



## EU Japan Economic Relations Lecture No.5

– Japan and its Changing Views of Europe (2) –

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Autumn term, 2006

## Review of Lecture No.4

- Japan's efforts at financial cooperation in Asia in response to the the financial crisis may not have been very visible in the eyes of Europeans initially.
- The share of trade between ASEAN and the EU has been stable, while that of FDI from the EU to ASEAN increased after the Asian financial crisis.
- AXA made good use of the chance opened by the Japanese Big Bang to enter the Japanese market. They owe their success to their own financial techniques and the merger with a Japanese insurance company.

2

## Agenda for Lecture No.5

- The Japanese economy in the 1990s
- The changes in Japanese views of Europe in the 1990s  
(Chapter 3, pp. 48–63)
- Case study: Panasonic

3

## The Japanese economy in the 1990s (1)

- The Japanese economy went through a period of profound change in the 1990s. In fact, its performance can be best understood by looking at it as an economy in transition (undergoing systemic change).
- What happened:
  - The asset bubble: 1985 ~
  - The bubble burst: 1991
  - Recessionary period: 1991 ~ 2002  
the 'lost decade'
- All this while, Japan was undergoing profound changes in its system on all fronts, economic, political and social.

4

## The Japanese economy in the 1990s (2)

- Before the Bubble, words that characterised Japan's system were insularity, protection and mutual reliance.
- During the 'lost decade', these characteristics gradually receded
  - more openness, more independence.
- The changes are still taking place, within the broader context of globalisation.

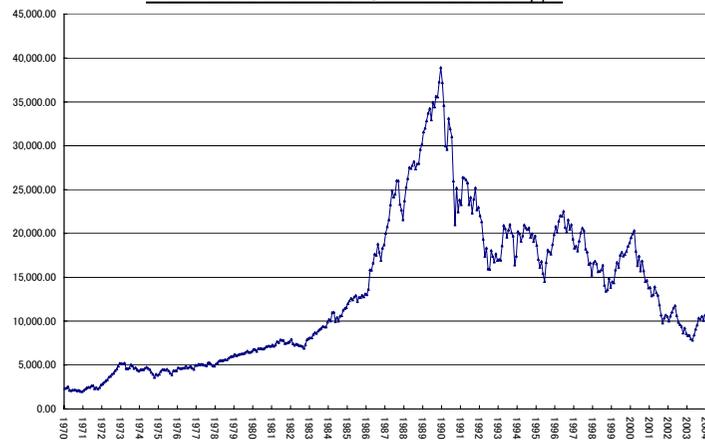
5

## The Japanese economy in the 1990s (3)

- Why did Japan have the asset bubble?
  - Plaza accord, strengthening yen,
  - Promise to reduce the current account surplus/GDP ratio
  - BOJ lowered the official discount rate five times between Jan 1986 and Feb 1987
- What happened during the bubble years?
  - Over-investment by firms
  - Explosion of reckless lending by banks based on the 'collateral principle'

6

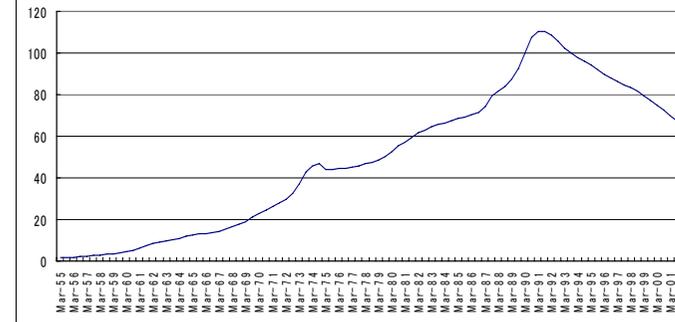
The 225 Nikkei Stock Average



Source: Bank of Japan

7

Japan's Land Price Index (Mar-90=100)  
(Average of land for all purposes)



Source: Japan Real Estate Institute

8

#### The Japanese economy in the 1990s (4)

- Cumulative effect of the burst of the Bubble:  
Draining of 1,000 thousand billion yen  
from the economy as a whole  
(OECD Economic Surveys Japan 1998, p.4)
- Banks ended up with huge amounts of bad debt,  
or Non-Performing Loans (NPLs)
- Financial intermediation, the heart of any  
economic system, went into a state of severe  
malfunction
  - slower or negative real growth
  - deflation
  - higher unemployment

9

#### The Japanese economy in the 1990s (5)

- How high was the stock of NPLs?  
Some estimated it to be as high as  
150 thousand billion yen at one point,  
According to the Bank of Japan, it was  
43.2 thousand billion yen at its peak (end FY2001)  
As of March 2006, it is down to  
13.4 thousand billion yen  
(Japan's Financial Services Agency)

<http://www.fsa.go.jp/en/regulated/npl/index.html>

10

#### The Japanese economy in the 1990s (6)

- The Bank of Japan
  - raised the discount rate  
from 2.5% to 6% between 1987 and 1991
  - kept the uncollateralized overnight call rate  
effectively at zero from April 1999 to July 2006  
except between August 2000 and April 2001  
(‘zero-interest rate policy’)
  - kept the target of private banks’ reserves at the  
BOJ at higher levels from Mar 2001 to Mar 2006,  
over 30 thousand billion yen during 2003-04  
(‘quantitative easing’)

11

#### The Japanese economy in the 1990s (7)

- Capital Injections  
As of Nov 2006, a total of 12,418.4 billion yen was  
injected into Japanese banks  
Of this amount, 8,222.0 billion yen has been repaid,  
making the outstanding balance 4,196.4 billion yen  
Source: Deposit Insurance Corporation <http://www.dic.go.jp/english/index.html>
- The Japanese financial sector was deregulated in  
the ‘Japanese Big Bang’
- Fiscal Expansion  
Cumulative amount of fiscal packages from 1992 to  
2004: 139,600 billion yen (OECD Japan 2004)
  - Government Deficit is 5.2% of GDP,  
Debt is 163.1% of GDP, in 2006

12

### Recent developments in the Japanese economy (1)

- Japan entered a phase of economic expansion in February of 2002
- The length of the recovery has become the longest in the Post WWII era, although the average real growth rate is only 2.3%
  - 11.3% for the Isanagi expansion 1965-70
  - 5.1% for the Bubble expansion 1986-1991
- Real GDP grew 0.5% from 1Q to 2Q 2006, an annual growth rate of 2.0%

13

### Recent developments in the Japanese economy (2)

- Unemployment is down from its peak of 5.4% (in 2002) to 4% in May 2006
- Investment was down 16.8% in 1Q of 2002, but was up 18.4% in 2Q of 2006
- Deflation has stopped
  - 2002: CPI -0.8%, PPI -0.6%
  - 2005: CPI +0.1%, PPI +2.1%

14

### Recent developments in the Japanese economy (3)

The remaining problems:

- Government deficit is 5.2% of GDP,  
Government debt is 163.1% of GDP, in 2006
- Pensions and Health Care  
The population pyramid is becoming a population pillar → Increase in  
the 'national burden' = total taxes + social security contributions as percentage of National Income (NI)

15

### Japan's view of Europe in the 1990s (1)

Factors that influence Japan's approach to Europe:

- Policies of the EU do not have the same political relevance as decisions in Washington, Beijing or Pyongyang, partly due to absence of contentious issues (p.53)
- (R)elatively few officials are involved in the formation of J policy towards Europe on a regular basis ... (but) there has been rivalry and conflict in particular between the Ministry of Foreign Affairs, the Ministry of International (now Economy) Trade and Industry and the Ministry of Finance (p.54)

16

## Japan's view of Europe in the 1990s (2)

Impact on Japan of the development of European Integration:

- The Japanese began to regard the EC increasingly as a coherent body
- The Community made attempts to construct and define a clearer strategy with regard to Japan
- March 1974: agreement to set up the EC Commission delegation in Tokyo

(p.59)

17

## Japan's view of Europe in the 1990s (3)

- (T)he Single European Act of 1986, the 1992 Maastricht Treaty and the Amsterdam Treaty of 1997 have convinced the Japanese of the inevitability of closer EU integration, especially with regard to monetary union.

However, there continues to be

- the problematic identity of the European bloc, which has yet to define a coherent foreign policy façade (Tanaka Toshiro, 'Euro-Japanese Political Co-operation: In Search for New Roles in International Politics', Keio Journal of Politics, 5 (1984) 81 )

(p.60)

18

## Japan's view of Europe in the 1990s (4)

- Japanese reactions to the Single European Act (SEA) ... caused the Japanese ... to become concerned more and more about the prospect of Europe turning into a protective 'fortress'  
→ many Japanese businesses reinforced their investments in Europe (p.61)
- by the early -1990s Japan had become involved in financial contributions towards the development of Central and Eastern European economies, while the EC (became) member of the KEDO (Korean Peninsula Energy Development Organization) (p.62)
- The Executive Board Members of KEDO (Japan, ROK, USA and EU) decided in May 2006 to terminate the Light Water Reactor Project

19

## Case Study: Panasonic

- Alliance with Phillips, the Dutch company, already in 1952
- Started operation in Hamburg in 1962, now 60% of sales made in Europe
- Many product lines, sales networks and R&D companies now under headquarters in the UK
- <http://panasonic.co.jp/global/>

20

## Conclusion

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- The Japanese economy went through a period of profound transition in the 1990s
- The changes are continuing, within the broader context of globalisation
- During the 1990s Japan increasingly saw Europe as a coherent unit, but Japanese policy towards the EU continues to rest upon an inchoate approach
- The European headquarters of Panasonic in the UK is important because of the large number of subsidiaries in Europe

21

## ASSIGNMENT

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Please choose one of three topics.

- (1) What are the roles of the European Commission and the European Council in deciding European policy?
- (2) How has the activity of the European Business Community changed over the years?  
<http://www.ebc-jp.com/index.htm>
- (3) How has the strategy of Japanese companies like YKK developed, coping with European integration and enlargement?

22

## Agenda for Lecture No. 6

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- European Integration  
the roles and activities of the main institutions of the EU
- The changing European views of Japan and the activities of the EBC  
(Chapter 4, pp. 64-74)
- Case study: YKK

23