

RECENT DEVELOPMENT OF JAPANESE ECONOMY AND ITS IMPACT ON JAPANESE SOCIETY

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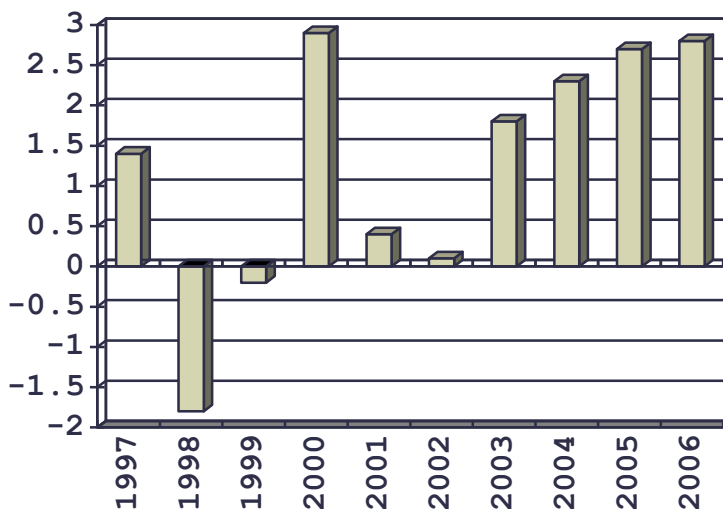
Abstract

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The Recovery of Japanese economy

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Figure-1 Japan's Economic Growth Rate



Source: Cabinet Office, Government of Japan

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Before we discuss recent changes of Japanese economy, it seems to be useful to overview the Japanese economy in the world. Table-1 illustrates three poles of the world economy, EU27, the U.S. and Japan. According to the table, Japan has its GDP as much as 4.6 trillion dollars, while EU27 as a whole has approximately 13.6 trillion dollars. Meanwhile, taking their populations into account, Japan's per capita GDP totals some 36 thousand dollars, which is below that of the U.S. but significantly above that of the EU average. Therefore, we can say, from this table, Japan is clearly a developed country and it has a significant share in the world economy in terms of, at least, GDP.

Table-1 Basic Figures of the EU, U.S. and Japan (2005)

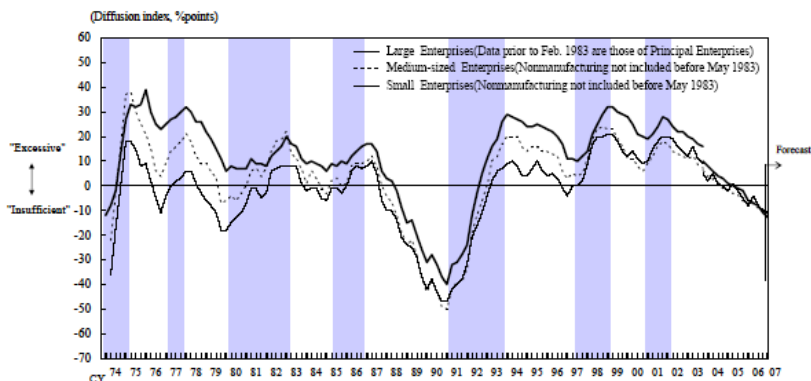
	EU27	U.S.	Japan	China
GDP (bil. \$)	13,628	12,456	4,567	2,234
Population (mil.)	490	297	128	1,308
per capita GDP(\$)	27,812	41,939	35,757	1,709

Source: International Monetary Fund

We can summarize the reasons for the recent significant improvements of the Japanese economy as follows. The first is the progress of the restructuring of private sectors, by reducing employments, production capacities and accumulated debts, thereby cutting average "breakeven points" remarkably. Amongst all, most striking restructuring measure is the reduction of employment; by giving incentives for early retirements, refraining new recruitments of young people and replacing regular to non-regular workers. In fact, in the past five years, the number of regular workers decreased by some 3 million, while non-regular workers, like part-timers, have creased by 4 million.

Figure-2 illustrates judgements by industries on the employment conditions, surveyed by the Bank of Japan. By the Figure, we can understand that Japanese industries had suffered over-employment during the 1990s. However, since the turnaround the 21st century, over-employment has wiped out and currently, they are suffering from even shortage of the workforce.

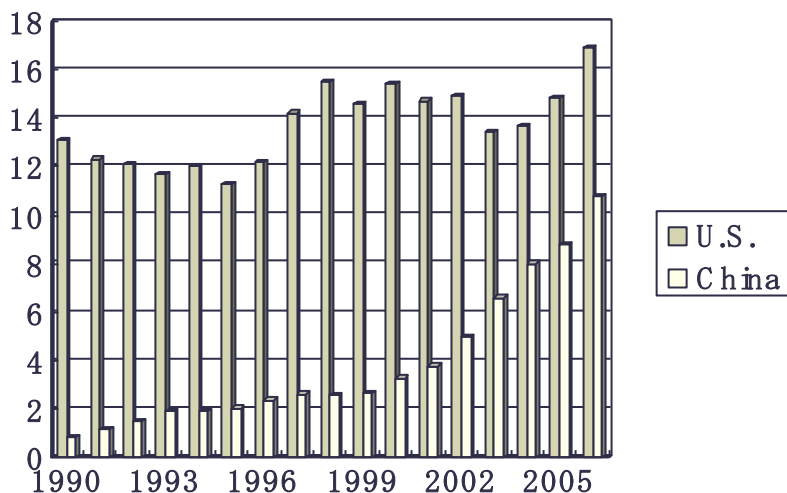
Figure-2 Employment Condition(All Industries)



Source: Bank of Japan

The second reason for the recovery is the significant increase in exports to the U.S. and China, reflecting booms in these countries, as is shown by Figure-3. The third is reviewing Asian production strategies of Japanese manufactures, by maintaining R&D centres and high value-added production processes in Japan, while deploying low value added processes in other part of Asia with relatively low level wages. As a result of it, R&D investments in Japan have increased significantly.

Figure-3 Japan's exports to the U.S. and China
(Trillion Yen)



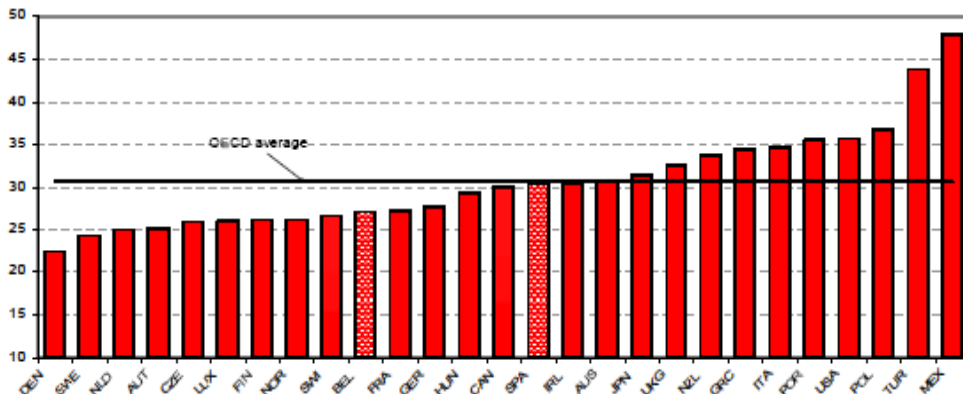
Source: Ministry of Finance, Government of Japan

Challenges of the Japanese economy

Although Japanese economy is in a recovery process, it faces the following important challenges. The first one is the rising income disparity. As a result of the above-mentioned restructuring measures of employments, to replace regular to non-regular workers, nation-wide income gap has increased. According to the OECD, Japan's Gini coefficient, an indicator of income gap, is fourth, followed by the U.S., Italy and U.K among major OECD nations.

The second challenge is Japan's rapid demographic change, caused by its low birth rate and long life expectancy. On the other hand, even in a favourable business cycle, Japan's budgetary deficit is still serious. According to European Commission, the ratio of deficit to GDP is predicted to be 5% in Japan. Under such an environment, people are cautious in the sustainability of Japan's pension system, thus restraining its private consumption, which could reduce growth potentials. It is, therefore, reasonably predicted that the medium-term economic growth of Japan should be somewhere between 1.5% and at most 2%.

Figure4 Gini Coefficients of OECD countries



◆ Source: OECD(2005), *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s*

Table-2

Age Structure of Population by Country

Country	2005*						2030 (projection)		
	2005*			2030 (projection)					
	0-14 years	15-64	65 and over	0-14 years	15-64	65 and over	0-14 years	15-64	65 and over
Japan	13.6	65.3	21.0	11.3	59.2	29.6			
Italy	14.0	66.0	20.0	11.9	59.0	29.1			
Germany	14.3	66.9	18.8	14.0	59.5	26.6			
Switzerland	16.5	67.6	16.0	14.9	58.7	26.3			
France	18.2	65.2	16.6	16.1	59.6	24.2			
Korea, Rep. of	18.6	72.0	9.4	12.7	63.9	23.4			
Canada	17.6	69.3	13.1	15.6	61.1	23.3			
Sweden	17.5	65.3	17.2	17.0	59.9	23.1			
U.K.	17.9	66.1	16.0	17.3	61.3	21.4			
Australia	19.6	67.7	12.7	17.4	62.0	20.6			
U.S.A.	20.8	66.9	12.3	18.1	62.6	19.2			
China	21.4	71.0	7.6	16.9	66.8	16.3			
Brazil	27.9	66.0	6.1	20.9	66.6	12.5			
India	32.1	62.7	5.3	22.6	68.1	9.3			

Source: Statistics Bureau, MIC; United Nations; Ministry of Health, Labour and Welfare.

European economy also is facing very similar challenges; rising income gap under globalisation and rapidly changing demographic structure. Therefore, it should be useful that Europe and Japan could exchange their experiences and how to tackle with them.