

**Table 2.1 Basic social and economic indicators for Japan**

	1997	1998	1999	2000	2001	2002	2003
Population (thousands)	126'166	126'490	126'500	126920	127291	127435	127619
Urban population (in per cent)	78.42	79.00	79.00	78.70	79.00.	n.a.	n.a.
Gross Domestic Product (GDP) (JPY Billion)	509'645	498'499	511'837	513'534	503'594	500'529	n.a.
GDP Per Capita (US\$)	34'203	31'179	35'478	37'544	32'553	31'324	31'324
Average Annual Exchange Rate Per US\$	120.99	130.91	113.91	107.77	121.53	125.39	115.93

Source: ITU World Telecommunication Indicators Database, International Monetary Fund.

### 2.1.1 Human development

Japan ranks ninth among the 174 countries that make up the United Nations Development Programme<sup>3</sup> 2004 Human Development Index and is placed in the “high” human development group. In this respect, it ranks ahead of France, Switzerland and Hong Kong China, but behind Canada, the United States and the Netherlands. Table 2.1 provides some relevant social and economic indicators for the country.

## 2.2 Political economy

Japan is universally regarded as one of the world’s leading industrial nations. Significant government-industry collaboration, rapid technological innovation and a strong work ethic have sustained the economy at its present high level.

One of the most remarkable characteristics of the economic scene is the “*keiretsu*”, or tightly knit groups consisting of manufacturers, suppliers and distributors. Much of the labour force enjoys lifetime employment and in general there is a high degree of staff loyalty. The use of robotic technology and telecommunications are important factors contributing to its economic strength. In fact, Japan possesses 410,000 of the world's 720,000 “working robots”.

Historically, the economy suffered greatly as a result of the Second World War, particularly due to destruction of infrastructure, severe food shortages and high inflation. Various social reforms were carried out after the war in order to establish a basic framework for economic recovery and development. The process of liberalization began with the break-up of the “*zaibatsu*”, or large business trusts. For instance, postwar demilitarization and the prohibition of rearmament are written into a new constitution, and Japan now spends as little as 1 per cent of its total gross domestic product (GDP) on defense.

In the latter half of the twentieth century, overall economic growth in Japan was phenomenal. In the 1960s, for instance, the annual growth rate averaged close to 11 per cent. This was far above the growth rates for the Federal Republic of Germany at 4.6 per cent and for the United States at 4.3 per cent during the same period. This growth was spurred by large investments from the private sector in infrastructure and equipment, and by the increased capital spending and the introduction of new technology.

There was a significant slowdown between 1992-95, largely due to the after-effects of increased investment during the late 1980s, and constrictive domestic policies intended to wring out speculative excesses from the stock and real estate markets. Since then, periods of growth have been frequently interspersed with stagnation. Growth picked up in 1996 following the introduction of stimulating fiscal and monetary policies coupled with low inflation. Again, in 1997-98, Japan’s economy took a downward turn. After the bursting of the IT bubble in 2000, Japan has once again plunged into a severe recession. The slowdown in the economy has been partially attributed to high unemployment rates, and low consumer confidence. The economy picked up somewhat in second and third quarter of 2002, but lost this momentum near the end of the year. There was renewed hope in 2003 however, when GDP figures confirmed a brighter trend, with a rise in