

## Midterm essay

Everyone cannot deny the fact that Japan is one of the leaders in terms of the world economy and innovation. Many countries attempt to use the Japanese system as a role model. Japan has been improving its development thoughtfully since the Meiji era. The strong foundation always has been the reason behind the fact that why Japan's economy becoming this efficient and stable. 'Foundation' in this case includes all key factors, starting from industrialization, industrial organization, the role of government, and financing to smaller details like labor and cultural thoughts inside the firm. This essay will walk through all the processes of all key concepts and explain why each one has a significant impact on the Japanese economy nowadays.

Before we start discussing Japanese industrialization. We need to talk about earlier days in Japanese history, The Tokugawa era. During this period of time, Japan was a police-state system. Shogun or the general has the highest power in the state. Samurai still act like police and collect rice from farmers, which is the biggest part of the Japanese population at that time to trade for protection. There are still many rules in the state that cause inefficiencies, for instance, the spread of ideas inside the country needs to be limited to keep the stability and long-term peace in the country remains or the rule to prevent people who do not have a specific passport to travel across domains. Furthermore, there is national seclusion and the country is closed from foreign countries access. All of these regulations cause the country's economic stagnation and low productivity. The black ships incident is the starting point of the change. Western vessels threaten Japan to trade with them otherwise they will declare an attack. That's why Japan needs to rebuild its economy and regulations and that is the dawn of the Meiji restoration. The Tokugawa shogunate's reign has been ended and the power is back to the Emperor. The power has been centralized in the Meiji governments. Many systems in Japan have been modernized in this era. First is the infrastructure, which started from the improvement of railways, and postal systems, to the establishment of commercial shipping companies. Industries in Japan had been developed much more. Since the country was opened, not only foreign technologies started to be widespread in Japan, but also foreign advisors. This system helps a lot in Japanese industrialization. Japan asked Germany to start the foundation for

the organization of police. Furthermore, they asked European and American countries to educate them about agriculture, infrastructure, schools, universities, and industries. Japan believes that to be as equal to western countries, they have to develop the labor to have a much higher quality so they invested a lot in education. The ministry of education and many universities are constructed in the Meiji era. The development has been highly successful as well according to the recorded participation rate. Another spectacular achievement of the Meiji era is the renewal of the monetary policy. The postal saving system is highly successful at that time, many people prefer to save, and makes private savings in Japan became very large and very beneficial to the government. In the middle to late 19<sup>th</sup> century, agriculture remains very important since manufacturing is limited but by continuous effort industry finally overtakes agriculture in the 1920s. The result of these improvements enriches the nation and strengthen the army, making the Japanese army able to compete with the western in the second world war. Actually, not only industrialization is the reason why Japan is the leader in the world's economy, but their industrial organizations also are. They are very well-organized and powerful and I will explain in detail how the system has been developed and how the government takes part in the success of the country.

Japan was a developmental state, which means the state assumes a central role in mobilizing economic resources and initiating industrialization. The state takes control and is able to intervene in the market mechanism. In a state like this, the industry can grow limitlessly. The Japanese government believes in the network consensus model, which means that bureaucracy, policymakers, and business sectors all work as if they are the same unit. They will always talk and meet so that they will have the policy will be written to fully support Japan's economy. These 3 main actors will work together and not be open to outsiders. Still, external factors, like environmental organizations, labor unions, and foreign influences, can still support these 3 main actors. The newly established industry can ask for administrative guidance from the government through the Ministry of International Trade and Industry (MITI), causing a strong car, food, and engine industry. The industrial policy also fully supports the growth of the Japanese industry itself, for instance, exported-oriented policy and the allowance of cartels to create stability in the big firms. Although this system is attacked by the western critics for too much intervention from the government and supporting oligopoly, it works pretty

well in terms of results. The legacy of these regulations is that SMEs in Japan are struggling to put up a fight against big companies so most of the workers here are the employee of these firms.

The form of big companies is different pre-war and post-war. Before the second world war, these enterprises are called 'Zaibatsu'. These top companies are created by important business families. There is common agreement that there is just only big four Zaibatsu, including Mitsui, Mitsubishi, Yasuda, and Sumitomo. A zaibatsu was a complex of companies resting on a common ownership base and operated as a unit. A top holding company, the command center of the entire group, determined a unified direction for all subsidiaries and sub-subsidiaries. To manifest a clearer picture, Mitsubishi has more than 200 subsidiaries, including Mitsubishi shipping company, Mitsubishi planes company, Mitsubishi banking company, and much more Mitsubishi \_\_\_\_\_ companies. However, After the second world war, America takes control of Japan for several years and they tried to democratize the country. They think that the idea of Zaibatsu creates too much power for big companies and that oligopolized the market so these business conglomerates are dissolved by Americans. Zaibatsu now became 'Keiretsu', the smaller business group. These Keiretsu became the leaders in the nation's economy because they are so well-organized. They do kinds of stuff like cross-shareholding and vertical integration which grants them very high stability. Mitsubishi Keiretsu has many smaller subsidiaries like a shipping company, trading company, and banking company. These sub-companies will be the shareholder of each other at a small rate (3-4 percent) so that they can help each other when they have trouble financing and prevent hostile takeovers. Even though it causes problems like, too many failing companies can still breathe because they are protected and sometimes causes inefficiency, it makes the leading companies very high stability. This action is called horizontal integration or cross-shareholding. Keiretsu often do vertical integration, for example, If the company produces the parts for the car, they usually also have their own factories to assemble the parts they produced. By this method, they will be able to reduce the transaction, search, monitoring, enforcement, and transaction cost. Furthermore than what we mentioned, there are many small details they do to keep the efficiency of the Keiretsu, for instance, taking care of their suppliers and Just-In-Time production. Apart from these organizations, Japan also has an interesting way to conduct their labors.

Japanese workers have special characteristics compared to not only western workers but also Asian workers. They work overtime almost every week, never change the workplace if not needed, and are very loyal to their companies. With all of this hard work, they still get a low merit rate. There are reasons behind these unique cultures. Japanese firms always emphasize the importance of the group and company. When people from one company introduce themselves, they will always say the name of their workplaces before their names, which means they care a lot more on how they operate as a group than as an individual, unlike American or European mindset. Low merit rate is also a trick to promote group work. Even if one individual works more, he or she still gets the same merit as the others, by this system, people feel more equal as a team. The competition in the workplace will be reduced as a result and that is beneficial for many actors. Teams get more cohesive and each individual is less stressed. Another thing that makes Japanese labor in each Keiretsu so special is the training. Specific skills that are only useful in specific firms are also the requirement to be an employee in Japanese big companies. When newly graduated students apply for the job, they will be trained in an intense special course conducted by the firm. In this course, they will not only teach practical skills but also instill the mindset to be loyal to the company, but that is not the only reason why people do not change their jobs. Japan has seniority-based wages, which means that if you continuously work in the same company, your title will be higher and so is your salary. This system is the reason why Japanese laborers always overtime. During the first period of their career, they need to work hard to stay on board and keep up with the others, and they need to keep working hard afterward because of high earnings. We can see that the organizational system in Japan is very strong and efficient but the financing also plays an important role in the country's success.

Financial intermediaries and banks create a significant impact on recent Japan's economy. The Japanese banking system is comparable to those in other industrialized countries. Apart from the central bank, there are also private financial institutions. Private financial institutions can be divided into several categories, based on their business function or historical background. The largest of them is the city bank or 'Toshi Ginko'. The difference between city banks and other banks like regional banks and member banks of the Second Association of Regional Banks is not official but is a customary classification for the purposes of administration. City banks are the largest among all, with headquarters in major cities and branches in Tokyo, Osaka,

other major cities, and their immediate suburbs. Regional banks are usually based in the principal city of a prefecture and they conduct the majority of their operations within that prefecture and have strong ties with local enterprises and local governments. Like traditional regional banks, member banks of the second association of regional banks serve smaller companies and individuals within their immediate geographical regions. Most of the regional banks II have converted from mutual savings banks to ordinary commercial banks.

Japan's economic state is very outstanding among other countries in Asia. The country became fully industrialized and developed. Its nominal GDP is ranked 3<sup>rd</sup> in the world, and 4<sup>th</sup> measured by PPP. Very high Human Development Index (0.919), low unemployment rate (3%), and having many highlight industries (Motor vehicles, electronics, steel, etc.) to export emphasize the success of what Japan has been doing since the Meiji era. Japan will not be able to be like today without the organized system. They have many struggles along the way. They have many trials. They have many errors. But they studied and all of those learnings led to who they become today.