

Sep 17, 2005

**WHERE IS THE JAPANESE ECONOMY GOING? :
ITS REBIRTH LIES IN THE REVITALIZATION OF THE CORPORATE SECTOR IN THE
CONTEXT OF GLOGALIZATION**

MOTOMICHI IKAWA* Nihon University

Abstract. Recently Japanese economy seems to be emerging from the negative legacy of the collapse of the bubble in the 1990s. In order to assess where the economy is going hereafter, the paper reviews the decade long stagnation and subsequent recovery of the economy in the context of globalization, with reference to policies of the Japanese government and management practices of the corporate sector. It concludes that the rebirth of Japanese economy will be forthcoming as long as the ongoing policy efforts of the government and management endeavors of the private sector are continuously made in the right direction, in a harmonious way, and in the context of globalization.

*Address for Correspondence: Motomichi Ikawa, Graduate School of Business, Nihon University, 4-8-24 Kudan-Minami, Chiyoda-Ku, Tokyo, 102-8275, Japan.

Email: mikawa@gsb.nihon-u.ac.jp The original paper was prepared for Seminar on Macroeconomic Management and the Japanese Experience in Economic Development, which was held in Tokyo in March 2005, co-sponsored by IMF and Japan Center for International Finance, inviting senior officials of ministries of finance and central banks from 13 countries in Asia and Central Asia.

1. INTRODUCTION: GLOBALIZATION, DEMOGRAPHIC CHANGE AND JAPANESE ECONOMY

Japanese economy stagnated for a decade in the 1990s with an average annual growth rate of 1%, accompanied by persistent deflation after the bursting of the bubble. The recovery has been under way since early 2002, as restructuring efforts by the private sector were bearing some fruits. In order to assess where the Japanese economy stands now, the decade long stagnation and the subsequent recovery should be reviewed in the context of globalization in the past two decades.

Globalization means a lot of things, depending on the profession. In the economic literature, globalization is often mentioned with reference to trades and investments. According to a publication of the World Bank entitled 'Globalization, Growth and Poverty' (Dollar and Collier,

2002), globalization provides opportunities for the poor but creates winners and losers: ‘Whereas many poor countries with 2 billion people have been left out from the process of globalization and are becoming marginal, countries that strongly increased their participation in global trade and investment, with 3 billion people, grew at 5 percent per capita during the 1990’s and reduced poverty ratio dramatically.’ Apparently, among US, China and Japan, US and China have been winners in the 1990s, while Japan, as well as Japanese firms and financial institutions have been, in general, losers during the decade.

Globalization is also characterized by rapid progress in technology and massive movements of capital. ‘Globalization of knowledge has brought improved health, with life spans increasing at a rapid pace.’ ‘The most adverse effects have arisen from the liberalization of financial and capital markets—which has posed risks to developing countries without commensurable rewards.’ (Stiglitz, 2002) The economic crisis in East Asia in the late 1990’s has also certainly affected the economic performance of Japan in 1998, and cheap imported products from emerging economies, at a time deflationary pressure was strong, has aggravated the Japanese economy, more conspicuously than other industrial countries. It may be said for Japan that the problem is not with globalization but with how it has been managed, in such a way as to maximize the benefits, while minimizing the negative sides of globalization. It is particularly noted that the relationship between the process of globalization and the prosperity of nations is clearly recognized in a recent report of the government of Japan (GOJ) entitled ‘Japan’s 21st Century Vision.’ (GOJ Special Board, 2005)

‘As globalization advances further, those countries that succeed in attracting good, people, capital, and information will continue to develop. Meanwhile, those countries that fail to attract them will be left behind by the global change.’ It may be added that those countries that fail to promote economic integration with other countries will also be lagging behind in a global competition. Until recently, being caught in a policy dilemma in the management of macro economy under deflation (overdue action or premature move), and in the vested interests in the reform areas, as well as with the overhang of debts and traditional way of managing people and forging business strategy, Japan had been unable to take full advantage of the positive aspects of globalization, relative to other successful countries, in terms of attracting from abroad labor forces and portfolio and capital investments, and of benefiting from the fast-growing markets in emerging economies and frontier countries. For one thing, unlike Japan, the US and the coastal provinces of China could benefit, respectively, from immigrants from Mexico and from movement of people from the inner provinces to sustain its economic growth. (Consequently both countries enjoy 1% increase of population.) The US and China have also gained from inflows of huge capital, while in the case of Japan the portfolio investment from abroad in equity security registered a negative figure in 2000 and 2002. On the economic integration with China, Japanese direct investments in China had not been generally profitable until 2001, according to the balance of payments statistics. As a matter of fact, unlike the investment boom in the recent years, Japanese direct investments into China had been declining since the peak year of 1995

and at the time of the Asian economic crisis in 1997, until the trend was reversed in 2000.

The perspective of the Japanese economy in the next decade and thereafter should also be examined against the backdrop of aging population in a global context. The IMF World Economic Outlook dealt with this issue in the chapter entitled 'How will demographic change affect the global economy?' (IMF, 2004) It is stated that:

- () Global population growth will continue to slow. (By 2050, global population growth is projected to be only ¼% a year, compared with 1 and 1/4% at present.)
- () The world's population will continue to age. (Over 10 years to 37 years by 2050)
- () The elderly dependency ratio (65 or older/ 15-64) is projected to rise dramatically in Japan and Europe, with lesser increase in the U.S.
- () Aging will also begin to accelerate in Asia and Latin America around 2015, with China experiencing particularly rapid aging.

While the general trend of aging of population is a world wide phenomenon, Japan is ahead of others, in terms of its timing and its acuteness; Japan's population is expected to peak at 127 million in 2006 and to drop to 101 million in 2050 , as a female will give birth to only 1.29 baby on average in her entire life.(2003 Survey) As this result, Japan's aging ratio (the ratio of people aged 65 or above to the population) which was 19.5% in 2003, is expected to increase to 26% in 2015 and 35% in 2050. The aging and declining population and uncertainties arising from this demographic issue are the central issues related to the confidence of the people toward the future and growth potentials of Japan in the coming decades.

2. OVERVIEW OF THE RECENT JAPANESE ECONOMY

Throughout a decade long stagnation and the recovery phase since 2002, the Government of Japan (GOJ) has made various efforts to overcome prolonged deflation and to revitalize the economy, and those efforts, with a varying degree, accompanying with steady restructuring and revitalization of the corporate sector, are gradually paying off. There have been clear indications that Japan' long standing economic problems have eased as shown below:

- () Growth rate (real GDP) is rebounding to a rate of 1.5 - 2% :
FY 01: - 1.1%; FY02:0.8%; FY03:2.0%; FY04:1.9%;FY05:1.6%(estimate of GOJ);
- () Unemployment rate is improving to 4.2%:
5.5% Jan 03 4.5%Jan05 4.2%June05
- () Deflation is diminishing as measured by Consumer Price Index (Core CPI excluding food is around - 0.2%.) :
- 0.8%FY01 and FY 02 - 0.2%FY 03 and FY04;
- () Nonperforming loans (NPLs) of major banks is declining to below 3%:
8.4%Mar02 4.7%Sep4 2.9%Mar05
- () The corporate restructuring is improving profit situation for all the industries:
Profit before tax increased by 15.8% year on year in the first quarter of 2005, with

profit sales ratio before tax increasing to 4.2%, which is almost the highest since the bubble period of late 1980's

The Annual Report on the Japanese Economy and Public Finance 2005 (so called White Paper on Japan's Economy), released from Cabinet Office in July 2005 (GOJ Cabinet Office, 2005) summaries the Japan's economic situation as follow:

- () Private demand is steadily supporting growth,
- () Government spending is continuing to have a negative impact on the economy,
- () Unemployment is steadily decreasing.

In the most recent consultation paper of IMF (IMF, 2005), at the time of Article 4 Consultation in July 2005, the tone of the assessment of the present situation of the Japanese economy is not significantly different from the view of the Japanese government. In the IMF paper, past efforts and near term prospect of the economy are more positively assessed than the previous consultation paper a year ago, notwithstanding the remaining downside risks. It is stated that 'While the legacies of the post-bubble years have not been fully shed---witness the persistence of deflation and the breadth of Japan's fiscal problems---underlying trends appear more favorable now than they have been for some time.' In the OECD Economic Surveys, Japan, Jan 2005 (OECD, 2005), it was stated that 'The strengthening of the economy has raised hopes that Japan is emerging from a decade of stagnation.' However, the survey pointed to a number of serious headwinds to sustained growth, notably entrenched deflation and the government's financial position.

3. EXPERIENCE DURING THE LOST DECADE

In order to understand the degree to which Japan's economy has moved away from the legacy of the lost decade, it is necessary to assess the causes of the stagnation in the past decade until 2002.

3.1. Economic performance has been sluggish due to deflation

The emergence of a big bubble in Japan in the late 1980s had very much to do with the expansionary monetary policy to deal with the sharp appreciation of the yen after the Plaza Accord in 1985, as well as with high expectation toward the future of Japan, typically shown in 'Japan As No1 Lesson for America', Ezra F. Vogel. (Vogel, 1979) When the trend was reversed, this caused a sharp fall of asset prices. For instance, the real estate price has plunged down 86% in urban commercial areas between Sep 1990 and Mar 2003. Nikkei Average Stock Index which was 34,043 yen on average in 1989 has declined by 79% between Dec 1989 and April 2003. (The index has risen by 40-50% since April 2003 and is a little above 12,500 yen in early September 2005.) Between 1990 and 2001, an estimated 1211 trillion yen was lost due to the fall in real estate price and stock price, which is equivalent to about 240 per cent of nominal GDP.

The deflationary pressure has become evident in price indexes to measure inflation of flows:

The Consumer Price Index has shown consistent decline since 1999, as indicated below, while the GDP deflator had been declining since 1995, much earlier and deeper than CPI.

• Evolution of Consumer Price Index since FY 1998:

	FY98	99	00	01	02	03	04
Comprehensive	+0.2%	- 0.5%	- 0.5%	- 1.0%	- 0.6%	- 0.2%	- 0.1%
Ex fresh food	- 0.2%	- 0.1%	- 0.4%	- 0.8%	- 0.8%	- 0.2%	- 0.2%
GDP Deflator	- 0.6%	- 1.4%	- 1.4%	- 1.3%	- 1.5 %	- 1.2%	- 1.1%

The 100 YEN SHOP (100 yen is roughly one US dollar) which sells all kind of goods at 100 yen, and UNIQLO Shop, which sells inexpensive garments, have become a symbol for 'price destruction'.

Bursting of stock and real estate price has aggravated balance sheet of firms and financial institutions. 1 Particularly, persistent deflation has increased non-performing loans of commercial banks. Non-performing loans (NPLs) of major 11 banks has been around 20 trillion yen from FY1998 to FY 2000, increased to 26.8 trillion yen (NPL ratio of 8.4%) in FY 2001, and subsequently declined to 20.2 Trillion yen (NPL ratio of 7.2%) Since the bursting of the bubble the injection of the public money into the financial sector reached 35 trillion yen, of which the loss has been registered for 10 trillion yen. Overall, the corporate sector has suffered from three excesses, namely, excess production capacity, excess labor force, excess debt. -----'While Paper of Japan's Economy in FY1999'

Admitting that the stagnation of the economy was caused by the bursting of the bubble, as to the reason why the stagnation has been prolonged so long, there are two schools of thought-----structural factor theory and deflationary gap theory.

Whereas the structural factor theory attributes the long lasting stagnation of the economy to the lack or delay in structural adjustment and disposal of NPLs, the deflationary gap theory judges that the deflationary gap was the most profound reason behind the continuously weak economy and thinks that the monetary policy has been less than optimal in the fight against deflation. 'Due to continuing deflation, new non-performing debts have been created, even NPLs created by the collapse of the bubble have substantially diminished.' 'Under mild deflation, as nominal wages and nominal interest rates show rigidity to move downward, real wages and real interest rates have tended to stay at a high value, causing a decline of employment and investments.' (Iwata, Kikuo , 2001) (also see Iwata, Kikuo ,2005)

'While the economic policy in the latter half of 1990s at the time of the bubble was problematic, the economic policy in the first half of 1990s at the time the bursting of the bubble was even more problematic. The tight money policy of the BOJ starting from the spring of 1989 destroyed the bubble completely until the summer of 1991.' (Kuroda 2005) Both Iwata and Kuroda are advocates of inflation target to move away from deflation and to promote fiscal consolidation. 'It will be impossible economically and politically to rebuild the budget under deflation in which

nominal GDP growth rate is zero or negative. For this reason, monetary policy should wipe out deflation as early as possible.' 'With the articulation of inflation target of around 2%, the monetary policy should be deliberately expansionary to achieve that goal, and thus deflationary bias should be smashed up in one shot.' (Kuroda, Haruhiko, 2005)

1 The Governor of the Bundesbank (Central Bank of Germany) Dr. Hans Tietmyer stated in January 1998 as an advice to Finance Minister of Japan, that 'a policy to deal with the real estate was a key to success to get out of the financial crisis in the US and UK and without those measures it would be difficult for Japan, to solve the banking crisis and to eliminate the sluggish lending of banks.' (Statement during my visit to Germany in January 1998, following the request by Finance Minister Mitsuzuka, to explain the Emergency Policy Package to Stabilize the Financial System in 1998 and macro economic policies of Japan.)

3.2. Recovery is not sustainable.

During the lost decade, the economy recovered from time to time. However, those recoveries have not been sustainable as was shown below. Particularly, recoveries in 1996-1997 and 2000 were short-lived, followed by a negative GDP growth, and fiscal monetary policies were forced to be reversed to more accommodating ones during the process.

• Evolution of real GDP since FY1996:

FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
2.5%	3.6%	0.6%	- 0.9%	0.6%	2.5%	- 1.1%	0.8%	2.0%	1.9%

()1997 Recovery:

After the gains from the correction of sharp appreciation of the yen in 1995(79 yen to the dollar), supported by investment in plant and equipment as well as the boost of consumption in anticipation of higher consumption tax, the economy recovered in 1996 and 1997. Consumption tax was increased from 3% to 5% in April 1997. However, this move was followed by a deflationary spiral, accompanied by financial crisis of Japanese banks and security companies, (Hotsukaido Takushoku Bank and Yamaichi Security Company), as well as unfavorable external development resulted from the Asian Crisis. Due to this adverse development, the Fiscal Restructuring Law of 1997, which set numerical target for the fiscal deficit, was frozen in 1998, leading to a further increase in fiscal deficit. The Bank of Japan (BOJ) adopted zero interest rate policy in Feb 1999.

()2000 Recovery:

Export-led growth has been resulted from the recovery of Asia and IT sector. Investment in plant and equipment showed a steady increase while consumption became solid. BOJ lifted the zero interest rate policy in Aug 2000, which was modified in Mar 2001 due to the reemergence of

deflationary spiral triggered by weak external developments arising from the bursting of IT bubble, uncertainty after the terrorism attack on September 11 and concerns over a number of emerging economies such as Brazil, Turkey, not to mention Argentina.

3.3. Public debt is increasing.

After the surplus year of FY 1992, because of the stimulating fiscal measures in the 1990s and the freeze of fiscal consolidation in 1998, Japan's fiscal deficit deteriorated to peak at nearly 8% of GDP in FY 2002 and FY 2003. This is due to a rise in spending (5% of GDP) and a decline in revenues (3% of GDP). Gross public debt for central and local governments seems to have reached 160% of GDP, which is by far the largest among OECD countries. This development has cast some doubt about the sustainability of the budget. For instance, in 2002, Moody's Investors Services, Standard & Poor's and Fitch Ratings lowered the credit ratings of Japanese government bonds, respectively to A2, AA -, and AA for domestic currency issue. (Then the Vice-Minister of Finance for International Affairs, Mr. Kuroda sent a note to them to seek clarification of their reasoning.) While the excess debt problem is almost disappearing in the private sector, the excess debt in the public sector is still a very vexing issue for Japan.

4. RECOVERY SINCE 2002

The Japanese economy has been picking up since 2002. The question is if the recovery is real and sustainable in the medium and long term framework, meaning the rebirth of Japan after a decade long stagnation when Japan was referred as 'Japan nothing' or 'Japan passing'.

4.1. Overall recovery is continuing.

The recovery of the economy has been under way since early 2002. What is characteristic of the current recovery is the lack of fiscal stimulus, while the qualitative easing of the Bank of Japan continues. The recovery has been led by domestic demand, supported by strong earning position of corporate sector resulted from restructuring, repayment of past debt and positive global strategy. Of 2.7% growth in CY 2004, 1.9% is attributable to domestic demand and 0.8% to external sector (net exports of goods and services). Without doubt, while the current recovery is a private sector led upturn, with a major role played by firms, the economy has also benefited from favorable external development, such as good economic performance of the US, the emergence of BRICs, particularly continuously high economic growth in China. Positive economic cycle of digital devices and strong commodity price development, backed by demand from high growth countries like China, have also been contributing factors behind the current economic upturn. Those developments seemed to have eased the deflation, as measured by CPI, to a stable rate closer to zero. While consumer price index has been showing a marginal decline

due to reduced prices for public utilities, corporate goods prices have increased since last year due to an increase in prices in the market for raw materials. The rate of decline in land prices is decreasing even in the regions. Partly because the market for the securitization of real estate, including REIT, is strong, real estate transactions are becoming revitalized, primarily in urban areas. (GOJ Cabinet Office, 2005)

4.2. Corporate Sector has become robust.

If one looks more closely at the corporate sector, a remarkable improvement has been achieved. After a decade long struggle to modify a traditional employment practice, such as life time employment or seniority system, a progress was made in restructuring through cuts in wage and employment. Until 1980's the unemployment rate of Japan had been exceptionally low among OECD countries, at around 1 - 2 %. However, the unemployment rate increased to over 5% in 2003, as firms have tried to cut labor force: For instance, among major leading 12 companies, the total labor force has been cut by one third from 565,000 in 1990 to 3770,000 in 2003. Following those moves, the labor' share of the net profits declined from 65.2% in 1995 to 61.5% in 2003. This has boosted profitability and increased the capacity utilization of Japanese firms.

Increased earnings and advance in IT technology (digital camera, DVD recorder and TV) have fueled a rebound in business investment at an annual rate over 6%.

'Rebirth of Japan, which has become evident, was actually the rebirth of Japanese firms, particularly large ones.' 'Efficiency of employment and equipment has been achieved gradually over the 14 years since the bursting of the bubble.' 'This is the invisible structural reforms, carried forward by turtles, (if US firms are by analogy rabbits)' , according to Kiyohiko Nishimura. (Nishimura, 2004)

In addition to favorable export performance, the global strategy of Japanese firms has begun to bear fruits. The earnings of overseas operations registered a large increase, showing a 20% increase over the previous year, occupying 29% of the total operating income for the report ending March 2005 among listed 427 companies. (The overseas earnings occupied only 20.2% for FY 2001.) 'Judging that domestic markets will not grow fast due to the aging of population, Japanese companies will continue to divert management resources to overseas where growth potential for Japanese companies is considered large.' NIKKEI Press (July 5, 2005)

'-----this development is a result of lower break-even point through a cut in human resources cost and other administrative cost, new business model to revitalize firms, and proactive stance to promote globalization of its operations,' according to a publication by Mizuho Research Institute. (Mizuho, 2004)

The fear for the hollowing of industry in the 1990's has been replaced by a renewed confidence in core competence as high technology production lines are restored in Japan. JETRO's survey which was conducted in FY2004 for 509 manufacturing companies revealed that more than half of the companies interviewed indicated an expansion of production in Japan. For instance,

Canon has decided to set up the largest factory of the company amounting 80 billion yen in Ohita, Kyuushu, to produce cartridge and ink for printer, in order to maintain a profitable production center with the most advanced technology in Japan. It is noted that the ratio of overseas production increased from 7.4% in FY 1993 to an estimate of 18% in FY2003. This compares with 27.7% for Germany and 32.1% for the US in the late 1990s. While maintaining a center for research and development and the mother factory for most innovative new technology in Japan, the scope for further expansion in overseas operations seems to be large.

As a matter of fact, there seems to have been a growing corporate appetite for spending on plants and equipment on the back of sustained economic recovery. Machinery orders jumped 11% in June 2005 to five- year high of ¥1 trillion. According to the investment survey conducted in June 2005 by Development Bank of Japan, the investment in plant and equipment by all industries is planned to increase by 11.6% in FY 2005, which is the highest increase in the past 15 years, as investment/cash flow ratio increases for the first time in the recent five years. Importantly, overseas investment in plants and equipment is estimated to increase by 18.1% during FY 2005, following an increase of 14.5% in FY 2004. As this result, the ratio of overseas investment, relative to domestic investment for all the industries is expected to increase to 25.4% during FY 2005.

It can be stated that the employment and management practice of Japanese firms and financial institutions until the 1990s may not have been best fit for a rapid pace of globalization. However, a steady progress seems to have been made during the lost decade and thereafter to adjust those practices to global markets.

4.3. Banking sector is improving

During the current recovery phase, non-performing loans ratio of major banks is declining, on track to achieve the government goal of reducing the ratio to about the half, which was shown in Financial Sector Revitalization Program, Oct 2002:

	8.4%	Mar02	4.7%	Sep04
2.9%	Mar05	Operating profits were recorded in FY 2004 for the first time in a decade. The outstanding public money injected to the banking sector showed a decline of 15.1% year on year to 16.87 trillion yen at the end of March 2005. It is expected that major banks will complete the repayments of the public money in 2-3 years. Thus it seems that the loans capacity of banks is steadily improving. As a matter of fact, the outstanding bank lending showed a positive number in August 2005, for the first time since the statistics started in 1998. However, bank profits are low by international standards, and their capital base is weak. It is noted in this respect, that the bank's holding of government bonds have reached 169 trillion yen (34% of GDP), which might lead to a large capital loss when the long term interest starts to increase.		

4.4. Labor market situation is improving but creating new issues

Whereas the recoveries experienced prior to 2002 could hardly improve the employment situation, the pace of current recovery from 2002 has been sufficient to boost employment and to reduce unemployment rate to around 4.2% in June 2005, as from 5.5% in January 2003.

However, the gains in employment are mostly due to an increase of non-regular workers, while the number of regular workers has been declining since 1998, which was reversed only recently. The share of non-regular workers has risen, over the decade from 19% to 29%. Still the unemployment rate for the young age group 15-24 is as high as 10%. One fourth of the university graduates is becoming a part-time job seeker 'free arbeiter' or 'free-ter', which is becoming a new social issue. Nonetheless, the series of data suggested that improvements in the job market might help consumers become less worried about economic prospects and spend more.

4.5. Confidence has been strong during the soft patch in 2004

There has been slowing down of economy since the second quarter of 2004, with quarterly GDP showing a negative growth or a very flat growth for three consecutive quarters, as shown below. However, despite the fact that three consecutive decline of quarterly GDP is considered technically as a 'recession', importantly, the slow down has not weaken confidence in the economy:

- Quarterly Real GDP in 2004 and 2005: (compared with the previous one)

2004 Q1	Q2	Q3	Q4	2005 Q1	Q2
+1.3%	- 0.4%	- 0.1%	+ 0.1%	+ 1.4%	+ 0.8%

Even after the release of the 4th quarter GDP in 2004, it is noted that a number of economists still predicted an upturn from the middle of 2005. At that time, JETRO (New York)'s newsletter dated Feb 28, even stated that 'There is no reason to worry about Japan's underlying fundamentals.' (JETRO, 2005)

4.6. The economy is emerging from a soft patch

More positive near-term outlook has emerged both in the public sector and private sector. In August 2005, Japanese government has upgraded economic outlook; The Cabinet Office stated that the economy was recovering at a moderate pace with both the corporate and household sectors improving. The Bank of Japan also has said that Japan's economy continues to recover, with the progress of adjustments in information technology-related sectors. The government's monthly economic report for August, looking ahead, maintained an upbeat view, stating that the domestic-led recovery is expected to continue because resiliency in the corporate sector is extending into the household sector, while urging policy makers to pay close attention to the

impact of high oil prices.

As for the estimate for real GDP in FY 2005 beginning April 2005, whereas the Government of Japan (GOJ) projected an increase of 1.6%, the private forecasters (13) has made an upward adjustment and now (as of August 2005) envisages an average growth rate of 1.9% for both FY 2005 and FY 2006. The private forecasters (13) had projected a growth rate of 1.2% for FY 2005 in the spring forecast. In mid August, IMF raised its outlook for Japan's economy in CY2005 to 1.8% from its April projection of 0.8%.

5. POLICY OBJECTIVE AND REQUIREMENT

Given the present situation of the Japanese economy, described above, the question is whether the current policies are in the right direction and sufficient to cope with the remaining long term issues. As Prime Minister Koizumi won a landslide victory in the Lower House election on September 11, 2005, the prospect for the enactment of the Japan Post Privatization bills, which was the central issue of the election, and related administrative reforms is now brighter. However, remaining key structural reforms such as the achievement of the primary balance, pension reform, medical reform and measures to deal with decline of children have not been given a concrete direction.

As Japan is passing through a crossroads towards its rebirth, a number of risk scenarios have appeared in journals and books. For instance, 'The Risk Scenario of the Japanese Economy', Atsushi Nakajima (Nakajima,2004),based on bold assumptions, depicted a risk scenario in 2015 and 2020, in which the collapse of the budget poses many serious problems, in case the public debt issue and other challenges are not properly addressed. In this sense, it may be very true that 'The danger lies in the attitude of those policy makers who now feel nothing needs to be done.' Prof Hugh Patrick (Patrick, 2004). The positive aspect of the September 11 general election is the fact that the sudden election has highlighted the key structural issues among the general public and media. In any case, with the immediate outlook brightening, policies need to take long term challenges to enhance a growth potential of Japan. (Per capita real GDP should be growing at about 2 %)

5.1. Eliminating deflationary bias as promptly as possible

While the risk of a deflationary spiral may have receded, overcoming deflation remains the top priority for the monetary authorities. In this respect, BOJ promised in 2003 to continue the quantitative easing policy at least until the core consumer price index which excludes fresh food is zero or above. The change of policy stance will call for an extremely careful assessment of the economy and the financial markets and for a close communication and coordination between the government and BOJ.

While the core CPI fell slightly by 0.2% in FY 2004 as well as in June 2005, now BOJ as well as

many economists expect a positive number of core CPI before December 2005. It is noted that corporate good price index has been increasing since the beginning of 2004. However, premature change in monetary policy and fiscal policy (tax increase) might bring back the deflationary bias in the economy. If the zero interest rate policy is lifted earlier than justified, lower nominal economic growth and higher nominal long term interest rate will make the fiscal consolidation task more difficult. This will also negatively affect the balance sheets of banks, as bond holders' capital losses will not be offset by gains in their equity holdings and improved quality of loan portfolio.

5.2. Establishing a clear path to achieve fiscal consolidation

With the gross public debt for central and local governments reaching 150–160% of GDP, the sustainability of fiscal deficit of the Japan' budget is the critical long term policy requirement for the revitalization of Japan. In this respect, achieving a surplus in the primary budget by early 2010 is the most daunting task of the government. Roughly speaking the primary balance is the balance between the tax revenue and general expenditure, that is to say, the balance between 「revenue other than borrowing」 and 「expenditures other than payments of interests and principals」. The reason why the primary balance is important is that gross public debt ratio to (nominal) GDP will not increase as long as the primary budget is balanced, provided that nominal GDP growth rate is equal to or more than long term interest rate. However, if the nominal GDP growth is less than the nominal interest rate, a (sizable) surplus in the primary budget is required to simply maintain the gross public debt ratio to GDP.

The revised Medium-Term Economic and Fiscal Perspective (Revised early 2004) limits public outlays through FY 2006 to (the FY 2002 level of) 38% of GDP by double-digit cuts in public investment spending. The Perspective, importantly, sets the objective of achieving a surplus in the primary budget by early 2010s. However, the path to achieve a surplus in the primary budget by early 2010s is not clear enough at this moment other than the below.

- () In FY 2004, the primary deficit, is estimated to have fallen to 5% of GDP (FY 2005 estimate is a deficit of 5% of GDP, amounting to 15 trillion yen for the general budget in which total expenditure is 82 trillion yen.)
- () The Medium-Term Economic and Fiscal Perspective include a decline of 1/2% of GDP in the primary budget deficit in each year from FY 2004 to FY 2008 – a full decade to reach a primary balance.
- () FY 2005 budget envisages 1) total expenditure increase of only 0.1%; 2) the bond dependency ratio reduced to 41.8% from 44.6% in the previous year, for the first time in the past 4 years; 3) general expenditure cut by 0.7%, with ODA being cut by 3.8% while science and technology being increased by 2.6%.

The uncertainties are related to lack of concrete plan for the following:

- () the scope for a cut in discretionary budget
- () progress in the reform of social security system, including pension reform, medical care reform. (Social security expenditure has been increasing steadily in Japan during 1990s, while it has been declining in Italy and Canada.)
- () the timing and scope for tax increase, including the consumption tax. (Prime Minister Koizumi stated from time to time that his cabinet would not increase the consumption tax during his term until the fall of 2006.)

In the context of achieving the fiscal consolidation, the reform effort to address the local government, particularly in the area of stand alone investment programs and the compensation of local government employee, is also critical, as the local government debt has risen from 15% of GDP in the early 1990s to 40% of GDP in 2003.

- Thus, fiscal consolidation requires redefining the respective powers and responsibilities of central and local governments.
- The Trinity Reform aims at cutting earmarked grants (subsidies), reforming grants by the central government and increasing local tax revenue.

5.3. Strengthening the reform efforts to reactivate the private sector further

Government reform efforts are characterized by three principles: 'No gains without reforms'; 'from Public Sector to Private Sector'; And 'from State to the Regions'.

The top priority of the Koizumi Cabinet is the privatization of Japan Post by April 2007 (now by Oct 2007 is likely), which is the world largest financial institution with the asset amounting to 80% of GDP, into 4 entities, independent under market principles, namely undertaking over the counter services, mail delivery, postal savings and postal life insurance, all under a holding company owned one third by the government. The privatization process will take ten years to complete. Some of the rationale for the privatization are:

- () Channel funds to the private sector: Postal saving and life insurance has been providing the government with financing to support public corporations and investment programs. Those flow of funds needs to be channeled into the private sector.
- () Introduce the private discipline: The long term financial viability of Japan Post is in question under the public corporation, with the mail delivery service decreasing in volume, replaced by e-mails.
- () Ensure equal footing with the private sector: If Japan Post continues to be a public entity, it might undermine the operation of private financial institutions as the share deposit taking of Japan Post has increased from 11% to 20% over the decade.
- () Contribute to fiscal consolidation of GOJ: In the case of NTT, JR, and JT, each one of these companies increased their per capita ordinary profits from 3 to 8 times and saw productivity increase from 1.5 to 3 times. (White Paper of Japan's Economy 2005)

This being the case, the House of Councilors' s rejection of the postal privatization bills has been regarded as a major backpedaling of Koizumi's reform agenda. For this reason the Prime Minister has decided to seek the view of the public by calling for the general election of the Lower House on Sep 11, 2005.

While the privatization of Japan Post has politically become a symbol to continue on the structural reforms and an entry point of subsequent reform efforts, other reform agenda is equally important to increase the growth potential of Japan. Aiming for small government has been widely supported by the public.

- ()The Three Year Plan for Promoting Regulatory Reform is updated every year
- ()The creation of Special Zones for Structural Reform in 2002, uses local government to advance nation-wide regulatory reforms.
- ()Market Test, which compares private and public sector service provision efficiency through competitive bids, beginning FY 2005 has been introduced on a trial basis.
- ()Achieving the government goal of doubling the stock of foreign direct investment has resulted in the stock of FDI's amounting to 2 % of GDP, which is still low among OECD countries, where the ratio is often 10%.
- ()Strategy for Creation of New Industry was published by METI in May 2004.

It is noted that the size of the privatized markets could be very significant, which may amount to 40 trillion yen (8% of nominal GDP), including private financing of infrastructure(PFI)、 Special Zones for Structural Reform, Market Test (Toyokeizai,2005). The past regulation and practice may have constrained the enormous scope of activities of the private sector. For instance, relative to the US and European firms, Japanese companies have lost the opportunity to expand the overseas operations in the area of infrastructure due to the past regulations and the delay in deregulation or privatization. However, Japanese companies are now in a better position to expand PFI activities, leaning from unsuccessful experiences of their counterparts in other countries, and in collaboration with the government, known as Private Public Partnership. (Ikawa, 2004)

In this respect, it should be emphasized that, the fostering of viable private sector is also a key to high economic growth needed to reduce poverty by half by 2015 among developing countries in the context of the Millennium Development Goals. The World Development Report 2005, a flagship publication of the World Bank, entitled "A Better Investment Climate for Everyone" (World Bank, 2005) looks at what governments can do to create better investment climates for the society, drawing on new research, including surveys of nearly 30,000 firms in 53 developing countries.

5.4. Regaining and maintaining confidence in the household consumption

In order to ensure the sustained recovery of the Japanese economy, it is imperative to maintain the level of household consumption, which occupies 55.3% of GDP. The Household saving rate /

GDP has shown a constant decline since 1986, with the ratio 16.5% in 1986, 12.0% in 1995, 9.8% in 2000, and 5.9% in 2002. However, the past pattern of maintaining the consumption and living standard by reducing the saving rates may soon come to an end. In this respect, in the context of the aging of population, it is noted that the first baby boomer generation will soon begin to reach the mandatory retirement age. The shift of this generation called Dankai generation to the older age group whose propensity to consumption is higher may cause a further rise in the propensity to consumption in macroeconomic sense. However, in the medium term, consumption increase would require income growth, wage increase and employment. It is also noted that by 2004, labor share declined to a point where labor productivity and real wages are at the equilibrium. So far the rebounds in corporate sector have led to more employment and wage increase, which has filtered into private spending through income growth.

It is particularly important from the view point of maintaining the consumption, to ensure that future fiscal consolidation efforts in the area of tax will not have long lasting adverse effects on consumption. Currently for FY 2005 and 2006, tax rate cut for income tax introduced in FY1999, amounting to 3,3 trillion yen will be abolished in two stages. (For an income earner of 15 million yen---about 140,000 US dollar, the foregone tax cut will be 290,000 yen ----about 2700 US dollar. That is 1.9 % of the gross income.) Furthermore, as a part of the fiscal consolidation the consumption tax, which is currently 5% -----relatively low among advanced countries, may be increased substantially in the near future.

Consumption also depends on a better employment outlook and the certainty of future social security system, particularly the pension. A nonpartisan consensus on the key questions of pension and social security program is highly desirable in the long run, to eliminate uncertainty about the viability of the program.

5.5. Reestablishing Fair and Efficient Labor Market and Steps to Cope with Aging Population

As the labor force population quantitatively declines, the issue is how to improve the quality of labor force in order to increase productivity. In order to improve the quality of young workers it is important to provide the best possible education. It is emphasized that since 1997, full time regular employment has continually decreased, while part-time and temporary employment has risen steadily to 29% of the total labor force. This practice has strengthened the financial position and competitive position of firms during a decade of stagnation, while addressing particular needs and life style of those workers. However, the increase in non-regular workers has created equity, efficiency and macroeconomic issues:

- () Those workers are paid only half of what their counterparts in regular employment are earning.
- () Non-regular workers are not getting on the job training, an opportunity to enhance their skills.
- () If the compensation package to this group continues to be lower than warranted, this

practice may retard recovery of consumption.

- () The couple of non-regular workers could not afford to have a child because of their low salaries.

Therefore, an overall review of this practice is needed from the viewpoint of equity and efficiency of labor market, as well as demographic consideration.

The retirement of the Dankai generation will have two impacts on employment:

- () the positive impact of lowering total labor costs and encourage youth employment
- () the negative impact of a large number of highly skilled elderly workers withdrawal from the market

As Japan has enjoyed the longevity with the average life expectancy for both men and women being among the highest in the world in 2003, (women 83.33 years and men 78.35 years), aging population and diminishing trend of young people is calling for bold steps to address this social and labor issue. A positive news of this issue is that child decline problem has attracted a more serious attention of the public media, in conjunction with the Lower House Election in Sep 11, 2005.

Encouraging a higher employment rate, particularly for women, youth and senior workers is needed, in the light of rapid aging of population. Immigration policy may also need to be reviewed, as the ratio of foreigners in the population in Japan is at this moment only 1.5%, including permanent residents. This compares with 10.43% in the US, 8.3% in Germany, 5.6% in France and 4% in the UK. Nomura urged to form a new consensus on Japan's Immigration policy based on a managed immigration, in the context of global framework and paying due regards to a criteria based on economic rational (Nomura, 2004). Admitting that the immigration policy is the clash between economic benefits and social and cultural cost, the Nomura's proposal is not for a massive immigration to fill the gap of labor force created by diminishing population, but for admitting foreign workers selectively over time. The immigration policy is also an important element of FTAs and economic integration of Japan with other Asian countries. (For instance, in the negotiation of FTA with Philippines, immigration of nurses and care workers has been a core issue.)

5.6. Promoting further financial reform to increase competitiveness of banks

Much progress has been made in the banking supervision. Particularly, following the target specified in the Financial Sector Revitalization Program of 2002, the reduction of non-performing loans (NPLs) of major banks by half by March 2005 to 4% has been achieved. (March 2002:8.4%

March 2005:2.93%) This outcome was not only due to improved business conditions resulting from economic recovery; policy measure have also made a big contributions.

Also the final lifting of full guarantee of bank demand deposits up to a ceiling of Y 10 million has been to be achieved without a difficulty for most banks. However, the reduction of NPL for local banks is much slower. And major banks need to strengthen their capital as well as earning

power.

In December 2004, the Financial Services Agency issued the Program for Further Financial Reform-----Japan's challenge, moving toward a Financial Services Nation. The emphasis of the program has shifted from financial system stability to financial system vitality, as the phase surrounding the financial environment changes from the emergency reaction phase to a desirable financial situation. In the context of globalization, the program calls for 'further development of a financial system which is internationally open and the financial administration with an international perspective.'

5.7. Pursuing stability of exchange rate

During the process of the present recovery since 2002, the appreciation of the yen was a matter of serious concern of the authorities that feared a deflationary bias of the economy. For this reason, the authorities stepped up vigorously in the foreign exchange market in 2003 and the first quarter of 2004, to avoid the appreciation of the yen above 100 yen/US dollar at the time the deflationary bias was still more evident than now. The amount of intervention reached 34 trillion yen and the foreign exchange reserve increased to US\$ 824 billion by March 2004. Since then no intervention has been reported. Much of the intervention during this episode has not been sterilized and has contributed to an increase in the liquidity in the markets.

After plunging down to closer to 100 yen/dollar in early 2005, the US dollar has recovered since then, as solid growth of the US economy around 3.5% and steady increase of the Federal Fund rate toward a neutral range from 3 to 4 % have been observed. (The yen is around 110 yen /US dollar in early September 2005.)

While the stability of the yen exchange rate against the US dollar will continue to be important for a sustained recovery of the economy, a more stable exchange rate regime among Asian currencies will also be crucial, in the long run, for Japan as well as for Asian countries that have established close supply chain among them. The foreign exchange rate adjustment of China in July 2005, including the 2 per cent upward adjustment of Yuan and the adoption of basket of currencies in the managed float, was a welcome move in this direction. A move away from the fixed regime with the US dollar among Asian currencies will lessen the volatility of cross rates among them.

As the reemerge of Asian currency crisis will be very costly for Japan and other Asian countries in relative term with other regions, more deliberate efforts and preparatory works toward the stability of Asian currencies and eventually the formation of a common currency are needed. Financial cooperation is an important step forward in this respect. The Chiang Mai initiative which was agreed at the ASEAN plus 3 (China, Korea and Japan) Finance Ministers Meeting in May 2000 has already formed a network of bilateral swap agreements worth US \$39.5 billion. An expansion of the CMI was agreed upon at the Finance Ministers meeting held in May 2005 to double the amount of the network and to increase the size of swaps that can be

withdrawn without an IMF-supported program from the current 10% to 20 %. If those arrangements become more institutionalized, the basic thrust of the Asian Monetary Fund (AMF) which Japan proposed at the time of Asian currency crisis will revive.

5.8. Promoting economic integration

If Japan tries to maximize the benefit from globalization with its diminishing population, Japanese economy needs to be integrated more with the rest of the world, particularly with Asia. This should also apply to other Asian countries as well as emerging economies in other regions. Within East Asian countries, the economic integration has been advanced significantly with the intra-trade flows occupying 50% of the total trade flows, while the intra-direct investment flows have increased to one fourth of the flows. Under FTA (free trade agreement), trades of competitive products is expected to increase, while productive investment flows should increase within the region. However, pursuing FTA has made a limited progress, as the agreement has been reached only with Singapore (Nov 2002) and Mexico (April 2005), while basic framework agreements were reached with Malaysia and Philippines. However, there are expectations that an East Asia Trade Area will be formed in the 2010s through the establishment of a network of bilateral FTAs. For Japan, FTAs with China and Korea will be very significant. FTAs should potentially enhance the ability of Japanese companies to retain substantial portion of their core production with high technology in Japan, as the barriers to trade will be disappearing in the borders. FTAs should also eliminate country risks of overseas investments in the area of regulated industries, if those agreements include the investment dispute settlement mechanism. It is also important to start thinking about a long term vision of the regional integration, because sharing the future vision among Asian countries should help prevent a narrowly minded nationalism from damaging the long term opportunity and potentials for the region. The first East Asia Summit will be held in Malaysia in December 2005.

6. EXPANDING THE SCOPE OF COMPETITIVE GLOBAL COMPANY

A key question to review the revitalization of Japan is whether or not, given the appropriate policy framework and favorable external environment, Japanese firms could be winners in the global market, in the medium and long term. In this respect, the important question is to what extent, Japanese firms could stay on the list of Fortune Global 500, a ranking in term of sales volume, in the years to come, by maintaining and enhancing their competitiveness and profitability. Among the 2005 Fortune Global companies, Japan is the home of 81 global companies, while US has far more companies on the list than any countries with 176 global companies. (UK 35;, Germany 37; France 39; China 16; India 5; South Korea 11.)

As mentioned before, it is often stated that the management practices of Japanese companies have gone through some changes during the lost decade. The change in employment practice

away from the life time commitment and an increase of non-regular workers has increased the flexibility in the labor market but has created a new problem from the macroeconomic point of view. At a time of declining population and labor force, the productivity and skills of non-regular workers have been kept low. In the face of retirement of baby boomers the firms have felt the need to retain skills in their labor force.

Payment policy has also been changed but it has created some confusion. Particularly, the performance-based pay system, while contributing to articulate goals of the organization/units and the individuals and to strengthen the firm, if superficially adopted, has damaged a team work spirit across the organization and created frustration among workers, to the detriments of work morale and innovation. ('The Inside of Fujitsu', (Joe, 2004) describes how a leading Japanese companies have become a loser in 10 years after the introduction of the performance-based pay system, whereas 'Success Principle of Takeda's Performance -Based Pay System' (Yanashita,2005) explains the reasons why this new pay system has been successful at Takeda as an effort to become a truly competitive global company.)

While many Japanese companies among fortune 500 have established a corporate strategy in a global context, for many of them, the global strategy has focused on advanced countries and Asia, particularly China. It is noted that Japanese banks have become heavily dependent upon domestic operations, in earning profits before tax, relative to their counterparts in US and European countries. (For instance, Tokyo Mitsubishi earns 64% of profit before tax in Japan, while Deutsche Bank and Citigroup, respectively, secure, 31% and 45% of profits, in Germany and North America. 'One reason why US banks are earning more profits is that those banks have attracted talented executive staff at a high salary from all over the world. As the U.S. is a plural culture state, the management of US banks is composed of diverse nationality,' according to a former banker. (Hayakawa, 2005) Indeed, the homogeneity of Japan may have hindered the best use of foreign talents in overseas operation. Business strategy to diversify staff composition is much needed for many Japanese companies in order to expand rapidly in a global market in the coming years. (See ' Diversity as Strategy' by David A. Thomas, which describes why Mr. Gerstner, CEO of IBM adopted in 1995, the strategy to diversity of staff as his marketing strategy to revive IBM.(Thomas,2004))

While risk management has been strengthened in some Japanese corporations including of the adoption of RAROC (Risk Adjusted Return on Capital) or a similar methodology by trading companies, the risk management should be enhanced to maximize the value of the company, without becoming a risk averse. In this respect, it is well known that there is a natural tendency for management or managers to become risk averse unless there is an incentive to take a risk for a higher reward. (Agency theory) In the context of a traditional Japanese organization, there is more to it than meet the eyes. For instance, Ihara, (Ihara, 2005) states that 'the fundamental reason behind the stagnation of Japan was the fact that Japanese firms have avoided to become risk takers at the time the economic environment has changed from the phase of production expansion to the phase of fighting.' 'The organization has not been designed to take a risk, partly

due to Japanese way of handling matters and cultural structure of Japan, in which the consensus is considered crucial. For this reason, the sense of crisis in a firm to survive is the source of energy to change Japan.' Therefore, it is imperative for Japanese firms to strengthen risk management in conjunction with the global strategy, so that those companies could go for a high risk and high return project abroad, based on careful assessment and evaluation of risks and returns. Those firms may need to take calculated risks, from time to time, based on its risk appetite and risk tolerance and on the risk and return assessment to maximize the market value added of the company. A well defined risk management system is highly desirable in this respect. For instance, under such a system, while the expected loss should be covered by profits, the unexpected loss (the loss above the expected loss) might well be charged to Economic Capital which is often filled by shareholder's equity.

Finally a question may be asked if the Japanese management practice has changed to an American or Western way during the lost decade. The Study of Excellent Companies in Japan (Niihara, 2003), found in the study of 30 carefully selected companies, that the top management of excellent Japanese companies, has not simply imitated the foreign management style and technique but looked into the essence of the technique, so that their unique strength originating from its foundation will be enhanced, not eliminated in a global competition.

All in all, the management practice and technique have been greatly advanced for many Japanese companies in the past decade, while some aspects are still on trail and error stage. However, in order for those companies and for Japan to be true winners in the globalization, management of those firms need to change further, based on their traditional core competence, but to work more effectively in a global market.

7. UNCERTAINTIES

For the revitalization of Japan, needless to say, the greatest uncertainty on the domestic side is the speed and degree of the reforms after the September 11 Lower House election. On external factors, whereas the general global economic environment is relatively favorable to Japan at this moment to revitalize its economy, major shocks that could occur in the medium term need to be pointed out.

() Oil price increase

Oil price increase, if not directly, might affect the Japan's economy through weaker external demand. Japan is an efficient energy user and may absorb the direct impact of the rise in the price of oil up to \$50/barrel. However, with a further hike of the crude oil price since the summer toward \$70 dollar/barrel, the negative effects upon the corporate earnings as well as its negative impact on major economies including the US, have to be assessed carefully.

() The Dollar Crisis

While Japan may not be affected seriously by a cyclical movement of US economy, the loss of confidence of the US dollar due to the twin deficits, which might trigger rapid increase of US

interest rates and trim the US economic growth, will be a critical factor for the Japanese economy.

() The bursting of the bubble in China

A major disruption of Chinese economy, such as the collapse of the bubble could also damage the Japanese business. Though many experts on China predict that the growth momentum of the Chinese economy will remain robust for some more years until the Olympics year of 2008 while becoming more cautious about non-performing loans issue and its related problems, the bursting of bubble may happen if the rapid growth of fixed investments which now occupied 42 % of nominal GDP is not contained or left unchecked for unproductive use.

() Unfavorable geopolitical development and another major attack of terrorism

8. CONCLUSION

While the process to revitalize Japan is not yet complete, it is important to recognize that the legacy during the lost decade has been mostly wiped out, and that government policies and management practices of the private sector have been reshaped in an appropriate manner, while the daunting tasks still remain for the government in the areas of fiscal consolidation and social security. To the extent the episode is a fight in the context of globalization and world-wide demographic change, lessons can be drawn for countries in transition. All in all, barring a major shock of the world economy, the rebirth of Japanese economy will be forthcoming as long as the present policy efforts of the government and management endeavors of the private sector are continuously made in the right direction, in a harmonious way, and in the global context.

References:

- Dollar, David and Paul Collier (2002) 'Globalization, Growth, and Poverty: Building an Inclusive World Economy,' Oxford University Press.
- Fortune (2005) 'Fortune, 2005 Global 500 The World's Largest Corporations,' July 25
- GOJ Cabinet Office (2005) Annual Report on the Japanese Economy and Public Finance, 2005
----No Gains Without Reforms V----July 2005, Government of Japan
- GOJ Special Board (2005) 'Japan's 21st Century Vision----The Report of the special board of inquiry for examining Japan's 21st Century Vision' a New Era of Dynamism----Closer Ties and a Wider Range of Opportunities---- April 2005, .1 (2),3
- Hayakawa,H. (2005) 'Direction of Japanese banks after the reduction of non-performing debts,' International Finance Journal , August 5
- Ihara,Tetsuo (2005) ' Why Japan has stagnated----the condition to revitalize Japan' Chuo Keizai Sha, 110-112; 188-192
- Ikawa,Motomichi (2004) 'Investment projects in developing countries needed for Japanese firms in collaboration with government, Monday Seminar, Nikkei Kinyu Shinbun, April 26, 2004

- IMF (2004) 'World Economic Outlook' October 2004, ,140-142
- IMF (2005) Japan: 2004 Article consultation ----Staff Report, IMF country Report No.05/273 Aug 2005 , 4
- Iwata, Kikuo (2001) 'Economics of Deflation,' ToyoKeizai ----Japanese text 374-377
- Iwata, Kikuo (2005) 'Study of Japanese Economy,' Chikuma Shobou----Japanese text 2,68-84
- JETRO (2005) 'Is Japan's Economic Recovery in Danger?' The Japan External Trade Organization (JETRO), New York, Newsletter Feb 28, 2005.
<http://www.jetro.go.jp/usa/newyork/focusnewsletter>
- Joe, Shigeyuki (2004) 'The Inside of Fujitsu, the Collapse of Performance-Based Pay System,' Kobunsha Paperbacks
- Kuroda, Haruhikio (2005) 'Success and Failure of Fiscal and Monetary Policy,' Nihon Hyouronsha----Japanese text, 97-110; 119-120
- Mizuho Research Institute (2004) 'Reading the Tomorrow of the Japanese Economy' Toyo Keizai, Dec 2004-----Japanese text, 2-4;66-78
- Nakajima, Atsuo (2004) 'The Risk Scenario of the Japanese Economy,' Nikkei Shinbunsha, Sep 2004-----Japanese text, 51-93
- Niihara, Hiroaki (2003) 'The Study of Excellent Companies in Japan----Principles of Managing Firms----Six conditions,' Nikkei Shinbun, 23-31
- Nishimura, Kiyohiko(2004) 'Japanese Economy-Invisible Structural Reform,' Nikkei Press, Sep 2004 ----Japanese text, 2-20
- Nomura, Makoto (2004) 'Foreign Workers and Japan' Immigration Policy----Needed Change of Attitude from Wider Perspective,' Newsletter March 2004,Sumitomo Life Research Institute.
- OECD(2005) OECD Economic Surveys, Japan, Jan 2005
- Patrick Hugh (2004) 'Update on Perspective on Japan's Economy, The Japanese Economy: Sustained Recovery and Growth Not Yet Assured', Director, Center on Japanese Economy and Business, Columbia University, Oct 2004, Annual Report 2003-2004, 9
- Stiglitz, Joseph E (2002) 'Globalism's Discontents,' The American Prospect Jan 14, 2002, 1-5
- Thomas,David A. (2004) ' Diversity as Strategy' Harvard Business Review Sep 2004
- Toyokezai (2005) 'Privatization of State Industry----Business Chance of 40 trillion yen,' Toyokezai Weekly Magazine (Aug 20 2005)
- Vogel, Ezra F. (1979) 'Japan as No1:Lesson for America,' Harvard University Press
- World Bank (2005) ' World Development Report 2005---- A Better Investment Climate For Everyone,'
- Yanashita, Kouichi (2005) 'Success Principles of Takeda's Performance-Based Pay System----Clear cut Personnel Policy Will Change a Company,' Nikkei Business Person Bunko.