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## Issue Brief

# The Rise of Japan

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Looking at Japan from an economic perspective, people often wonder how Japan was completely defeated by the United States in World War II but still managed to overcome the setback. Japan was forced to surrender after the United States dropped the nuclear bombs on Hiroshima and Nagasaki in an attempt to stop the advances made by Japan in Asia and most of the Pacific. The advances by Japan involved opposing China and joining the 'Axis' alliance with Germany. Alongside Germany, it was also able to successfully attack the United States while conquering the West Pacific. This continued until Germany was defeated by the Western allies backed up by the Soviet Union. The Potsdam Declaration was then passed and Japan was given the last chance to surrender or face total annihilation. Japan was, at the time, well aware of its disadvantage, but it still chose to fight single-handedly. After the refusal of the Potsdam Declaration, the United States dropped two atomic bombs on the cities of Hiroshima and Nagasaki, completely decimating a chunk of Japan. This was but a signal to Japan so that it may still surrender before more of Japan was destroyed. On August 15<sup>th</sup>, 1945, Japan finally surrendered, bringing the much anticipated victory to the Allied Nations.

Despite being crippled by the United States, Japan still somehow managed to develop its economy at such a rapid pace that even now it is referred to as the 'economic miracle'. The first glimpse of this miracle was seen when Japan became the 2<sup>nd</sup> largest economy in the world during the early 1960s'. Japan maintained the growth of its economy until the late 20<sup>th</sup> century, followed by a long period of stagnation which began from 1991 in which Japan's GDP (in nominal terms) crashed and suffered for a whole twenty years. Currently, Japan occupies the top position in the global economy. This paper focuses on the elements that led to the 'economic miracle' as well as how Japan survived the longest stagnation and still emerged as an economic giant.

After 1945, Japan was left with little resources to rebuild its economic foundations; it had also lost about 3 million people in the war. The situation seemed desperate. The postwar period changed Japan's orientation from militarism to democracy which was one of the biggest steps towards its development. The largest private companies went against the government's decision to merge so as to compete effectively against the international market. This marked

the start of the golden era when private companies started borrowing huge amounts of money from banks. A lot of the factories that produced military equipment for the war now began manufacturing huge amounts of exportable goods; plants that originally produced machine guns now produced sewing machines. Other than that, automobile companies such as Mazda, Toyota, Nissan and Honda started their analysis on how to beat Detroit's big three ( General Motors, Ford and Chrysler ), as well as Germany's big three (Audi, Mercedes Benz and BMW). The analysis led them to be exceptionally competitive, as well as to bring out the true potential of the private companies. Seizing this opportunity, the factories amplified their production capacity beyond current economic limitations and developed full lines of products on a very competitive level.

Similarly, companies like Sony also made their big debut in the international market. At first, the individual level of hard work and input increased to such a level that employees started putting in extra hours in order to outcompete in the market. The motivation to catch up to the West was unmatched and served as the biggest reason for the companies to expand. Initially, the goal was to enter the international market and surpass the leading companies especially in automobiles. Unlike Germany, Japan was occupied by a single great power and since the United States itself took on the responsibility of its security, Japan was free to recover its economy. Initially, the competition between companies for the top ranking led the Japanese companies to flourish, but then the goal changed to stabilizing Japan's economy. Also, because the international market at the time provided cheap raw materials and trade was free, Japan was one of the countries that took this grand opportunity to rebuild the country. Finally Japan managed to achieve unprecedented GDP growth rate over 8% in the early 70's thereby surpassing Germany, England and France. Among other factors the new growth driven education system also played a big role in the overall economic development. Having high literacy rate meant that a high number of skilled workers was being produced to meet the labor market needs.

The war between North Korea and South Korea is also remembered as one of the factors that led to Japan's economic boom. The military support provided by Japan to South Korea meant

that Japan's military industries were again in huge demand. Similarly, the economy maintained a stable 6-7% growth rate until the late 1960's. This is when the first oil crisis hit the entire world, but Japan retained its growth rate. By focusing most of its manpower on the international demand, Japan greatly reduced its dependence on oil and that's how it managed to stabilize its economy. The formation of the group, most commonly known as the 'Keiretsu' which was the union of the enterprises, made them plan for their and Japan's growth simultaneously. Following the raise in the oil prices by OPEC and Japan's reduced dependency on oil, the country was warned repeatedly by many economists and policy analysts that Japan had not reached that level of self-sufficiency yet. They made it clear that Japan's economy will suffer in the global oil crisis. This was actually true as Japan's economy did take a dip of about 1.4% initially on the first oil shock to about 2% during the second oil shock, but this was still exceptionally better than other major countries like the US which fell down to less than half the GNP. Even when the whole world was tumbling down, Japan had the big support from the United States which opened the international market towards Japan. This is exactly the reason why Japan is recognized as one of the few countries that took on the oil crises head-on but at the same time, maintained its status in the international market.

According to the book *'The Useful War'* by John Dower, to fully understand the Japanese secret of success, one has to look at the Japanese way of life. That includes what they do at home and how they generally behave, as well as what they were taught in the past. Just before the first economic boom after World War II, Japanese citizens were taught that they were born far superior than other Asians and the Gods themselves had chosen this very nation to expand and rise above other Asian countries. Kenneth B. Pyle's book enumerates the lifestyle and strategies that were applied in order to be on par with the West. The first step which was simply to gather a vast amount of knowledge from other countries including the market demands. The second step was converting factories that manufactured military equipment to produce simpler products such as sewing machines. Gradually, the weight of Japanese economy shifted and Japan revolutionized its industries. In 1999, Masahiro Takada also published an article titled 'Japan's Economic Miracle' explaining that the miracle was never due to the reform policies that were formed due to the occupation by the United States, but the collective input of every

Japanese citizen. The author believes that the Japanese combined their knowledge for the grand plan which was prepared even before the start of World War II. If the combined efforts of Japanese citizens are strong enough to make a nation as strong as Japan, then perhaps other countries should realize that unity indeed defines strength. Japan was able to withstand history's crises because of education, diligence, innovation and resilience.