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Attempting to Understand the Characteristics of Post Meiji Japanese Economy and Lessons Learned from It

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Abstract: This article covers the characteristics of the Japanese economy and the lessons that other nations learn from them. With the arrival of the western people, a new era had begun for the people in Japan. While other nations struggled to get freedom and development under the rule of Europeans, Japan was able to take advantage of the western effects. Japan had sensed the fact beforehand that the western countries can colonize them unless Japan makes a rapid development. While Japan was transforming from a feudal system to a modern capitalistic nation, they had to overcome the issues of the undeveloped nations. They had roots of modernization like the stable educated population who received all the necessary help from the current government. They gradually started to develop the dualistic economy by using modern technologies as well as old ones. It took less time to adopt the western nations and replace the import-export systems. As Japan was modernized the country nearly at the end of the 1960's, it began to face issues like the capitalistically developed countries. Japan had tried to solve those issues on its own terms. However, after the bubble economy and the lost generation problem, Japan could not overcome it properly. That is why the factors behind the rapid modernization and the mistakes should be analyzed in detail.

Introduction

Japan is a country in East Asia and is known for its advanced technology and culture. Before the Meiji era, most people depended on agriculture, and society was based on medieval feudalism. During the Edo period, the Japanese first met Western people who came to Asian countries for trade and the spread of Christianity. It was the first time for Japan to see modern weapons and new culture. However, the feudal government soon adopted a policy of seclusion for fear of new religions and cultures, which lasted for nearly 200 years. After that, due to unavoidable circumstances, Japan had to open up and join the unequal treaty with the United States. From then, Japan began to grow at a speed that no one thought of. It has been widely debated by the scholars that why Japan was so rapidly modernizing. But every country has its own strong or weak features and it was not that Japan was developing on a path which had no obstacles. Some factors like education, state, zaibatsu etc worked out perfectly for them. On the other hand, factors like BOJ's interest rate, bubble economy etc were mistakes from which Japan and the other countries should learn. Here, we may now analyse the characteristics of the Japanese economy and the lessons one can learn from them.

Role of Education

In the early stages of modernization, when compulsory education was inadequate, higher education aimed to develop leaders in higher societies. The literacy rate of the total population in the beginning of the Meiji era was about 40%, but by the end of the Meiji era it doubled to about 80% (Sumikawa, 1999). The miraculous growth

after World War II was realized by the Japanese "know-how" technology acquired before the war. With the return of Japanese education capital, it reached 25% of the increase in national income in the 25 years from 1930 to 1955 (Takada, 1999).

Translative Adaptation:

Modernization, internationalization and translation adaptation accurately represent the experience of Japanese technology and development from 1850 to 1945. Regarding technology, development and "modernization", Japan imported many Western technologies into society for the purpose of the survival of the people in order to rapidly industrialize. These things follow the ideology of the "Rich country strong Army" fairly. The first period represents Japan's accelerated absorption of foreign technology and knowledge, their application to Japan's industry, economy and society, and the construction of Japan's new modernizing army. The process of economic growth based on Japan's expanding industrialization continued until the beginning of the 20th century and was accelerated by the Japanese industrial boom during World War I. According to experts, manufacturing had the highest growth rate, followed by services and agriculture.

The tradition of Manufacturing:

Manufacturing is one of the most notable and internationally renowned features of Japan's economic growth. "Made in Japan" products are still considered to be the best in the world. Today, Japan is a world leader in the manufacture of electrical and electronic equipment, automobiles, ships, machine tools, optics and precision equipment, machinery and chemicals. In many European countries, including the United Kingdom, engineers working in oil factories did not hold a higher position than presidents, lawyers, and accountants working in clean offices. But in Japan, college graduates loved manufacturing, adjusting, repairing, and managing factories (Ohno, 2005). They had no problems working side by side with the machine operators. This also applies to the Meiji era. Even in the Edo period, there was the rise of pre-modern manufacturing industries.

Hybrid Technology:

It should be remembered that farmers and craftsmen in the Edo period did not just change with the introduction of Western technology. Indeed, new industries such as railroads, utility poles, and wireline had to be adopted as entirely new forms. However, traditional production techniques have managed to survive for a long time. The industrialization of the Meiji era was achieved by an appropriate combination of existing traditional technology and imported Western technology. This is "hybrid technology". This can be considered as an example of "translative adaptation" (2005,c). They have evolved in Western technology, sometimes alongside modern equipment introduced on a small scale. This trend is most clearly depicted by the cotton industry.

Short Period of Transition:

With heavy investment in education, increased competition, and improved infrastructure, Japan was able to completely transformed in decades from a feudal society to a modern industrial power with military power comparable to that of the major world powers of the era.

Recognizing the success of their modern army and the need to expand its economy to sustain it, the new imperial government soon began to undertake major reforms. The first feudal territory and samurai class were completely abolished. Next, the government worked on the industrialization of the country. Infrastructure such as railroads, ports, and telegraph lines were being built nationwide. At the same time, the government focused on the development of the textile and steel industry and the creation of a large conglomerate known as the Zaibatsu. This triggered the beginning of the cycle. Finally, the new administration has taken drastic steps to reform the government structure, much like the Prussian model. An independent judicial body was established in 1875, and the Constitution was carefully drafted and enforced for five years from 1884 to 1889. With the death of Emperor Meiji in 1912, Japan was completely industrialized.

Dualistic Economy:

Japan is described as a perfect example of having a dual economy. Japan has developed in a way that distinguishes between the traditional sector and the modern sector and incorporates dual economic characteristics. The traditional sector refers to agriculture, which dominated the economy during the first 20 years of the Meiji era. The Meiji government avoided large-scale foreign capital flows due to growing concerns about the colonization of Western nations.

The transfer of funding from the rural and agricultural sectors to the modern sector in urban areas was institutionalized by the land tax reform of 1873. Using surpluses from the agricultural sector, the government has shown a strong initiative to import modern technology (1999,a). This was the government's only viable source of income, the government taxed heavy industry, and the zaibatsu at this early stage of development would have been counter-productive for the whole economy.

Role of The State:

In the first fifteen years of the Meiji period, the government worked at developing both social and industrial infrastructure. The government invested heavily in public works such as railways, shipping, communication, ports, lighthouses, and etc. The Meiji leaders also invested a high percentage of national revenue in importing Western technology and expertise in setting up modern factories. Most state-owned enterprises were commercially unsuccessful, but they had strong demonstration effects on emerging Japanese entrepreneurs. These factories also trained a large number of Japanese engineers who later worked in or established other factories. Subsequently, these SOEs were privatized except those producing military goods. However, many of the previously loss-making SOEs were restored to profitability through restructuring and new investment by the new owner.

There was an increase in steamships use and construction in Japan. The Meiji government gave its encouragement, and heavily subsidized ship building companies that laid the foundation for the tremendous growth of domestic and foreign shipping in Japan and railway building. A railway was built between Tokyo and a port in Yokohama in 1872. The state continued to promote railways and most of the earlier ones were constructed either by the state or by government aided

companies. Telegraph lines were built by the state and in 1886 the telegraph and postal services were united.

Role of Zaibatsu:

The four main zaibatsu were Mitsui, Mitsubishi, Sumitomo, and Yasuda, but there were many smaller concerns as well. All of them developed after the Meiji Restoration (1868), at which time the government began encouraging economic growth. The Mitsui combine, for example, owned or had large investments in companies engaged in banking, foreign trade, mining, insurance, textiles, sugar, food processing, machinery, and many other fields as well. All zaibatsu owned banks, which they used as a means for mobilizing capital. The zaibatsu had grown large before 1900, but their most rapid growth occurred in the 20th century, particularly during World War I, when Japan's limited engagement in the war gave it great industrial and commercial advantages. From the 1870s and 1880s the Osaka arsenal produced steam engines, lathes, wood planes, grinding machines, gears etc. For private firms. The average growth rate for the private sector between 1908 and 1938 was 6.71% with labour productivity growing by 4.4%. More than half of this productivity was due to technological progress. One of the most important task of zaibatsu was production of military goods.

Import Substitution and Export Expansion:

Dramatic changes have taken place as the cotton industry succeeded in import substitution. In the early Meiji era, finished products (clothes) were imported. After that, imports moved to intermediate input (cotton thread) and then to raw materials (raw cotton). Domestic production is shifting from spinning to weaving and from low quality to high quality products. Initially, the United Kingdom was a major exporter of finished textiles and machinery to Japan. However, over time, Japan has effectively increased its competitiveness against British textiles and pushed it out of the Asian market. The rise of the Japanese cotton industry has forced India from an exporter of cotton products to an exporter of raw cotton (2005,c).

Importance of Yokohama Merchants:

Since foreigners were trapped in and around the designated foreign settlement, it was not possible to build a unique distribution network in Japan. As a result, they had to rely on Japanese merchants to procure silk and tea for export and sell British clothing to local markets. The Japanese merchants who played this role were often new people who had nothing to do with the great merchants of the Edo period. It was called a Yokohama merchant who was doing business directly with foreigners, but there were other new merchants as well. Famous silk-producing regions such as Nagano, Yamanashi, Gunma and the Tohoku region played an important role in the reorganization of these producers (2005c). Meiji merchants made huge profits. The rapid and spontaneous emergence of the productive merchant class was a unique feature of Japan not necessarily found in other countries.

Role of MITI:

The role of the Ministry of International Trade and Industry was the most powerful force behind Japan's success after World War II. The ministry's approach was to provide encouragement and guidance to private sector initiatives. This industrial policy was often adopted as a means of coordinating production and

private investment. The main goals the Ministry of International Trade and Industry focused on for growth were the steel, shipbuilding, chemical and machinery industries (1999,b). It is believed that these industries have large and rapidly growing global markets, and expanding these industries is the key to entering the international market and helping the economy grow rapidly.

The Yen Carry Trade:

Yen carry trades are the result of low interest rates in Japan. During the high-growth period, the deposit rate is almost low. The low interest rate policy combined high savings with high investment and helped economic growth through low fiscal interest rates and low interest rates on private companies. Investors borrow money at low prices and invest in high-value currency-denominated assets such as the US dollar (Emadeo, Kelly, 2021). Demand for the yen remains higher than central banks want, reducing exports and preventing inflation. Therefore, it maintained a stable fiscal order.

Capital from Domestic Funds:

The contribution of foreign savings to industrialization in the Meiji era was relatively small. Almost all of the necessary funding was raised domestically. From restoration to the end of the century, only two foreign loans were contracted. First, in 1870, it provided London with a 9% loan of £ 1,000,000 to support the construction of the first railroad from Yokohama to Tokyo. The second was a 7% interest rate loan of £ 2.4 million in 1873 aimed at helping the government meet the cash demand for pension commutation and capitalization (Norman, 1940). Meiji Japan did not welcome foreign lending for FDI or industrialization, except for the Japanese. As mentioned above, sector borrowing for the purpose of post-war execution and management in the late Meiji era. Initially, the government, in principle, refused external debt for fear of foreign control.

Japan's Vulnerability to US Market:

The Japanese economy is at risk of fluctuations within the yen / dollar charge for many reasons. First, not like the Euro area in Europe and also the dollar space within the us, the yen is that the solely floater as a result of there's no yen space in Asia. Second, most and just about all Japanese trade is completed in dollars. Third, Japan, the largest creditor, has concentrated on US government bills and bonds, accumulating large amounts of unhedged dollar assets that depreciate each time the dollar depreciates. Fourth, Japanese industry shows relatively low exchange pass-through (the degree of reaction of domestic prices to exchange fluctuations), and its products contain relatively high domestic added value (2005,c). As the yen strengthens, the cost of yen denominated increases proportionally, and competitiveness is lost.

Lessons Learned from Japanese Economy

Least Amount of Foreign Capital:

As the Japanese economy developed, it remained purely Japan, and companies under foreign control were always at the limit. Foreign engineers and specialists were employed by Japanese companies and governments and were clearly excluded from any position or control. Soon they were replaced by Japanese employees.

Other developing countries should keep this in mind, as Japan has learned from the unpleasant experiences of Egypt and Turkey so it has not received too many foreign loans. They depend on domestic resources and need to use them carefully. Countries like India and Bangladesh have a lot of carefully available natural resources and talents.

Saving Activities from Agricultural Finance:

The first half of the Meiji era included funding mechanisms in addition to national banks, private banks, and specific banks-like companies. Such financing covered both industry and commerce. It can be said that this funding organization led the National Bank in mobilizing savings. But in a country like India, farmers and their savings tend to get gold, jewelry and ornaments. In India, investments in financial assets often take the form of cash rather than bank deposits.

The Bank of Japan's Interest Rate Mistake:

It is generally accepted that the Bank of Japan (BoJ), the central bank of Japan, has made some mistakes, which may have added and prolonged the negative effects of the bursting of the equity and real estate bubble. For example, monetary policy was "Stop and Go" (Nielsen, 2022). The Bank of Japan put a brake on the money supply in the late 1980s, worried about inflation and asset prices. Since then, the Bank of Japan has continued to raise interest rates amid falling stock prices, fearing rising real estate prices.

Rising interest rates helped end the rise in land prices, but they also helped the economy as a whole fall into a downward spiral. In 1991, as stock prices and land prices fell, the Bank of Japan changed direction dramatically and began to cut interest rates. However, the liquidity trap had already been set, and the credit crunch had begun.

Stable population:

There were probably many reasons why Japan was successful in modernizing but one of them was the stable population. It can be seen that the rate of population increase was low for the early period, and the ratio of development population in the age structure of population was low. Also, there was a modern labour force of good quality with the level of education were rapidly rising; and even an extremely dense population did not prevent the modernization.

As an economic society develops step by step the population increase rate also shows a change. This was the type of balanced development which some advanced countries like Japan experienced, on the other hand there were also some southeast Asian countries which experienced imbalance. Due to the abundant reserve labour force inherited from feudal society and successful capitalism the surplus labour were successfully utilized in the modernization.

Conclusion

During the deep discussion of the Japanese economy, various aspects can be noticed. Japan is a country that constantly surprises the world with its achievements. From the adaptation of Western technology to the creation of unique technology, Japan has done so far. However, it is not true that Japan always enjoyed happy paintings. There were times and situations when they suffered. Other countries have much to

learn from Japan, but they still face serious socio-economic problems such as depopulation, declining birth rate and death from overwork. We want to see what the next step in Japan is and hope they can find a better solution in the future.

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