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Research on the Japanese Economy: The Impact of US-Japanese Relationship on the Economic Development of Japan After WWII

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Abstract:

Living in a world full of diversity with all the countries having their specific ways and ideas of running and governing, the relationship between states and states becomes one of the most crucial factors in engaging in the peace of the world, which ensures the development together with the safety of every country on the planet. This piece of research paper investigates how the relationship of one country to another can have an impact on its total development, especially in terms of economics. In the paper, the author researches the specific case of the US-Japanese relationship and discusses how the relationship between Japan and the United States can influence economic development in Japan. The author provided two time period scenarios, which are the "Economic Miracal" era of Japan and the "Asset Price Bubble" era of Japan. By examining these case scenarios, the author concluded that a healthy US-Japanese relationship will subsequently lead to a healthy development of Japan's economy. This provided the suggestion that states should maintain a balanced relationship with their allies to keep healthy growth as well as development.

Keywords: International relation; US-Japanese relation; economic

1. Introduction

The US-Japanese relationship post the Second World War has always been a major topic when discussing international relations. The relationship between the two countries has been playing a significant role in the trends and directions of the postwar Japanese economy. As an example, the healthy connection between the two countries right after the Japanese surrender directly linked itself to the happening of the Japanese "Economic Miracle" during the 1960s. Japan was left in tatters at the end of World War II and America decided not to punish them too harshly for what they had done in the war. Instead, the US did the right opposite way to making Japan an alliance after a short period of occupation and helped out with the rebuilding of the country with economic support [1]. Japan had a shorter postwar recovery period than any other country may have had and soon developed into one of the most significant states in terms of economic wealth about twenty years later [2]. To a large extent, thanks to their relationship with the USA after WWII. On the other hand, there is the economic landscape of the Japanese asset price bubble--also known as the Baburu Keiki--starting in the mid-1980s, also caused by relationship changes between the United States as well as Japan. But this time, it was rather conflicting. It started with the US attempting to combat the trade imbalances between themselves and Japan and signed the Plaza Accord Agreement with three other economic powerhouses. The agreement was aimed at lowering the currency value of the US dollar and increasing the currency of the Japanese yen [3]. What this will do is boost the competitiveness of American products in overseas markets and, of course, weaken the Japanese ones. Which directly leads to the dramatic Baburu Keiki. More details as well as contexts of the asset price bubble period will be explicated in the following paragraphs.

In this paper, the paper attempts to explore in depth the two significant eras of the Japanese economy: the "Economy Miracle" era as well as the "Baburu Keiki" era, and the US-Japanese relationship during these periods. To answer the question: How does the US-Japanese relationship impact the economic development of Japan after WWII?

2. US-Japan Relationship under Different Eras and the Economic Developments of Japan Under Each Era

2.1 "Economic Miracle" Era

After the signing of Japan's official surrender document on September 2, 1945, which marked an end to the Second World War the United States of America knowingly planned not to be harsh on Japan for what its military force did during the war [1]. With the fact that Japan was already in ruins with destroyed economies and intense unemployment as well as inflation, the US has taken very serious lessons from the post-war punishments other countries made on Germany as well as the disastrous aftermath following it which started the exact war they have just ended [4]. Instead, they chose to focus on peacebuilding and helped out with Japan's economy. In short, this era after the war can be considered as a demilitarization, democratization, and economic recovery period for Japan [5].

During the same period, the US and Japan signed the US-Japan Security Treaty to keep themselves as military allies--mainly in defense against communists--to lead to more help-each-other cases in the future [5]. The USA also opened up the trade market to Japan to accelerate the recovery of the Japanese economy.

With the trading engagements and the support to each other over the Korean War,[5] the US-Japanese relationship has strengthened. By the 1960's, Japan was the second-largest export market for the US. And the US, on the other hand, was the largest importer of Japanese products in the world [4]. Not only that, but Japan also enjoyed a tremendous amount of other advantages such as a lower tariff on exports, cutting of taxes as well as a liberal market which other trading partners of the US did not have [5]. There, it started significant growth in the Japanese economy, under a relationship of minimal friction between the two countries of Japan and the United States.

During the significant growth period of the Japanese economy in the 1960s, the economy experienced huge growth in almost all sectors. All thanks to the business foundation provided by the Keiretsu. The Keiretsu is formed and banded together by individual, yet large, Japanese companies such as Sony, Toyota, Hitachi, and so on. They link together with banks and trading companies to produce most of their potential to reach long-term success. They are tied up through ownership or stock and long-standing exclusive relationships and aim to exceed the performance of their domestic as well as foreign competitors, and aggressively gain market shares in, as mentioned, sectors that are high in growth and long-lasting in life [2]. These efforts have led Japan to become one of the world's biggest exporters of steel, automobiles, consumer electronics, and many more. While the size of Keiretsu companies expands, it creates employment and improves the quality as well as quantity of labor in Japan, which again significantly boosts the growth of the economy.

New technologies were able to be imported, mostly from the United States, into different industries with exceptionally high rates of growth in Japan, such as chemical engineering, electronics, motor manufacturing, and so on [2]. All of these combined with the international trade engagement with the USA as mentioned, make the future situation of the Japanese economy has never been so bright.

2.2 Stock Price Bubble Era

In the mid-1980s, there happened to appear a trade conflict between the USA and Japan. During that period, the currency of the US dollar was in a high place, leading to poor income in the international trading market. On the other hand, Japan had a much lower currency and, therefore, an enormous amount of exports to various countries, including the United States. This caused a significant trade imbalance between these countries. Where the US decided to apply a new agreement to combat this disadvantage in world trading [3].

The Plaza Accord was a major international agreement between the United States of America, Japan, and other leading economies. The aim of the agreement sought to depreciate the US dollar in response to the trade imbalances between the US and other countries, mainly Japan [3]. It was signed in the Plaza Hotel in New York City, which many scholars consider the "starter" as it played a significant role in triggering the asset price bubble in Japan [6]. The agreement was hosted by the United States and negotiated between it and four other major industrialized nations: Japan, West Germany, France, and the United Kingdom. It was signed to address the severe trade imbalances the US was facing, particularly the substantial trade deficit that the United States faced with Japan and Germany. The agreement aimed to depreciate the value of the US dollar against the Japanese yen and the German Deutsche Mark, to make American goods more competitive internationally and reduce the US trade deficits [6].

While the US was having a hard time in international trading, Japan was booming at its export side of the economy, as a high-currency dollar made Japanese goods cheaper and more attractive in the global market. Thus, America wants to use the Plaza Accord to reduce the imbalance and at the same time, weaken the Japanese exports. As the States expected, the immediate effect of the accord turned out to be the sharp appreciation of the Japanese yen. In the months following the agreement, the Japanese yen's value soared by approximately fifty percent against the US dollar [7]. This means the Japanese exporting market became way less competitive as Japanese goods became more expensive.

Following the signing of the Plaza Accord, the Japanese economy had gone through a dramatic journey. It had the greatest growth in Japan's history and is expected to be the greatest growth ever in Japan even in the future, followed by a hard-to-recover downfall, which gave Japan an extremely hard time that they have not experienced in quite a while.

The economy of Japan was already booming. There was rapid industrial growth, technological advancements, and a strong domestic sector [8]. The economic environment was supported by loose monetary policies implemented by the Bank of Japan, the aim of BOJ at the period was to combat the Japanese yen's appreciation after the Plaza Accord [8]. The agreement led to a result of a significant appreciation of the Japanese currency, making Japanese exports less competitive while also attracting notable amounts of capital inflows into the country at the same time [9].

The decrease in the number of overseas trade in Japan has then led to the forming of a domestic economy bubble. During this period, financial deregulation was another accelerator of the bubble. It lets the banks allow large Japanese firms to obtain a large amount of idle capital through equity finance. At the same time, the new information technologies helped the banks to mobilize the capital. These as well as various other circumstances combined have promoted the rise of stock prices in Japan [9].

Meanwhile, real estate prices had increased significantly. With a large amount of money in hand, while looking at these increases in prices, more and more people in the country started to make investments [9]. It is not hard to understand nowadays, that investing in one thing and hoping for its price to go up, is not a long-term solution. When the asset prices eventually stop at the highest point, the investors will stop gaining. And if the prices fall back to the level they had in the beginning, the investors will experience a loss that is the same amount as their gains. In 1989, Japan's Baburu Keiki got to its highest point and burst [9]. Asset prices started falling significantly and money was becoming more like money for Japan. And foreign investors started to take their money out from Japan. The foreign direct investment inflows of Japan ranged from 1982 to 1993, there was a great amount of growth in the FDI inflows from the North American region starting in 1985, and an even more significant fall starting at year 1989, when the stock prices in Japan started to fall--followed by an enormous depression which people nowadays consider as a lesson and try to avoid [10].

3. Outcome and Suggestions

3.1 Conclusion on the Impact of US-Japanese Relations on Japan's Economy

By this point, it can be seen that the relationship with the US of Japan plays a pivotal role in the trends of the Japanese economy. By the period of the Economic Miracle from the 1950s to 1970s, Japan and the United States were in a healthy, improve-together-state kind of relationship. Leading to such an enormous and almost unimaginable growth of the Japanese economy. While, on the other hand, Japan and the USA were not in a relatively friendly relationship due to the imbalance in trading between the two countries. The friction of a trade war had led to an almost unbearable downturn in the Japanese economy. With these findings, it can be concluded that a healthy relationship between the United States and Japan helps engage a more healthy and smooth development instead of leading to an economic roller coaster, like what happened during the "Baburu Keiki" period.

3.2 Suggestion

On a larger scope, the research does not merely show that a good relationship between the United States and Japan can lead to a better economic situation in Japan, but it also applies to a greater world context. A country, being in a harmonized relationship with its allied states, can help form a better economic environment.

Thus, the paper has come up with a suggestion that a country should keep a stable as well as balanced relationship with its allies, take advantage of cooperation between countries, and seize opportunities to engage in better economic development itself. In addition, doing so not only promotes economic growth within individual countries but also contributes to global economic stability as well as development. This research emphasizes that international cooperation and diplomatic efforts are key to achieving sustained economic prosperity in a global context. In particular, the relationship between major powers is crucial to the development of a country. Therefore, in the context of globalization, countries should fully recognize the importance of state-to-state relations and international cooperation. The state should firmly safeguard its relations with the international community in the light of its own economic and social development, make full use of international forms and opportunities, and seek common development for itself and the world.

4. Conclusion

In summation, this paper explores how state-to-state relations can have a positive or negative impact on the economic aspects of a country. By digging into more details, the author analyzes the importance of state-to-state relations to the country's development, using two important periods of Japan's economic development, the "economic miracle" and the "Baburu Keiki" era, as examples. This paper finds that during these two periods, the development of US-Japan relations had an important impact on Japan's economic changes and development, enabling Japan to seize the opportunity to develop itself. Through analysis, this paper concludes that a country's international relations do play an important role in its overall economic and social development. Based on this, this paper suggests that countries should establish a balanced relationship and actively maintain national and international relations to develop their economies healthily. In addition, in the face of economic and social challenges in the special period, the state should make overall judgments and planning, seize opportunities, fully cooperate, turn challenges into development opportunities, and seek development through cooperation.

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