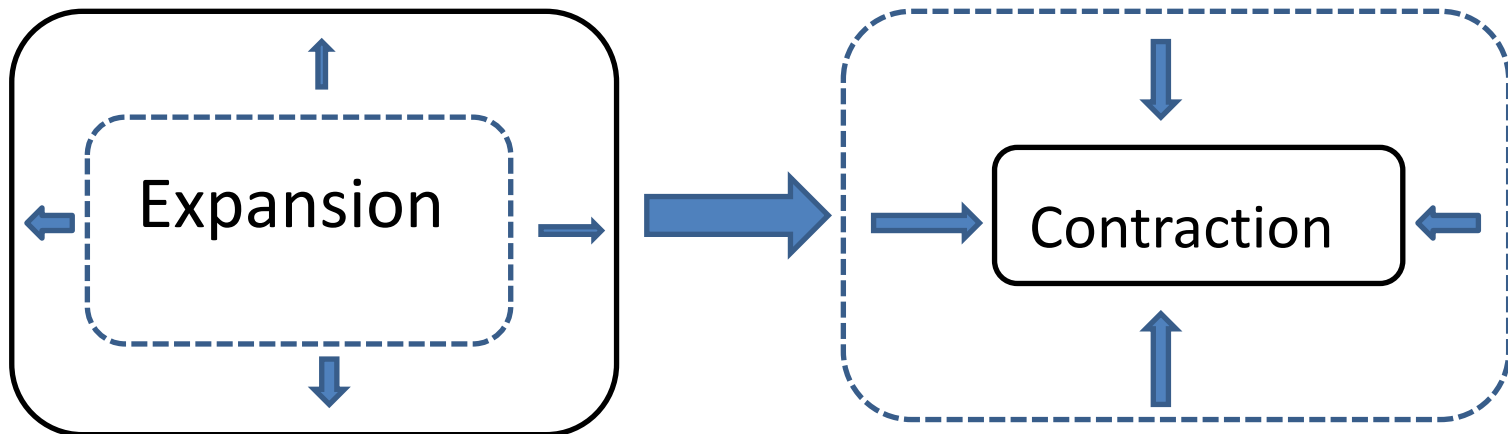
- Due to the increasing importance of growing Asia, more Japanese economists began to work on Asia.
- More Asian scholars come to work in Japan and engage in the analyses of Japanese economy in connection with their home country in Asia.

Prospect

1. 3.11 and aging Japan
2. Application of development economics to Japan

1. 3.11 and aging Japan (1)

- 3.11 has convinced us that nothing is eternal. It is already long since the Japanese economic system which supported Japan after 1945 faced the turning point.
- The core of the change is :



1. 3.11 and aging Japan (2)

Expected long-run problems:

- Decreasing and aging population.
- Aging infrastructure built in the 1960s in the expanded life space.
- Decreasing national savings due to dis-savings of the senior citizens and the increasing public debt .
- Concern on the sustainability of national pension scheme and medical insurance scheme.
- Etc.

2. Application of development economics to Japan (1)

- “Economic development” deals with expansion of an economy with structural, institutional, social and political shifts.
- It is too much to say that Japan is facing the reverse-development, but many economic, structural and institutional factors are showing the reverse (decreasing) trend. For example, population, labor force, monetary assets, infrastructure, welfare system, and so forth.

2. Application of development economics to Japan (2)

- Development economists are more accustomed to the handling of variables which are usually considered “given” in the standard economics.
- So, scholars working on development economics have chances to analyze and solve the issue of aging Japanese economy more appropriately than scholars working on the Japanese economy.

2. Application of development economics to Japan (3)

- I hope that development economists in Japan will spend some of their time for the analyses of Japanese economy. It will contribute to the mutual prosperity of Asia and Japan.
- It is time to reverse the flow of economists from the situation of “Flow from Japanese study to Asian study” to the situation of “Flow from Asian study to Japanese study”.

ご静聴ありがとうございました。

Thank you very much.

長田博