

Political and Economic Opening as a Post-Crisis Strategy for Japan

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In economics literature, the sources of economic growth in general and in Japan in particular have been appraised either from the supply-side, with the emphasis on capital accumulation, labour, total factor productivity and – given the advent of the new growth models – on technological change, or from the demand side. The study on Japanese growth by Chenery et al. (1962) was an early demand-based study that looked at the drivers of economic growth and structural change over the period 1914-1954. Using input-output methods and taking into account the contribution of technological change¹ over this long-time period, the authors found two distinct early sub-periods of economic growth: the 1914-1935 and the 1935-1954 sub-periods. The first (1914-1935) is characterised by a rise in domestic income (by 4.5 per cent per annum) with large increases in exports. The second (1935-1954) is marked by the loss of colonial supplies of raw materials and by a substantial fall in exports; this second sub-period is also marked by import substitution policies and by the rising importance of technological change. The findings for the first sub-period mirror Japan's emergence as an economic and geostrategic power, affirming first its colonial ambitions in East-Asia through the development of its many manufacturing networks, in the region as a whole and in Korea in particular (Inkster, 2001). In post WWII Japan, capital deepening and technological change became the main sources of long-term economic growth in line with the core ideas enshrined in the endogenous growth theories. Economic growth and wealth accumulation had been such that by the late 1980s a small area in Tokyo – such as for example the grounds under Tokyo's Imperial Palace - was valued more than the entire State of California. The shift in investment away from the manufacturing sector and into the real estate sector after the 1985 Plaza Accord had led to the build-up of a formidable financial bubble (Hutchinson and Westermann, 2006). The beginning of the 'lost decade' after March 1989 signalled that Japan was embarking upon a new growth trajectory and that the country was leaving behind several decades of

1 In this study, technological change is measured with the help of the technical coefficients.

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quasi-uninterrupted high growth. The de-industrialisation (kudoka), driven by the dynamic and responsive strategy of Japanese multinational enterprises increasingly investing in the newly opened Chinese market, affected the Japanese economy negatively. For instance, the number of employees in the manufacturing industries experienced a sharp drop: from 14.56 million in 1995 to 11.30 millions in 2011 (Keizai Koho Center, 2007, 2014), although the unemployment rates remained relatively low thanks to an increasingly flexible labour market. The kudoka phenomenon did not however jeopardise the manufacturing and exporting capacity of Japanese corporate firms, as for instance the trade balance remained in surplus during the whole period, except for a short period after the Fukushima nuclear disaster in March 2011. Furthermore, competitiveness is supported by significant public and private investment in research and development (R&D) activities in Japan (3.29% of GDP in 2015 for instance, compared to 2.93% in Germany and 2.22% in France that year, according to OECD data). In the case of Japan, the post-bubble new growth period needs to therefore be appraised through the lenses of economic growth in a mature post-industrial country. Indeed, the new drive for the internationalisation (kokusaika) of Japanese firms in the 1980s was made possible because of the country's strong manufacturing sector. At the same time, and in line with the tenets of the new growth models, technological change has also been earmarked as a key driver of long-term economic growth since the 'lost decade'. Technological change and a deeper integration of Japan into the world productive and trading (manufacturing) system have both implied a number of on-going structural changes notably in the labour market. Non-regular employment, for instance, rose from 15% in 1982 to a comparatively high level of 38% of all employees in 2014, a change that may contribute to Japan's economic competitiveness but that translates into rising poverty for a growing part of the population, and to the drop in the fertility rate (Gordon, 2016). First of all, policy change has been stimulated by the 2008 global financial crisis; as a result, the increasing political and economic interaction of Japan with the outside world has become, more than ever, a strategy in order to revive economic growth. Second, policy change has eventually taken prominence since Prime Minister Shinzo Abe took office in 2012, with the launch of its famous 'Abenomics' policies encompassing three arrows (monetary policy, fiscal policy and revitalisation strategy through, in particular, a number of structural measures). In the same way that the burst of the property bubble in 1989 placed Japan on a 'post catching-up' economic growth path, Abenomics measures are intended to play the role of a catalyst in reviving economic growth in Japan in the not too distant future. Abe's policies are, therefore, aimed at smoothing out the transition of Japan towards a new economic growth regime.

Possibly more so than in any other 'mature' economy, the transition of Japan to a new growth regime offers multidimensional challenges, particularly in terms of demographics, energy production and other environmental issues, and this implies to analyse the characteristics of Japan's deeper integration into both the world economy and the geostrategic environment. Japan currently has the most rapidly aging population (a problem to be shared soon with South Korea), and its population started to decrease from the middle of this century's first decade. In terms of energy production, the shift from nuclear generation to fuel, gas and renewable sources of energy has been dramatic following the Fukushima event in March 2011, but the question of sustainability remains, both from an environmental point of view, and from the viewpoint of the instability of oil prices in the coming years and decades.

The integration of Japan into both the world economy and the geostrategic environment also poses a number of different challenges. These include Chinese firms' ability to rapidly improve their technological level; China, as a nation, being more and more assertive and capable of defending its views; and the relative stability that had prevailed in international trade and

markets being increasingly challenged by the multiplication of specific trade agreements, rather than by multilateral ones, not to mention the instability derived from the election of the new Administration in the USA and missile threat from North Korea.

Articles in this special issue enrich the debate on the transition of Japan to a post “lost decade” and post-crisis growth regime. Since the economic and business issues mentioned above are intimately connected to the political dimension, and in particular with the role of Japan in the East-Asian region and further afield, one of the strengths of the special issue is its combination of articles drawn from the political as well as the economic spheres. This special issue starts by defining and clarifying the institutional framework in which a number of appropriate economic policies can take place; this is done with the inclusion of the article by Tatsuro Chiba on the “second Abe Administration”. The paper on the currently negotiated EU-Japan free trade deal by Bernadette Andreosso-O’Callaghan is used as a case study of a potential channel of (external) economic growth rejuvenation. The two papers on human resource management focus on changes in the labour market deriving from the transition towards a low growth regime, leading to the development of non-regular employment on the one hand, and to the demographic transition to an aging population on the other hand. The paper by Shiho Futagami and Yukiko Muramoto addresses the question of ensuring decent work conditions, while the paper by Philippe Debroux, Jacques Jaussaud and Julien Martine focuses on the development of senior workers’ employment. The paper by Larissa Grzeskowiak investigates, through a broader perspective, the economic impact of demographic change in Japan, focusing on female labour. Finally, two other articles offer a link between these two levels of analysis (domestic and international): the article on the stock market by Sophie Nivoix and Serge Rey will discuss the role that a key Japanese utility company plays in the domestic stock market, in the context of both financial liberalization/opening and the disruptive Fukushima event. The article by Ikuo Kato investigates the relationship between corporate sustainable strategies and stock prices.

All papers for this edited volume were drawn from a pool of papers presented at the 21st Euro-Asia International Research Seminar held in the summer of 2016 at Pusan Korea National University, South-Korea. This proposed special issue represents a subsequent stage in the research process. Written by well-known authors across Europe and Asia working in the field of Japanese and Asian studies, the different articles include the various and related areas of management, economics and political science/international relations.

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