

# **ECOS2025**

East Asian Economies

*S2 2018*

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## ECOS2025 Lecture 1: Concise Economic History of Japan 1869 – 1989

### *Unification of Japan and Edo Period (1603 – 1868)*

- Before the Edo Period there was a long period of civil war in Japan called '*Warring States Period*' (1465 – 1590): caused by incessant war between Daimyo's of different provinces.
- Oda Nobunaga unified Japan in the late 16<sup>th</sup> century, completed by his successor, Hideyoshi Toyotomo in 1590.
- Tokugawa Ieyasu became Shogun following his victory at the Battle of Sekigahara in 1600, settling the dynastic rule of Japan following the death of the 'Imperial Regent' Hideyoshi Toyotomo in 1598.
  - *Tokugawa moved the capital of Japan to 'Edo' – modern day Tokyo.*

**Edo Period** brought uninterrupted peace that facilitated the flourishing of the arts, culture and the economy within a rigid feudal system; with clear class structure and ruled by Samurai.

*Hideyoshi*, under the feudal system decreed that:

1. All peasants were disarmed and only samurai were allowed to carry arms – peasants were forced to leave the land and live separately in towns
2. Samurai would receive an annual payment in koku's of rice according to their rank

He also ordered comprehensive land surveys and complete census of Japan for the purpose of:

- Systematic taxation i.e. state appropriate of rice
- Ensure all citizens stayed in fiefs they were registered to unless granted official permission.

*Tokugawa* built on this system by ranking daimyos according to their loyalty to the Tokugawa House.

### **Tokugawa Political Structure: the *Bakuhau***

Under Tokugawa Shogunate, a totalitarian political system was established where:

- the shogun has national authority and,
- the daimyo has regional authority

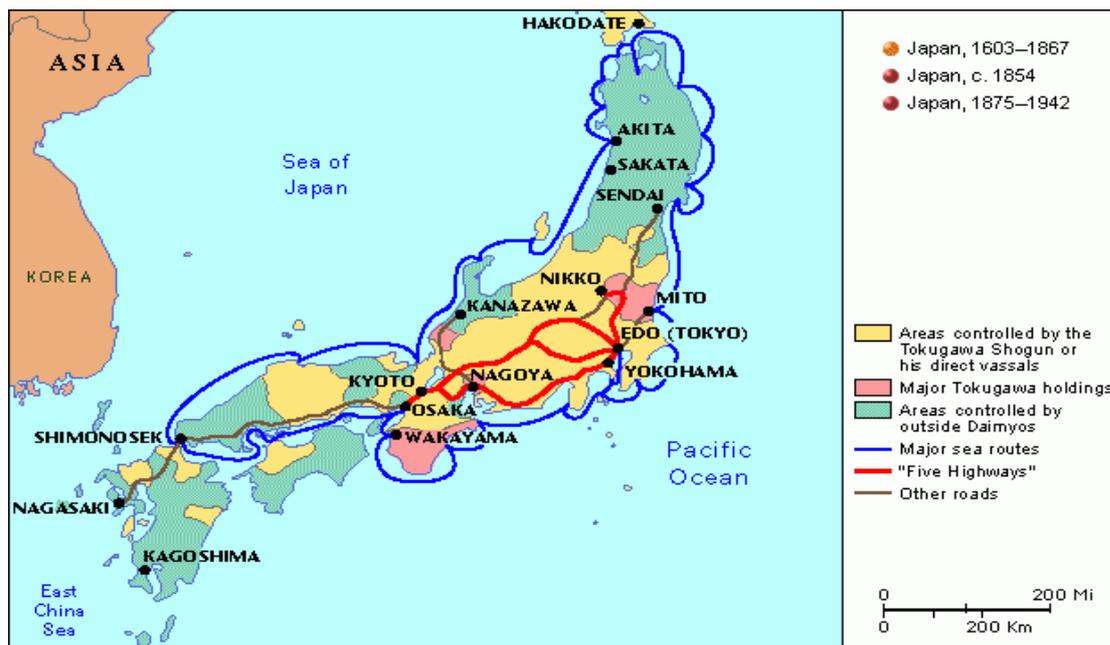
To maintain peace, there was a code of laws instituted by the Shogunate to regulate the Daimyo Houses:

1. Daimyos were required to keep their families in estates in Edo and could only spend alternate years in their regional domains (almost as hostages)
2. Weapons, troops and fortifications were strictly regulated

3. Daimyos were levied for contributions for military support and public works to deplete their wealth and capacity to make war.
  - Ieyasu Tokugawa was the founder and first Shogun of the Tokugawa Dynasty which ruled Japan from 1603 until the Meiji Restoration in 1868

His greatest achievement was the establish a feudal system after 150 years of continuous peace in Japan, keeping the county unified under one dynastic rule.

*Map of Japan: Tokugawa Period*



## Edo Period Economic Development

### Social Structure

- 5% Samurai, 80% peasant farmers and the rest consisted of merchants, craftsmen and undesirables.
- Administration and security of country was wholly undertaken by the Samurai – with some devoting themselves to the arts but *large proportion were idle and constituted a heavy economic burden on the rest of society.*
- Significant improvements to transport, production, banking and merchant trade – urbanization of the population
- However, population did not grow due to climatically-induced famines and lower urban life-expectancy due to higher child mortality.

### Urbanization and commercial growth

- Commercial growth in the progressively 'money economy' slowly eroded the feudal class structure – Samurai class acquired taste for luxury product, falling into chronic debt as prices rose in relation to income paid in rice.
- Merchants become more prosperous as money-lenders

- Tokugawa regime became indebted – resorting to imposing wider taxes and recoinage to raise revenue; weakening fiscal position.

#### ‘Black Ships’ and the disintegration of the Tokugawa Shogunate

- From the early 19<sup>th</sup> century, fiscal problems became critical as subsidizing unproductive samurai increased. Real power shifted to merchants and financiers.
- Matthew Perry on his ‘black ships’ forced the opening up of Japan for trade – in 1853 and 1854
- Foreign trade began after 1858; social tensions and political revolt become more and more open.

#### Meiji Restoration of 1868

The opening of trade essentially forced on the Shogun by trade treaties, politically discredited him as the betrayer of the country.

This caused the lower ranked samurai (not the merchants) from ‘outside’ clans in Western Japan to revolt against Shogunate in the name of the Emperor.

- The emperor was restored to constitutional position not occupied for some 800 years.

**Meiji government** was led by samurai whose common objective was to implement policies that would:

1. Enable rapid adoption of Western methods in war and industry to secure Japan’s independence
2. Rescind the unequal treaties imposed on Japan – *majority of the country did not want to be colonized like most other SE Asian countries.*

#### Japan’s Prospects for Capitalist Development

Though backward and lacking the influence of liberal enlightenment, Meiji Japan was in many respects well equipped to enter a *process of modernisation*:

- 50% of males and 15% of females received systematic education, making them highly literate – facilitated the communication of western ideas and technique through education.
- Samurai provided strong responsible leadership and organization under banner of developing a *power nation capable of preventing exploitation by foreign powers.*
- Feudal culture of obligation and loyalty ensure disciplined workforce motivated by patriotic and personal sentiment.

#### Meiji Liberal Reforms

The Meiji Government instituted sweeping liberal reforms to enable **social and economic mobility**:

- Samurai privileges were abolished, and all social classes were declared equal under the law with the same freedoms

- All barriers to communications and restrictions on internal trade abolished
- Entry into professions and trades were open to anyone
- Individuals were able to acquire property rights in land

#### Policies to Acquire Western knowledge

- In 1875, foreigners employed by the central and prefectural government was at its highest. Japanese were also encouraged to go aboard and acquire western knowledge.
- The state also established numerous colleges and schools, including in engineering, mining and agriculture fields (to test adaptation of foreign crops in Japanese conditions)

The goal was to understand western methods e.g. mining and manufacturing.

#### Trade policies

- Priority of Meiji government was to improve Japan's trading performance to generate FOREX needed to buy western technology embodied in capital goods.
- Government established trade organizations to encourage exports in artistic productions; also sponsored the use of Western machinery to produce new products e.g. in 1870 raw silk factories were equipped with Italian and French machinery – *silk became the primary export for Japan up until the 1930s.*

#### Foreign Trade Performance and External Balance

- Imports always exceed exports by over 79 million over the period 1868 – 1878 e.g. importing mainly cotton textiles and exporting raw products, chiefly tea and raw silk.

To finance their deficit, it was met with; foreign capital inflow and export of specie i.e. silver.

#### Communications and Transport policies

- 1871 – postal and telegraph system was introduced
- 1869 – steamship line between Osaka and Tokyo forming the two largest Japanese cities.

#### **Fiscal and Monetary Policy**

##### Meiji Governments' Financial Problems

The road to capitalist development was constrained by financial problems inherited from the Tokugawa regime.

- Chaotic state of economy and tax system
- Trade agreements with foreign powers limited revenue generation through custom duties
- Heavy military expenditure

Therefore, large fiscal deficits had to be financed by borrowing and printing money which has inflationary effects.

#### *Fiscal Reforms 1870s and 1880s*

1. Tax reform – introducing land tax, taxes on tobacco and sake
2. Sale of government factories to private firm e.g. *zaibatsu's like Mitsubishi which are large conglomerates*
3. Sinking fund for the repayment of future public debt
4. Annual budgets for fiscal policymaking

#### Fiscal Expansion

The fiscal reforms secured expanding tax revenue which enabled the Meiji government to finance rising annual expenditures; mainly for military – conflict and colonial expansion.

- Sino-Japanese War of 1894-95 acquiring Taiwan and surrounding islands
- Russo-Japanese War acquiring territories of Korea, Kwantung Peninsula and South Manchuria.

In this period, national debt increased ten-fold with much reliance on foreign loans.

#### Monetary and Banking System in Meiji

- Meiji Government established a national banking system on the American model.
- *Bank of Japan* created in 1882

#### Banking system

- *Bank of Japan* and central colonial banks like the *Bank of Taiwan* functioned to reform and control currency.
- *Yokohama Specie Bank* used to refinance foreign trade especially to import war materials and capital equipment
- *Private joint-stock* commercial banks to facilitate commerce