

CHAPTER III

THE DYNAMICS OF THE JAPAN'S ECONOMY

In this chapter, the author breaks down the explanation into three parts. First, the author begins to explain bilateral relations between Indonesia and the Philippines. SecoJapan is a developed country located in the East Asia region. Japan is one of the most prosperous countries in developing the economy. Japan's economic is one of the most advanced economies in Asia because the Japanese government chose the economy as one of the essential factors in their country's economy today. Japan itself is very influential on economic changes in East Asia because it is an example of countries in Asia because of Japan is the source of some imported exports, agriculture, and transportation, Japan's GDP becomes the second highest of several countries in the world. From the export-import sector, for example, manufacturing industry, it is a crucial component in contributing to state income because the pattern run by this country is that Japanese companies will import raw materials from other countries and process them until they become finished goods and export them to other countries. In the agricultural sector because of the small amount of land, Japan only relies on rice as the main product and in terms of Japanese transportation, it is a developed country that has the most advanced transportation such as Shikansen.

Japan has been nominated as one of the countries with the highest economic growth rate in Asia after China. Therefore, Japan got the nickname of "Asian Miracle" when Japan succeeded in achieving extraordinary economic growth. Japan's ability to rise from adversity and take the stability of its country after defeated in the world war and in a short time Japan could improve its economy. The success of the Japanese economy was the role of the government which formulated

and implemented Japanese economic and industrial policies, namely the full application of capitalism under Japanese democracy. Japan's economic growth has received support and influence in the industry sector, especially the automotive and electronic sectors because Japan has become the largest automotive producer country and electronic goods as well as a country that holds the title of the most innovative country in the world (World Intellectual Property Organization, 2013). In this chapter, the author breaks down the explanation into three parts. First, the author begins to explain Japan economy after the world war. Second, the bubble economy of Japan and the last part is the revitalization of Japan.

A. Bombing Two Major cities of Japan

After the bombs were dropped in two major Japanese cities and made Japan's economy in the worst condition, many important infrastructures in Japan were destroyed. This incident besides making cities destroyed also caused millions of deep wounds for Japan because millions of lives were lost and hundreds of thousands of people in severe injuries and lost their materials. Furthermore, Japan also faced numerous problem after defeated, such as unemployment. More than four million people were to go jobless. Also, 1.5 millions were forced to return to Japan from abroad, and in total, approximately 13.1 million people were unemployed. However, large-scale unemployment in Japan never actually took place. The cause was military forces of Japan was banned, more than 7.6 million troops and cessation of military production (Masahiro, 1997).

Japan after losing in World War II was under the leadership of the United States for less than seven years. Japan must surrender and must be occupied by allied troops. Besides that, the demilitarization and democratization of the US were a policy to carry out economic development. Japan then was integrated into the world economy, and its economic viability was guaranteed through free trade. So Japan focused its

attention on industrial and economic development. The United States provided guarantees in the field of security and military with the aim of Japan to minimize the defense budget. Besides, the United States gave a direct injection of funds to help the Japanese economy. In addition to obtaining an injection of funds, Japan also received a substantial capital during the Korean war because Japan became the country providing goods needed by the US (Sadahiro, 1991).

Furthermore, the United States helped Japan in supporting exports because at that time several countries were closing their industries from Japanese imports. The United States also implemented trade control in Japan by allowing technology transfer but also screened imported products and foreign investments that could endanger the domestic stock market and in the development of US-friendly businesses that supported all these developments (Michael B., Yusaku H., and Jennifer M., 2015). Japan is an industrial country that can be said to be in line with developed countries in a short time.

To recover its economy, Japan had implemented several policies to help improve their economies such as the Anti-inflation Policy and the Dodge Stabilization Policy. In Anti-Inflation policy, Japan wanted to change the old yen to "new Yen," if the money exceeded more than 100 yen it should be deposited or temporarily blocked, and if the wages were paid more than 500 yen per month they should be deposited and blocked. Whereas, in the Dodge Stability Policy the first was the principle of the balanced budget. The second is setting the single fixed foreign exchange rate. Third, the government shifted to the complicated policy scheme based on a market mechanism and stop the direct controlled policy scheme (Sadahiro, 1991). In the 1950s the Japanese economy increased rapidly. The growth rate reached approximately 10 percent (Suherman, 2012). In that year, Japan's major industrial products were still textile, chemical fertilizer, merchandise ship, radio, and others. Japan to compete with foreign market price

only sell goods such as textile products, cotton, artificial silk, and light machines.

Furthermore, the Yoshida doctrine also help Japan in terms of economic growth, which focused economic and political recovery. Renewal which covered the development of economic and defense sectors at a minimum level. Which the focus of Yoshida doctrine are, first is there are no service in production which eventually hamper Japan's normal export can be furnished. Second, financial and economy as furnished on service. Third, the furnishing of any services should no entail any foreign exchange burden upon Japan. Fourth, the supply of latitude in any type of services desired should be conduct. (Teguh P., et al, 2015). Yoshida doctrine was also implemented in industrial development according to the global market and peaceful foreign policy. Japan is a truly prosperous country from the results of progress in the economic field. Japan choose the technological as its economic growth, because of the improvements in technologies cause the growth of many other industries. Japan can improve and utilize technologies and use imported technology from foreign countries. Japan had created new technology, such as the low-cost mass production systems, by combining numerous technologies imported from abroad. The most important point to recognize Japan's import of technology was that it was translated into industrial-strength only because it was combined with domestic.

B. Japan Bubble Economy

After Japan succeeded in reviving its economy after WW II, Japan is known as the economic superpower. Post-WW II Japan experienced rapid economic development. However Japan's economic success did not last long, Japan had to face an economic bubble caused by an increase in the Japanese economy which made land and property prices multiply due to the increase in the level of public consumption of goods. The bubble is related to associated with dramatic asset process increase followed by a collapse. Bubble emerges because the

price exceeds the asset's fundamental value. Bubble economy arises if the investor holds the asset because they believe that they can sell it at a higher price than some other investor even though the asset's price exceeds its the fundamental value (Brunnermeier, 2008). Fundamental value is the expected value of all shareholders based on shares where are generated through assets as long as they are used, which means assets are in the form of residential property which is a claim for future payment flows. Bubble economy is an economic cycle characterized by rapid growth and followed by shrinkage. An increase in property prices marks the bubble economy, the stock price goes well beyond the fundamental conditions, and if this economy will continue, resulting in the stock price continuing to rise until at the end of the bubble.

The Bubble economy could emerge because several things, one of them is when high trading volume and high price volatility. It is developing of model asset bubbles and makes asset buyer willing to pay the price above fundamentals because besides the asset, the buyer obtains an option to sell the asset to other traders with more optimistic beliefs about its future value. On the other hand, the cause of the economic bubble included the first inflow of capital to buy mortgages, namely the expectation of high return, which resulted in high financing offers. The second is the low mortgage interest rate which causes high mortgage demand where high loan demand results in increases in goods. The third reduction in standard requirements for mortgage recipients is Adjustable Rate Mortgage so that they are increasingly able to pay installments and provide a return more significant than the cost of interest. The fourth decline in the standard requirements for mortgage recipients. The fifth is increasingly challenging to determine the individual risk of a mortgage, and the recent decline in the stock market because investors are looking for a new place of investment in assets that provide high returns and low risk (Utama, 2019).

Japan had experienced an economic slowdown in the 1990s due to several factors including the first "credit crunch" where a sharp curtailment of bank lending and the increased risk because of the subsequent decline in assets such as land and equity prices. Second, the introduction of the Basel guidelines for capital adequacy after a further curtailment of bank lending to the untimely. Third, government actions are aimed at resolving the financial crisis and the non-performing loan problem. Fourth, aggregate demand cannot fulfill due in large part to the inadequacy of monetary and fiscal stimuli fifth, prospects as well as increased volatility. Moreover, the last investment in corporate plant and equipment and push the firm to curtail fixed investment sharply (Horioka, 2006). Japan is experiencing a state of bubble economy when increasing the consumption of Japanese people to goods causes asset prices to increase indefinitely. Rising asset prices first occurred in the 1990s where prices of all assets rose dramatically, especially land prices rose to double and reached the highest price ever. There are several causes of the bubbles economy in Japan, such as macro mismanagement, belief base of the entire post-war experiences, and prices would never decline for any sustained period, so real estate was excellent collateral, bank, and related non-bank financial intermediaries, with ample, even excess, funds rushing into the financing of urban land and real estate project. Finally, this process creating a high degree of speculative excess in both real estate and stock markets (Patrick, 1998).

The bubble economy that occurred between the 1980s and 1990s resulted in Japan having to end its good economic period due to the high level of consumption and finally the emergence of inflation (Yoshiyuki, 2006). Rising stock prices and real estate mark the bubble economy that occurs in Japan. Until the end of the bubble economy broke out, the decline in stock and real estate prices from the very high before dropped dramatically and was very low, which resulted in the growth of the Japanese economy experiencing stagnancy. Besides, Japan's

GDP at that time experienced a drastic decline which reached its lowest point, since 1991 after the economic bubble where Japanese GDP fell from 5.6 percent to 2.4 percent and 0.5 percent the following year and the lowest point touched -0, 7 in 1999 (Horioka, 2006). Japan has been mired in two decades of stagnancy. Japan's economy has worsened during stagnation as well as a dissertation with a long deflation in 15 years.

Besides causing a decline in GDP, the bubble economy eruption also resulted in many companies for reducing employment. The economy bubble causes the stock price to increase beyond the condition of the company's fundamentals. Furthermore, falling property values and weak economic growth made Japanese companies suffer losses. The company suffered many losses and dismissed its employees by starting to reduce permanent employees and prefer to train temporary workers and part-time workers. Furthermore, this makes the unemployment rate in Japan increased, and the unemployment rate was inseparable from the economy of a country. Then automatically when a recession occurs in a country, the economy in a company will also experience an impact, either directly or indirectly. Also, explaining, if the wage rate decreases, the income will decline as well as the people's purchasing power. It makes the production capacity not absorbed maximally and makes the company lose, and then there are many terminations of employment and unemployment will also increase (Stewart, 1993).

The expulsion of the bubble economy in addition to making the economy decline also led to new problems where many employees were fired by companies that went bankrupt. Bubble economy makes problems in society due to the low salary earned because the company reduces the salary given to its workers. Coupled with the economic crisis that hit Japan, Japanese people to work harder and find jobs that match their abilities and interests.

C. Revitalization of Japan

The factor behind the rise of the Japanese economy is the role of the government in formulating and implementing economic and industrial policies in Japan. Japan implements massive industrialization policies that give rise to companies working together in terms of business and share ownership. The Japanese government is rapidly engaged in investment by developing infrastructures such as road construction, high-speed trains, subways, airports, port facilities, and dams. The government also expands investment in the communication sector and leads to trade liberalization. By implementing division allocations to stimulate the economy and promote exports, manage investment and monitor production capacity and practice dumping (Wang, 1997).

Japan also carried out revitalization with the U.S. in Japan's trade sector by multilateral free trade with NAFTA. Besides that, Japan and The United States joined the Comprehensive Economic, Energy and Security Agreement (CEESA). Japan has high energy security requirements for capital investment on the other hand U.S in developing too much natural gas and also lack of capital for infrastructure investment. CEESA's established objectives are:

1. Japan negotiates FTAs with members of NAFTA to creating a partnership with them. Japan would be allowed unfettered access to North American energy and would be well positioned to take advantage of North American infrastructure and strategic energy investment opportunities.
2. The United States pledges to safeguard the flow of LNG and other forms of strategic energy for export to Japan as part of the U.S.-Japan security alliance.
3. Japan promises to did invest around \$100 billion to \$200 billion in North America with the purpose to boost development of energy options, including natural gas, oil, coal, wind, solar, and nuclear over

the next decade (Richard L. A and Joseph S. N., 2012).

Furthermore, at the beginning of the second period of his government in late 2012, Japanese PM Shinzo Abe was determined to build Japan through a large framework of development policies and increased economic growth called "Abenomics". Abenomics was formed as a way to revitalize economic stagnation in Japan. The policy aims to address Japan's economic problems due to the global crisis such as slowing economic growth, increased unemployment, disruption of exports and imports. To overcome deflation Abenomics is first, logically reducing the value of money in cash by increasing the money supply. Second, increase the value of goods and services and the people who produce them by buying goods and services temporarily. Third, increase the value of goods, services, and people in a sustainable manner by finding new ways that are better at utilizing them. Furthermore, the abe's economy program consists of three directions: (i) expansive Monetary Policy, (ii) expansionary fiscal policy, and (iii) structural reform (Hausman, 2015).

Through three directions, Prime Minister Shinzo Abe aims to increase domestic demand and GDP growth followed by an increase in inflation to 2 percent. Abe's structural policy aims to improve the country's prospects with high competition, reform the labor market, expand trade partnerships and also hope to revitalize the Japanese economy.

1. Monetary Policy

In this policy, Shinzo Abe and the Bank of Japan (BoJ) are committed to easing business regulations and increasing government assistance to Japanese industries to overcome deflation and revive. this was done when the BoJ set an inflation target of 2 percent to reverse consumer expectations for prolonged deflation and encourage consumers to increase

consumption. in addition, high inflation expectations will also increase nominal taxes as government revenues and reduce the growth of government debt and reduce the increase in government debt (Adachi, 2014).

Monetary policy focuses on expansion and aggressive monetary easing. after the BoJ set a 2 percent inflation target which the BoJ expects to expand and aggressive monetary easing so that the target will be reached soon. The BoJ does this by buying long-term government bonds and increasing the monetary base in contrast to previous efforts. through changes in policies related to asset maturity restrictions that have been focused on efforts to increase the average maturity of assets held by the BoJ from three years to seven years while the maximum maturity of government bond purchases is 40 years (Harjani, 2013). The change is intended to flatten the time period of interest rates at the end of a long time. so investors will be compelled to buy high-balance assets to seek even higher profits.

Furthermore, Shinzo Abe also hopes that monetary coverage will affect the Yen with the decline in the Yen exchange rate, which will give a big boost to Japanese exports. This expectation is supported by the situation of the Yen which has fallen against the US dollar since 2013 (Nezu, 2013). on the other hand, in order to avoid the emergence of international accusations related to the intentional direct currency devaluation, the BoJ seeks to reduce foreign asset purchases. Thus, it can be known that the core of Abenomics monetary policy is information that reaches the 2 percent target, the open-close asset purchases to weaken the Yen and increase the monetary base twice as well as reduce real estate.

2. Fiscal Policy

This policy is expansionary, namely that fiscal policy carried out through increasing or decreasing government expenditure on tax revenues involves a short-term fiscal

stimulus that aims to revive economic growth as soon as possible through increasing consumption and investment in the public sector. Fiscal stimulus began in the year by carrying out an economic recovery totaling 20.2 trillion yen (\$ 210 billion) of which 10.3 trillion (\$ 116 billion) was direct government spending (J. McBride and Beina Xu, 2018). There focus from this policy are:

- A. Additional funds for reconstructing the 2011 earthquake and disaster prevention measures such as strengthening infrastructure (37% of the total)
- B. Encouraging business investment and steps to help small businesses (30%)
- C. and social and money expenditure "regional revitalization" (30%).

Furthermore, the government has agreed to implement a previously approved tax increase of 5% to 8% in April 2014 aimed at reducing the deficit. with a tax increase it will provide an additional income of around 8 billion Yen per year. Prime Minister Shinzo Abe announced an economic stimulus package worth around 5 trillion yen, including spending on public works for preparation for the 2020 Olympics in Tokyo because with company tax deductions and tax breaks could be aimed at promoting private sector investment (Harari, 2013). Thus, fiscal policies aimed at eliminating fiscal deficits and reducing budget deficits through several programs such as increased consumption tax and increased state expenditure budgets.

3. Reformation Structural

The reforms in question are the government's efforts in carrying out the growth strategy and revision of the revitalization strategy announced in 2014 where there are diverse and quality policies to support long-term structural reforms and have been packaged into 3 ways. first, developing human resources by increasing women's participation in the

workforce, changing the style of the company and slightly increasing the number of foreign workers. Second, the productivity of productivity by cutting corporate taxes, good corporate governance, restructuring and promotional innovations related to pension fund management and other funds that are of concern to the government. third, to reform and measure large industries, especially agriculture and health and help SMEs as well as local and regional economies (Patrick, 2013). Thus structural reform policies can be classified as agriculture reform, energy reform, taxation, cool Japan, workers and womanomics.

A. Agricultural and TPP Partnership

Shinzo Abe has high expectations of Japanese agriculture where Abe placed agriculture as the center of Japanese economic policy because it is considered one of the most promising industries. In his speech, Abe asked his country's parliaments to approve the most dramatic reforms since the end of WW II with a focus on reforming sectors such as agriculture. Abe wanted to simultaneously reform on agriculture with the aim of increasing competitiveness, efficiency and income of farmers (BRIDGES, 2015). Furthermore, the government has plans to implement its growth strategy by developing export strategies for each country and foodstuffs through supporting agricultural dimensions where farmers not only produce agricultural commodities but also process and market their products. On the other hand, farmers are also involved in agro tourism and establishing new public bodies at the prefecture level. Through by making the agricultural sector more competitive so that Japan can be involved in negotiations in the context of the TPP agreement on agriculture (Mulgan, 2013). Therefore, agricultural reform is very important as a way to complete TPP membership. By lobbying the agreement and avoiding high tariffs and taking other protective measures.

B. Energy Reforms

In this policy, after there was a lot of agonizing such as in Kyushu Electric carrying a nuclear reactor, it returned to function after the earthquake and tsunami which caused 42 Japanese nuclear power plants to be deactivated. Furthermore, Abe fulfills its goal of full liberalization of the Japanese electricity market in 2016 and there are already indications that it will reduce some of the highest consumer energy bills (Robin H., and Leo L. , 2015).

C. Worker and Womanomics

Shinzo Abe stated that encouraging women so that they could participate more in Japan's economic reforms as domestic workers where woman can be more active in the development economy in Japan. Women's participation is considered a crucial component and one of the Abenomics development strategy policies. Furthermore, with the increase in women's participation as workers, the main focus is because Abe believes that overcoming the obstacles experienced can provide a solution to the problem of labor depreciation in Japan. Through encouraging maximum participation of women, Abe is believed to be able to increase the growth rate of gross domestic product assets by 12-15 percent and increase the number of workers in the country by around 8 million people (Magnay, 2013). Shinzo Abe's government set various objectives through the Abenomics policy framework by attempting to empower women in the Japanese development process, by increasing the number of female workers and having children to return to work in 2020 by 55 percent (Song, 2015).

D. Tax Reform

In 2011 the tax on companies was 40 percent and in 2012 Japanese corporate taxes were 38 percent after Abe lowered the company's tax rate. further in 2014 the tax decreased to 35 percent and Shinzo Abe would deduct corporate tax deductions to reach a 20 percent target (Abas, 2018). Japanese government had efforts to reduce taxes on domestic companies and foreign

companies in Japan in which Japan is one of the countries with the highest corporate tax rates. Regarding the Japanese government taxes on income is for domestic companies including foreign branches. While foreign companies operating in Japan is responsible for only income tax originating from domestic Japan.

Japan has been faced several dynamic economic. Japan rise from several economic crisis like, when two of Japan's core cities were bombed and caused tremendous destruction. The effect of the destruction of the core cities made Japan's economy destroyed but only a few moments until finally the Japanese economy rise again. After that, Japan get experienced a bubble economy phase where asset prices were more expensive than fundamental prices. Bubble economy also made in falling property values and weak economic growth made Japanese companies suffer loss. Furthermore, Japan has passed a revitalized period where Japan implements massive investment policies that work together in terms of business and share ownership. Besides that, PM Shinzo Abe also launched the "Abenomics" program which consists of three directions they are: Expansive Monetary Policy, expansionary fiscal policy, and structural reform.