

# NON PERFORMING LOANS MANAGEMENT IN JAPAN DURING BABURU KEIZAI, 1989-2001

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## Introduction

Japan has the third largest economy in the world after the United States and China.<sup>1</sup> Japan's economy has experienced rapid growth and undergone changes in structure since the mid-19th century when the Meiji government opened the country to trade and Western influence for the first time. The Japanese economy also experienced "*Baburu Keizai*" which started from 1989 until 1992 because of the monetary policy mistake of the Japanese involvement in the *Plaza Accord*<sup>2</sup> and also due to the low interest rate set by the Bank of Japan (BOJ). After the Baburu Keizai occurred, Japan entered into the "*Lost Decade*" period which started from 1992 to 2001, representing Japan's prolonged economic downturn. Japan's economic growth slowed significantly in the 1990s during the "*Lost Decade*", caused by the effects of Japanese asset price bubble<sup>3</sup> and national policies which removed excess investment from the stock and real estate market.

## Methodology

This study used qualitative research methods based on primary and secondary data. In terms of secondary data, various materials were obtained from local libraries or Japanese libraries such as University of Malaya library, East Asian Library, Library Institute of Developing Countries, Japan External Trade Organization (IDE-JETRO), Komaba Library, the National Diet Library (Tokyo Main Library), University of

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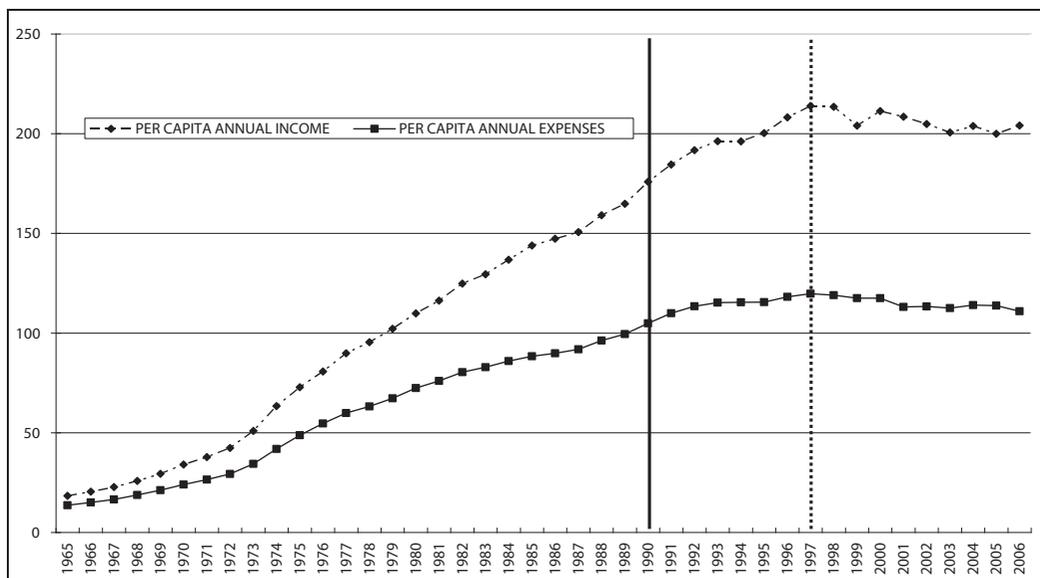
1 International Monetary Fund, *World Economic Outlook Database, October 2010: Nominal GDP List of Countries*, Washington: International Monetary Fund, 2010.

2 *Plaza Accord* was an agreement that benefitted the United States. The finance ministers and central bank presidents of four countries were involved in this agreement namely Japan, France, West Germany, England and the United States. The involvement of these five countries in the *Plaza Accord* in Plaza Hotel, New York was to work together to weaken the dollar exchange rate voluntarily. Thus, the objective of this agreement was to assist the United States to improve its trade deficit, especially against Japan and also as a stimulant for the economy to remove United States from the 1980s long economic recession. *Plaza Accord* was functioning well in the economy and reduce the deficit trade. The depreciation of the dollar was very good for the United States which remains the main currency used in foreign currencies trading and used in measuring the value of a country's currency. However, for the other four countries, their currencies fell more than the desired level. With this, the same five countries opted to cancel the *Plaza Accord* through the *Louvre Accord* in 1987 in Paris which saw the strengthening of the dollar again.

3 バブル景気 Japanese asset price bubble in Japan started from 1989 to 1992 through high property and stock prices.

the United Nations Organisation Library, Kodaira City Library and the Library for Economic Research Center Japan. Primary data was collected through interviews with academics related to the study in Japan and Malaysia. For example, this study obtained information Satoru Kumagai and Kozo Kunimune from IDE-JETRO and Yasuhiro Maehara from Hitotsubashi University in Japan between 18 September 2009 to 30 October 2009. Government documents were used extensively as reflected by Figure 1. Figure 1 shows that Japanese income and household spending was affected during the Asian economic crisis which began in 1997 and lasted till. This is because Japan's export sector was affected following the Asian economic crisis in which the problem of devaluation of the yen aggravated the country's total imports from the Asian region, as shown in Table 1.

Figure 1 Income and Expenditure Japanese from 1965 to 2006



Source: Annual Report on the Family Income and Expenditure Survey 1985-2006, Ministry of Internal Affairs and Communications, Japan, 1965-2007.

A weaker yen resulted in the decline in imports of raw materials and light industrial goods from the Asian region which affected the export sector and economic growth of Japan. Shortage of raw materials and light industrial goods shortage made it difficult for Japan to produce manufactured goods such as steel, ships, automobiles, computer chips and consumer electronics for export. So, the reduction in export adversely affected not only the national income as shown in Figure 2, but equally the per capita income of households. Furthermore the hike in prices as a result of the weak yen resulted in a reduction in household expenses.

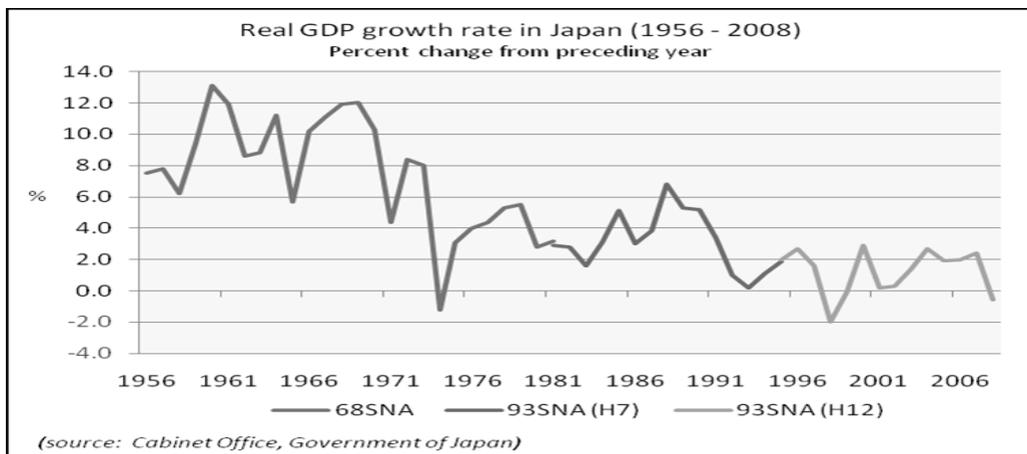
The overall GDP growth during the economic downturn in the 1990s only increased 1.38 percent from ¥440,124,900 million in 1990 to ¥501,068,100 million in 2000, compared with growth in the 1980s, which increased more than 4 percent every year as shown in Figure 2. The growth rate has declined since 1998 and the unemployment rate rose from 2.1 percent in 1991 to 4.7 percent at the end of 2000. The increase in the unemployment

Table 1 Sales Export to Japan (1996)<sup>4</sup>

Economy	Percentage
Indonesia	28.8
China	20.4
Philippines	17.1
Thailand	16.8
Malaysia	13.4
South Korea	12.3
Taipei, China	11.8 (1995)
Singapore	8.2
Hong Kong, China	6.5

Source: Brooks, D. H., Felipe, J., Hasan, R., and Siregar, R. Y., The Yen Depreciation and Its Implications for East and Southeast Asia, EDRC Briefing Notes Series No. 1, September, 1998. Retrieved November 19, 2009., <http://www.docstoc.com/docs/68160234/THE-YEN-DEPRECIATION-AND-ITS-IMPLICATIONS-FOR-EAST-AND-SOUTHEAST-ASIA#>

Figure 2 GDP Growth Rate in Japan (1956-2008)



Source: En, W. S., Economy of Japan., 2010. Retrieved February 2, 2010, <http://www.esri.cao.go.jp/en/sna/data.html#qe>.

rate to 4.7 percent is considered high as the unemployment rate in Japan never reached more than 2.8 percent in the 1980s.

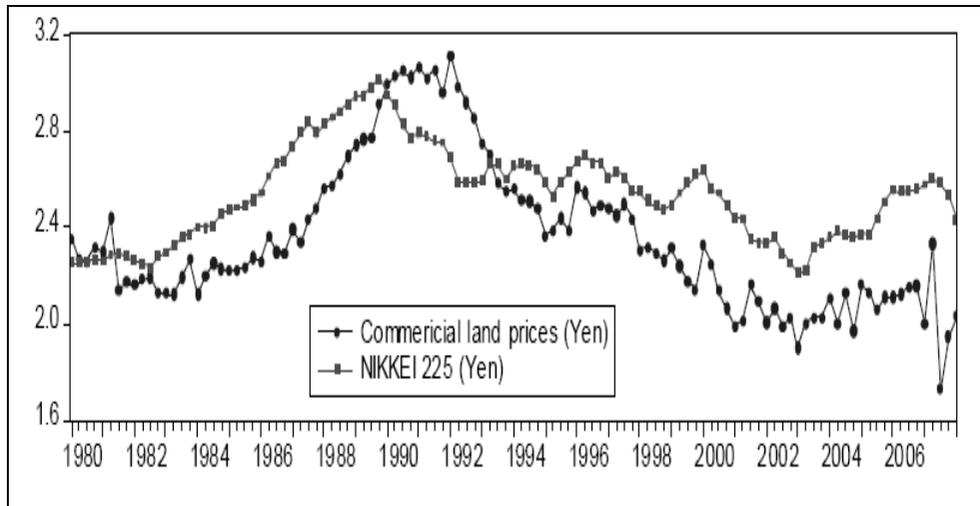
## Results and Discussion

Japanese *Baburu Keizai* became a reality when high investment growth occurred in the property sector and shares between 1989 to 2001 (see Figure 3). For example, share

4 Hong Kong and China did not depend on export of goods to Japan like the countries in East Asia and South East Asia. However, Hong Kong and China were very dependent on Japanese tourists who spent a lot in their countries. Unfortunately, the decline of the yen against the dollar value of Hong Kong resulted in reduction in spending by Japanese tourists.

prices showed a sharp increase in the 1980s. The average volume of trade conducted during the late 1980s was more than one billion shares a day because of rising stock prices resulted in more companies and individuals trading in the stock market. Similarly, property prices increased between 1986 to 1993, first within the business district in the cities and then gradually the phenomenon spread to the rural areas.

Figure 3 Property prices and shares of the First Quarter 1980 to First Quarter of 2008

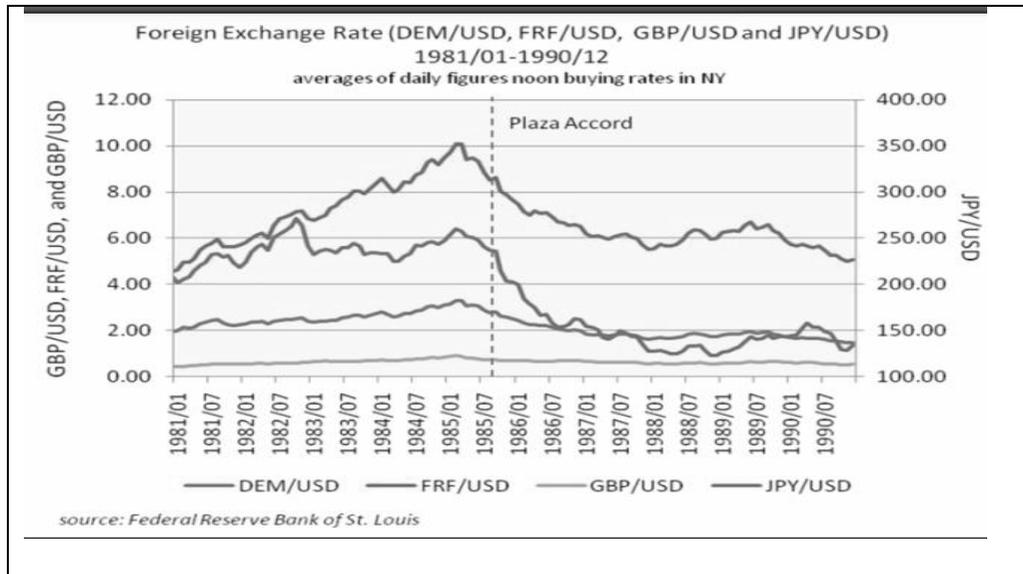


Source: Lee, E. H., "Review of Fluctuations in Land and Stock Prices in the Japanese Economy." *The Korean Journal of Economics*, Vol. 16, No.1, 2009, pp.95-122.

Conversely, research shows that between 1989 and 2001 saw the sharp fall of real estate and financial markets in Japan. The main factor leading to the existence of the Baburu Keizai in Japan which led to sharp decline in prices was the result of inappropriate financial policy management by the BOJ. Steps to sign the Plaza Accord in 1985 with the objective of overcoming the economic downturn in the United States indirectly increased the value of the yen and affected Japan's export sector (see Figure 4). Figure 4 shows that in the first half of the 1980s, the US Dollar (USD) was much stronger than the German Mark (DEM), French Francs (FRF), British Pounds (GBP) and the Japanese Yen (JPY). More interestingly, before and after the Plaza Accord, the USD suffered a decline.

For example, as shown in Table 2 and Figure 5, in 1985, the exchange rate between USD and the yen was US\$1 = ¥236.79, but in 1990, the exchange rate of US\$1 = ¥144.15. This exchange rate clearly indicates increase in the value of the yen because after Baburu Keizai, US\$1 could only be converted to ¥144.15. Though the yen became more valuable, but the exchange rate actually has a negative impact on exports. Yen appreciation affected not only the export sector but also the economic growth. The Japanese economy grew 4.4 percent in 1985 only to shrink to 2.9 percent in 1986.

Figure 4 Shift in Foreign Exchange Rates (DEM / USD, FRF / USD, GBP / USD and JPY / USD) from January 1981 to December 1990



Source: Miyagawa, S., and Morita, Y., Lessons from Japan's Prolonged Recession, Tampere Economic Working Papers Net Series 44, September, 2005, Retrieved 2July, 2010.,[http://www.researchgatenet/publication/29678638\\_Lessons\\_from\\_Japan%27s\\_prolonged\\_Recession](http://www.researchgatenet/publication/29678638_Lessons_from_Japan%27s_prolonged_Recession).

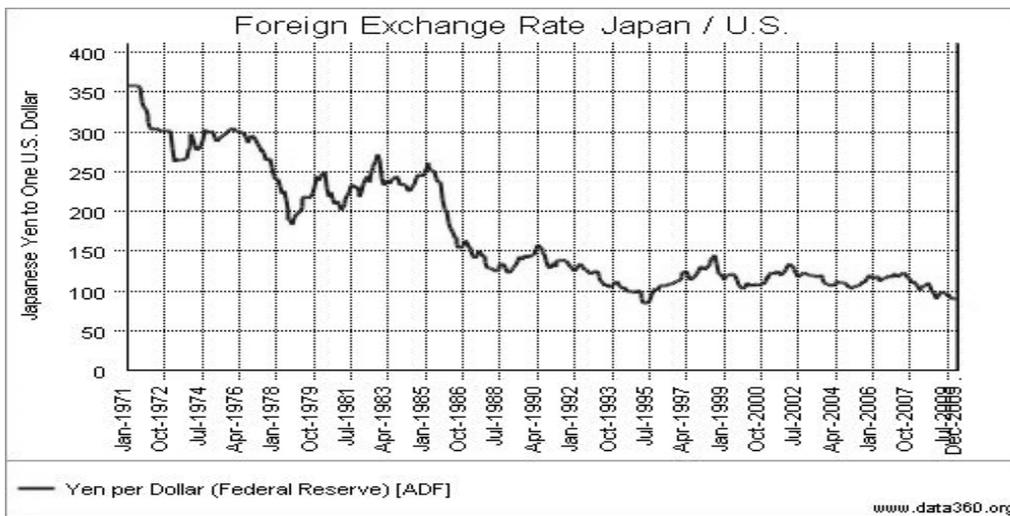
Table 2 US Dollar Exchange Rate

Year	US dollar exchange
1955	¥ 360.00
1960	¥ 360.00
1965	¥ 360.00
1970	¥ 360.00
1975	¥ 297.26
1980	¥ 225.82
1985	¥ 236.79
1990	¥ 144.15
1995	¥ 122.78
2000	¥ 107.73
2005	¥ 110.01

Source: International Monetary Fund, Economy of Japan, 2010, Retrieved February 2, 2010, <http://www.imf.org/external/pubs/ft/weo/2006/01/data/dbcseim.cfm?G=2001>.

In order to boost Japan's economic growth, the Japanese government introduced monetary policy solutions, administered by BOJ that were clearly inappropriate in the long run. Between January 1986 to February 1987, the BOJ lowered interest rates from

Figure 5 Foreign Exchange Rates Japan / US



Source: Federal Reserve Bank of St. Louis, Japan/U.S. Foreign Exchange Rate, 2010, Retrieved 18 January , 2010, <http://research.stlouisfed.org/fred2/source?soid=1>.

5 percent to 2.5 percent (see Table 3). The measure failed to restore Japan’s economic growth. The Japanese government never expected that the action would lead to property market bubble in Japanese stock market which eventually led to a prolonged economic recession till 2001.

Table 3 Reduction of Interest Rates

Effective date	Interest rate
30 January 1986	5.0 percent → 4.5 percent
10 March 1986	4.5 percent → 4.0 percent
21 April 1986	4.0 percent → 3.5 percent
01 November 1986	3.5 percent → 3.0 percent
23 Februari 1987	3.0 percent → 2.5 percent

Source: Okina, K., Shirakawa, M., and Shiratsuka, S., The Asset Price Bubble and Monetary Policy: Japan’s Experience in the Late 1980s and the Lessons (Special Edition), Institute for Monetary and Economic Studies: Bank of Japan, 2001.

In addition, the analysis also found that *Jusen*, the mortgage company in Japan was a major contributing factor to the decline in Japan’s *Baburu Keizai*. This is due the *Jusen* changing their business involvement in the more risky real estate loans in the 1980s. Rapid total property investment within *Baburu Keizai* whereby the lending of money by the *Jusen* from agricultural cooperatives became a factor that led to the fall of *Baburu Keizai* (See Table 4). This situation was exacerbated by the real estate lending by *Jusen* without strict controls provided by the Japanese legal system. As it is a well known fact, the *Jusen* is out of the control of MOF (see Table 5 and Table ). This eventually contributed to the fall of *Baburu Keizai* in Japan in 1992.

Table 4 Loans to 7 *Jusen*<sup>5</sup> by agricultural cooperatives

(¥ billion)

Year	Sinren	Nochu	Kyosairen
1980	70	1417	3434
1985	2725	2585	5697
1986	3388	3322	6130
1987	4283	4617	6792
1988	6287	5046	7446
1989	12268	6484	10287
1990	26701	8386	13514
1991	34354	8235	13838

Source: Kataoka, T., Bank Crisis: Its Causes and Results, 1996, Retrieved February 10, 2010, <http://www2.bus.osaka-cu.ac.jp/~kataoka/bcrisis/#1-2>.

Table 5 Housing Loan

(¥ billion)

Year	Larger bank	City bank	Regional banks	Housing loan corporation*	8 <i>JUSEN</i> **	Total***
1980	168,879	60,313	53,508	106,884	31,023	412,257
1985	202,020	82,463	62,205	212,157	50,432	595,927
1986	231,154	100,505	64,228	230,345	55,280	644,808
1987	274,757	133,519	71,416	254,498	65,678	727,204
1988	315,506	166,217	77,416	288,482	72,939	816,050
1989	370,788	209,808	82,804	323,187	93,150	938,696
1990	408,557	237,758	88,497	359,529	125,273	1,061,319
1991	433,133	250,527	94,528	386,583	126,225	1,131,907

Source: Kataoka, T., Bank Crisis: Its Causes and Results, 1996, Retrieved February 10, 2010, <http://www2.busOsaka-cu.ac.jp/~kataoka/bcrisis/#1-2>.

Note: \* Housing loan corporation are government institutions that specialize in housing loans.

\*\*8 *Jusen* are Nihon Jutaku Kinyu, Jutaku Loan Service, Juso, Soga Jukin, Daiichi Jukin, Nippon Housing Loan, Chigin Seiho Jutaku Loan and Kyodo Jutaku Loan.

\*\*\*Total includes credit unions, credit cooperatives, agricultural cooperatives, insurance companies and labor credit associations.

The most obvious effect on Japan's economic growth following the fall of the Japanese *Baburu Keizai* is the financial crisis that occurred in Japan in 1997. Japanese *Baburu Keizai* fall condition resulted in increasing non performing loans (NPL) problem as shown in Table 7. The sharp increase in NPL became extremely alarming, with 40 percent in 1991 to 75 percent in 1995 which led to increased funding costs for Japanese

<sup>5</sup> 7 *Jusen* are Nihon Jutaku Kinyu, Jutaku Loan Service, Juso, Soga Jukin, Daiichi Jukin, Nippon Housing Loan and Chigin Seiho Jutaku Loan.

Table 6 The Composition of the 7 *Jusen*

	(¥ billion)	
Year	Private house	Companies
1980	31,709	1,463
1985	32,350	15,941
1986	28,296	26,467
1987	25,106	39,087
1988	23,183	50,407
1989	24,599	77,637
1990	26,518	97,312
1991	26,423	95,731

Source: Kataoka, T., *Bank Crisis: Its Causes and Results*, 1996, Retrieved February 10, 2010, <http://www2.bus.osaka-cu.ac.jp/~kataoka/bcrisis/#1-2>.

Table 7 Non-Performing Loans (NPLs) of the seven *Jusen*, March 1995

<i>Jusen</i>	Total (billion)	% of loan portfolio
Nihon Jutaku Kinyu	¥ 1,300	68.9
Diichi Jutaku Kinyu	¥ 742	49.0
Nihon Housing Loan	¥ 1,300	57.6
Juso	¥ 666	41.0
Jutaku Loan Service	¥ 1,000	70.4
Sogo Jukin	¥ 716	63.4
Chigin Seiho Jutaku Loan	¥ 408	46.2
Total	¥ 6140	

Source: Oguni, K., *Furyoo Saiken Shori no Seijikeizaigaku* (The Political Economy of Bad Loan Cleanup), Tokyo: Heigensha, 1995.

banks in Europe and the United States. In addition, the strongest banking institution in Japan had to pay the risk premium<sup>6</sup> for lending transactions in the financial system.

More significantly, by the end of 1997, the fall of Japanese Baburu Keizai also caused the failure of financial institutions in Japan as shown in Table 8. Table 8 indicates that more than 170 saving institutions in Japan began to fail starting from 1991 with most of them failing in the mid-1990s. Japan's economic situation saw temporary recovery in 2000. But as a result of the continued NPL collection activities, the capital position of banks were always threatened.

Continuation accumulation of NPLs in the financial system in Japan almost destroyed the capital position of Japanese banks (regardless of the small amount of profit made until 2009 as shown in Table 9 and Figure 6. With reference to Table 9 and Figure 6, bank losses as a result of Japan's NPL problem started from a small amount of

<sup>6</sup> Known as Japanese financial premium that is a form of additional interest charges imposed on international lending by Japanese banks.

Table 8 Number of Saving Institutions Bankruptcy<sup>7</sup>

Year	Banks*	<i>Shinkin</i> banks	Credit cooperatives	Total
1990	0	0	0	0
1991	1	0	0	1
1992	0	1	0	1
1993	0	1	1	2
1994	1	0	4	5
1995	1	0	5	6
1996	2	3	3	8
1997	5	0	7	12
1998	3	1	31	35
1999	5	6	15	26
2000	1	5	27	33
2001**	1	9	37	47
Total	20	26	130	176

Source: Hanazaki, M., and Horiuchi, A., "A Review of Japan's Bank Crisis from the Governance Perspective," *Pacific-Basin Finance Journal*, 11, 2003, pp. 305-325.

Note: \* This area includes the city banks, regional banks I and II, trust banks and long-term credit banks.

\*\* Figures for the year 2001 up to November.

bank losses in 1993 to more than ¥96 trillion which amounted to 19 percent of Japan's GDP in 2005.<sup>8</sup> Starting from 2003, the amount of NPLs saw a reduction (see Table 10). Though the Japan Services Agency announced in mid-2005 that the Japanese NPL crisis was officially over,<sup>9</sup> the problem of accumulation of huge losses on loans continued.

This is because the services of lending to production companies, especially SME encountered losses starting from 2000. As a result, the total profits of Japanese banks were very low due to bank profits used to curb the problem of NPLs. In addition, the fall in Japanese stock prices was also another motivating factor (see Figure 7). In the meantime, Japanese banks did not have a lot of net capital to ensure the soundness of Japanese banks. Liabilities of the Japanese banking sector reached 3 to 4 percent, as shown in Figure 8. Total bank losses continued to rise to ¥97 trillion, almost 20 percent of Japan's GDP in 2007, as shown in Figure 6. In 2009, the total losses accumulation suffered by Japanese banks since 1992 reached more than ¥102 trillion or about 20 percent of Japan's GDP.

7 Table 8 includes the failed banks managed by the government and private sectors. For example, in October 1994, Mitsubishi Bank saved Nippon Trust Bank from failure when the government did not offer any financial assistance.

8 Financial Services Agency, <http://www.fsa.go.jp>

9 Hutchison, M. M., Ito, T., and Westermann, F. (2005). *The Great Japanese Stagnation: Lessons for Industrial Countries*, Economic Policy Research Unit Working Paper Series 05-13, December, 2005. Retrieved June 26, 2010. Website: (<http://www.econ.ku.dk/epru/files/wp/wp-05-13.pdf>)

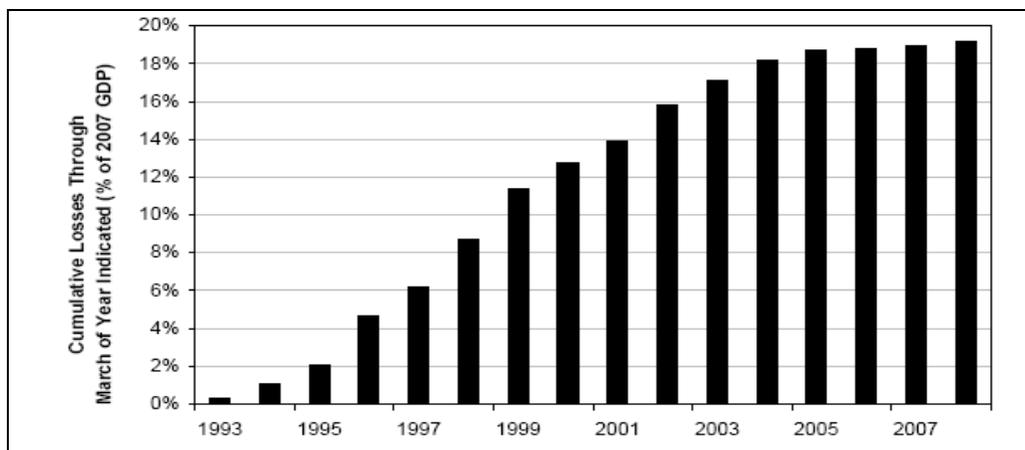
Table 9 Loan losses in Japan

(¥ Trillion)

Date	Loan losses	Cumulative loan losses since 4/1992	The number of major banks
3/1994	3.872	5.512	21
3/1995	5.232	10.744	21
3/1996	13.369	24.113	20
3/1997	7.763	31.877	20
3/1998	13.258	45.135	20
3/1999	13.631	58.766	17
3/2000	6.944	65.71	18
3/2001	6.108	71.818	18
3/2002	9.722	81.54	15
3/2003	6.658	88.198	13
3/2004	5.374	93.572	13
3/2005	2.848	96.42	13
3/2006	0.363	96.783	11
3/2007	1.046	97.829	11
3/2008	1.124	98.953	11
3/2009	3.094	102.046	11

Source: Hoshi, T., and Kashyap, A. K., Will the U.S. Bank Recapitalization Succeed? Eight Lessons from Japan, NBER Working Paper No. 14401, August, 2009, Retrieved August 08, 2010, <http://www.nber.org/papers/w14401>.

Figure 6 The NPL losses Bank of Japan Approaching 20 Percent of Japan's GDP



Source: Koo, R., and Sasaki, M., Japan's Disposal of Bad Loans: Failure or Success? NRI Papers No. 151, March 01, 2010. Retrieved March 08, 2010, <http://www.nri.co.jp/english/opinion/papers/2010/pdf/np2010151.pdf>.

Table 10 Self Assessment Assets Revenue Transition by Bank

Major Banks (9)																		(¥ trillion)
Borrower categories	Sept-01	Mac-02	Sept-02	Mac-03	Sept-03	Mac-04	Sept-04	Mac-05	Sept-05	Mac-06	Sept-06	Mac-07	Sept-07	Mac-08	Sept-08	Mac-09	Sept-09	
A normal bank loan	264.9	250.8	235.5	224.5	222.1	221.1	221.6	222.7	226.5	221.6	225.8	228.5	229.9	231.1	236.3	236.3	239.2	
Bank loans require attention	48.5	45.8	43.8	40.5	34.4	28.2	18.9	17.3	14.7	14.1	13.6	15.8	15.7	16.3	16.3	18.5	18.0	
Bank loans requires special attention (A)	8.5	11.3	11.6	11.5	9.1	7.0	3.4	2.7	2.3	2.3	1.9	1.8	1.5	1.7	1.3	1.1	1.1	
Bank loans are in a state of bankruptcy dangerous (B)	8.9	12.2	9.5	6.6	6.2	5.2	7.1	3.6	3.1	1.9	1.6	1.9	2.1	1.7	2.1	2.4	2.9	
Lending to banks experienced a bankruptcy or de facto bankruptcy (C)	3.2	3.2	2.8	2.2	2.2	1.5	1.6	1.0	0.8	0.5	0.4	0.4	0.4	0.4	0.8	1.0	0.9	
Total (A)+(B)+(C)	20.6	26.8	23.9	20.2	17.5	13.6	12.1	7.4	6.1	4.6	3.9	4.1	4.0	3.8	4.2	4.5	4.9	

Regional Banks (109)																		(¥ trillion)
Borrower categories	Sept-01	Mac-02	Sept-02	Mac-03	Sept-03	Mac-04	Sept-04	Mac-05	Sept-05	Mac-06	Sept-06	Mac-07	Sept-07	Mac-08	Sept-08	Mac-09	Sept-09	
A normal bank loan	135.5	136.2	134.4	141.0	140.0	142.7	142.2	146.8	147.4	152.2	153.8	156.4	156.9	159.3	159.3	162.2	153.6	
Bank loans require attention	34.2	32.9	31.0	30.1	28.0	26.5	24.8	23.7	23.1	22.9	23.1	24.2	24.6	25.2	25.8	27.8	28.5	
Bank loans requires special attention (A)	4.2	4.6	4.8	4.9	4.5	4.1	3.6	3.1	2.8	2.4	2.3	2.1	2.0	2.0	2.0	1.0	1.1	
Bank loans are in a state of bankruptcy dangerous (B)	6.1	6.4	6.5	6.3	6.0	5.8	5.5	5.1	4.8	4.4	4.4	4.1	4.1	4.0	4.1	4.0	3.9	
Lending to banks experienced a bankruptcy or de facto bankruptcy (C)	4.0	3.9	3.8	3.5	3.4	2.8	2.5	2.2	2.0	1.8	1.8	1.7	1.6	1.6	1.9	2.2	2.1	
Total (A)+(B)+(C)	14.2	14.8	15.0	14.7	13.9	12.8	11.6	10.4	9.7	8.7	8.4	7.8	7.8	7.6	8.0	7.2	7.0	

All Bank (120)																		(¥ trillion)
Borrower categories	Sept-01	Mac-02	Sept-02	Mac-03	Sept-03	Mac-04	Sept-04	Mac-05	Sept-05	Mac-06	Sept-06	Mac-07	Sept-07	Mac-08	Sept-08	Mac-09	Sept-09	
A normal bank loan	407.0	393.4	375.9	371.7	368.2	369.5	369.3	375.0	379.8	380.5	387.2	392.7	395.0	398.8	404.0	405.5	399.4	
Bank loans require attention	84.5	80.2	75.8	71.4	63.0	55.3	44.1	41.4	38.1	37.2	36.9	40.5	40.7	42.0	42.7	47.3	47.4	
Bank loans requires special attention (A)	13.5	16.5	16.8	16.6	13.7	11.1	7.0	5.9	5.1	4.7	4.2	3.9	3.5	3.7	3.3	2.1	2.2	
Bank loans are in a state of bankruptcy dangerous (B)	15.8	19.3	16.4	13.0	12.3	11.2	12.7	8.9	8.0	6.3	6.0	6.1	6.3	5.7	6.2	6.5	6.8	
Lending to banks experienced a bankruptcy or de facto bankruptcy (C)	7.4	7.4	6.9	5.7	5.6	4.3	4.1	3.2	2.8	2.4	2.2	2.1	2.1	2.0	2.8	3.4	3.2	
Total (A)+(B)+(C)	36.6	43.2	40.1	35.3	31.6	26.6	23.8	17.9	15.9	13.4	12.4	12.0	11.9	11.4	12.3	12.0	12.2	

Saving Financial Institutions (614)																		(¥ trillion)
Borrower categories	Sept-01	Mac-02	Sept-02	Mac-03	Sept-03	Mac-04	Sept-04	Mac-05	Sept-05	Mac-06	Sept-06	Mac-07	Sept-07	Mac-08	Sept-08	Mac-09	Sept-09	
A normal bank loan	487.3		465.3		459.6		463.7		472.8		481.1		485.1		491.8			
Bank loans require attention	100.0		90.5		72.6		57.2		52.3		55.8		57.8		65.2			
Bank loans requires special attention (A)	19.1		19.2		13.0		7.5		6.0		5.0		4.7		2.6			
Bank loans are in a state of bankruptcy dangerous (B)	23.8		17.4		15.3		12.5		9.7		9.3		9.0		9.5			
Lending to banks experienced a bankruptcy or de facto bankruptcy (C)	11.2		9.0		7.2		5.6		4.4		4.0		3.9		5.5			
Total (A)+(B)+(C)	54.2		45.6		35.5		25.6		20.2		18.3		17.5		17.6			

Source: Financial Services Agency, Status of Non-Performing Loans, 2010, Retrieved July 02, 2010, <http://www.fsa.go.jp/en/regulated/npl/20100205/07.pdf>.

Note: 1. "Major banks" refer to City Banks, Trust Banks and former Japanese Industrial Banks.

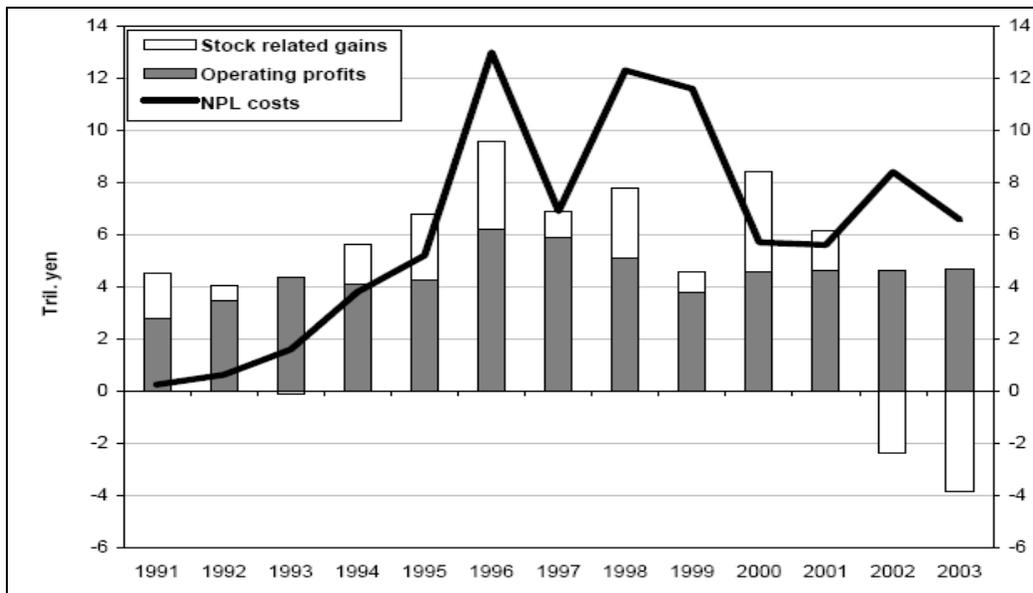
2. Starting from March 2003, "Regional Banks" included Bank Saitama Resona.

3. The figures for "All Banks" is composed of City Banks, the former Long-Term Credit Banks (including Shinsei Bank from September 2004 sustainability which has changed its position to the Ordinary Bank Charter on 1 April 2004 and including Aozora Bank from September 2006 continued to remain change its position to the Ordinary Bank Charter on 1 April 2006), Trust Banks and Regional Banks (including Saitama Resona Bank from March 2003).

4. The figures in Table 10 from September 2003 to September 2005 for Mizuho Financial Group includes the NPL has been moved to a subsidiary to restore corporation. Starting from March 2003 to remain continuous, the figure for the United Financial of Japan (UFJ) (starting from March 2006 to remain continuous, Bank of Tokyo-Mitsubishi UFJ) is included in NPLs was transferred to a subsidiary to restore the corporation. Starting from March 2004 to remain continuous, the figures for Nishi-NIPPON Bank and Fukuoka City Bank (after March 2005, Nishi-NIPPON City Bank of the merger of the Nishi-NIPPON Bank and Fukuoka City Bank was formed) is included in NPLs has been transferred to the subsidiary to restore the corporation. Starting from March 2005 to remain continuous, the figures for Hokuriku Bank include NPLs were transferred to a subsidiary to restore the corporation. Starting from September 2005 to September 2008, figures for Shinwa Bank include NPLs were transferred to a subsidiary to restore the corporation. Starting from March 2008 to remain continuous, the figures for Towa Bank include NPLs were transferred to a subsidiary to restore the corporation. Starting from March 2009, figures for Hokuto Bank and Fukuoka Bank are included in NPLs has been transferred to a subsidiary to restore the corporation.

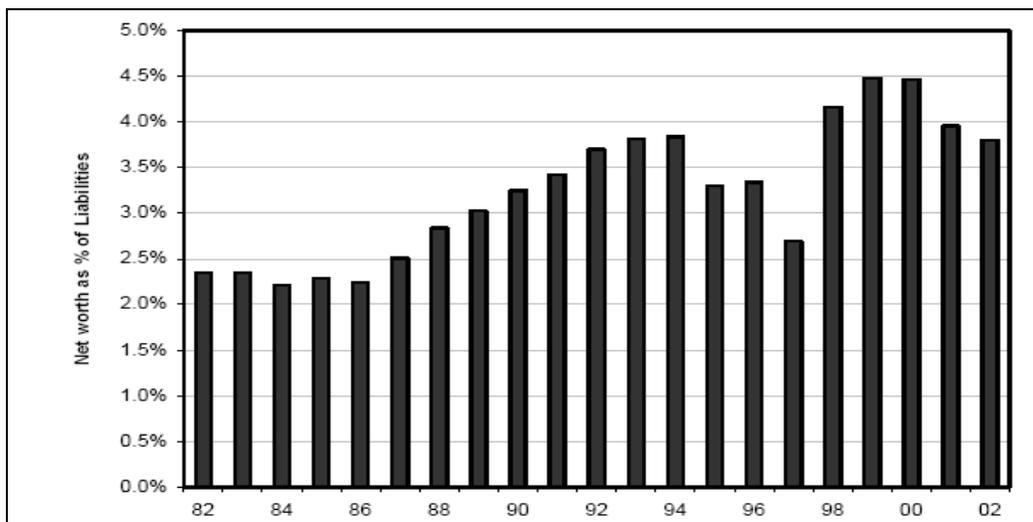
5. The figures in parentheses is the number of financial institutions that have been targeted in September 2009.

Figure 7 Japanese Banking Sector Gains Affected by NPLs and Share's Losses



Source: Katz, R., Lessons for US from Japan's Banking Crisis, The Oriental Economist Report No. 212-868-4380, March 19, 2009, Retrieved 27 June, 2010, [http://www.orientaleconomist.com/sitebuildercontent/sitebuilderfiles/oversight\\_testimony.Pdf](http://www.orientaleconomist.com/sitebuildercontent/sitebuilderfiles/oversight_testimony.Pdf).

Figure 8 The Lack of Net Capital to Accommodate the Japanese Banking Sector Losses



Source: Katz, R., Lessons for US from Japan's Banking Crisis, The Oriental Economist Report No. 212-868-4380, March 19, 2009, Retrieved June 27, 2010, [http://www.orientaleconomist.com/sitebuildercontent/sitebuilderfiles/oversight\\_testimony.Pdf](http://www.orientaleconomist.com/sitebuildercontent/sitebuilderfiles/oversight_testimony.Pdf).

Regionally, the fall of the 1990s Japanese *Baburu Keizai* also resulted Asia's financial crisis between 1997 and 1998. The Asian countries worst affected by the Asian financial crisis were Indonesia, Malaysia, South Korea, Thailand and the Philippines.<sup>10</sup> In 1997, the average economic growth of the five Asian countries was 5.5 percent compared with 7.4 percent in 1996. In 1998, the average economic growth for these five Asian countries recorded negative growth rates, as shown in Table 11. From July 1997 to July 1998, the Indonesian rupiah suffered losses of more than 90 percent of the value of its currency against the United States dollar. While the Malaysian ringgit, Thailand baht and South Korean won currency suffered a loss of 40 percent of their value.

Table 11 GDP Growth Percent for Countries Affected by Crisis

Country	1996	1997	1998
Thailand	5.50	-0.40	-8.00
Indonesia	7.80	4.90	-13.70
Malaysia	8.60	7.70	-6.20
South Korea	7.10	5.50	-5.50
Philippines	5.80	5.20	-0.40

Source: Lan, D. P., *The Asian Financial Crisis and Its Implication for Vietnam's Financial System*, Visiting Researchers Series No. 11, May, 2000, Retrieved August 28, 2009, <http://bookshop.iseas.edu.sg/ISEAS/Book.jsp?cSeriesCode=VRS11/00&cCategoryType=>.

Table 12 Changes in Bank Loan of Japan to Thailand and South Korea

Country/ Region	(US\$ billion)				
	End of 94-end of 96	End of 96-mid of 97	End of 97-end of 97	End of 97-mid of 98	End of 97-mid of 98
Thailand	11.10	0.20	-4.60	-7.10	-11.60
South Korea	6.90	-0.60	-3.50	-4.80	-8.30

Source: BIS, 68th Annual Report. Basle: Bank for International Settlements, 1998.

Note: Data for the Japanese lender may only be available from June 1994.

This was mainly the case because of the reduction in lending by Japanese commercial banks to Asia due to the rising NPLs in Japan and the fall of the stock markets in Thailand and South Korea from 1995 to 1996. So, Japanese commercial banks stopped offering new loans to Thailand and South Korea in 1996 as shown in Table 12. When the Thai financial companies suffered financially in March 1997, Japanese banks acted to bringing out a loan of US\$ 4.6 billion from Thailand in the mid-1997s.

Subsequently, the *Nihon Keizai Shinbun* reported that seven Japanese banks reduced their overseas loans of ¥1.1 trillion<sup>11</sup> in six months till 30 September 1997 to achieve the BIS capital requirements. In mid-1998, Japanese bank lending to the Asia-5 was reduced to US\$74 billion, a decrease of US\$23 billion over the next 12 months.<sup>12</sup> Japanese bank

10 Five Asian countries are known as the 'Asian-5'.

11 ¥1.1 trillion is equivalent to US\$8.6 billion.

12 Sales of Japanese loans has made European banks as the largest lenders in the region with a market share of 41 percent compared to the Japanese conquering only 35 percent.

lending is one third of the cross-border loans granted to the Asia-5<sup>13</sup> between mid-1997 and mid-1998. The largest focus of the Japanese bank lending in Thailand was US\$12 billion, South Korea, US\$8 billion and Indonesia, US\$4 billion. All in all, Japan became a vendor for the largest bank loans to Asia from mid-1997 to mid-1998 (see Table 13 and Figure 9).

Table 13 Changes in Bank Lending to Asia-5

(US\$ billion)

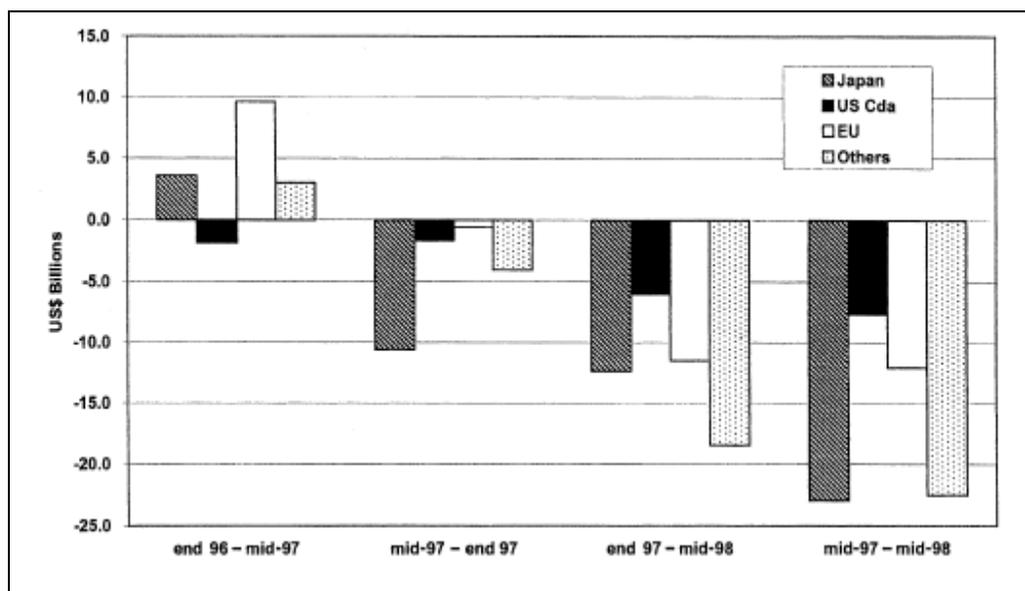
Country/Region	4Q94-4Q96	1Q97-2Q97	3Q97-4Q97	1Q98-2Q98	2Q97-2Q98
Japan	24.60	3.60	-10.60	-12.40	-22.90
North America	13.50	-1.80	-1.60	-6.00	-7.70
Europe	40.60	9.60	-0.50	-11.50	-12.00
Others*	26.60	3.00	-4.00	-18.50	-22.50
Total	105.40	14.40	-16.80	-48.40	-65.20

Source: King, M. R., "Who Triggered the Asian Financial Crisis?" Review of International Political Economy, Vol. 8, No.3, 2001, pp. 438-466.

Note: Data for the Japanese lender may only be available from June 1994.

\* Others refer to Switzerland and offshore banking centers in the Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles and Singapore.

Figure 9 Changes in International Bank Lending to Asia-5



Source: King, M. R., "Who Triggered the Asian Financial Crisis?" Review of International Political Economy, Vol. 8, No.3, 2001, pp. 438-466.

13 Is the major Asian economies that have been affected by the confusion of the financial market since 1997. Asian-5 countries are Indonesia, Korea, Malaysia, Philippines and Thailand.

Table 14 Trends in Japan's trade with USA, NIE-4, the ASEAN-4 and China between 1995 and First Mid-1998

Country/Region	(US\$ million)					
	1995	1996	1996	First mid-1997	Second mid-1997	First mid-1998
<b>World</b>						
Export	442,937	412,433	422,881	205,172	217,710	192,957
Import	336,094	350,654	340,408	172,459	167,949	142,937
Total	779,031	763,087	763,289	377,631	385,659	335,894
Trade surplus	106,843	61,779	82,473	32,713	49,761	50,020
<b>USA</b>						
Export to USA	120,859	112,277	117,669	57,437	60,321	58,655
% total export	27.30	27.20	28.00	28.00	28.00	30.40
import from USA	75,408	79,724	76,051	38,919	37,133	35,248
% total import	22.40	23.00	22.30	23.00	22.10	25.00
Total trade with USA	196,267	192,001	193,720	96,356	97,454	93,903
% total trade	25.20	25.20	25.40	26.00	25.30	28.00
Trade surplus	45,451	32,553	41,618	18,518	23,188	23,407
<b>East Asia*</b>						
Export to East Asia	186,547	174,925	171,591	84,033	87,557	65,157
% total export	42.10	42.40	41.00	41.00	40.20	34.00
Import from East Asia	115,520	123,397	118,267	59,436	58,831	48,919
% total import	34.40	35.20	35.00	35.00	35.00	34.20
Total trade with East Asia	302,067	298,322	289,858	143,469	146,388	114,076
% total trade	39.00	39.10	38.00	38.00	38.00	34.00
Trade surplus with East Asia	71,027	51,528	53,324	24,597	28,726	16,238
<b>NIE-4</b>						
Export to NIE-4	111,037	101,792	101,592	49,398	52,194	40,208
% total export	25.10	25.00	24.00	24.10	24.00	21.00
Import form NIE-4	41,219	41,006	35,389	18,173	17,216	14,728
% total import	12.30	12.00	10.40	11.00	10.30	10.30
Total trade with NIE-4	152,256	142,798	136,981	67,571	69,410	54,936
% total trade	20.00	19.00	18.00	18.00	18.00	16.40
Trade surplus with NIE-4	69,818	60,786	66,203	31,225	34,978	25,480
<b>ASEAN-4</b>						
Export to ASEAN-4	53,579	51,243	48,214	24,751	23,463	15,256
% total export	12.10	12.40	11.40	12.10	11.00	8.00
Import form ASEAN-4	38,379	41,841	40,812	21,244	19,568	16,357
% total import	11.40	12.20	12.00	12.30	12.00	11.40
Total trade with ASEAN-4	91,958	93,084	89,026	45,995	43,031	31,613
% total trade	12.00	12.30	12.00	12.20	11.20	9.40
Trade surplus with ASEAN-4	15,200	9,402	7,402	3,507	3,895	-1,101
<b>China</b>						
Export to China	21,931	21,890	21,785	9,884	11,900	9,693
% total export	5.00	5.30	5.20	5.00	6.00	5.00
Import from China	35,922	40,550	42,066	20,019	22,047	17,834
% total import	11.00	12.00	12.40	12.00	13.10	13.00
Total trade with China	57,853	62,440	63,851	29,903	33,947	27,527
% total trade	7.40	8.20	8.40	8.00	9.00	8.20
Trade surplus with China	-13,991	-18,660	-20,281	-10,135	-10,147	-8,141

Source: JETRO, Sekai no Bōeki to Nihon. Tokyo: Japan External Trade Organization, 1999.

Note: \*Geographical definition of East Asia is consistent with the terms of the Japanese economy ministry which is made up of Northeast Asia and Southeast Asia and in economic consisted of (NIE-4) (South Korea, Taiwan, Hong Kong, Singapore), ASEAN-4 (Malaysia, Thailand, Indonesia, Philippines) and China.

Japanese export sector changed from the United States to Asia in the mid 1980s. Mutually dependent relationship influenced economic relationship between Japan and Asia. This enabled to fix Japanese trade surplus balance with the United States. Japan is one of the major importing countries of Asia's raw materials and light industrial goods. Share of Japanese imports from Asia showed a continuous upward trend from 12 percent in 1963 to 20 percent in 1975.

After that, the average share of Japanese imports from Asia increased from 25 percent in the 1980s to 30 percent in the 1990s. Large part of Japanese imports from Asia is from the Association of Southeast Asian Nations (ASEAN). Japan dwelled in an average of 60 percent of Southeast Asian imports between 1963 to 1981. But after that, ASEAN's important declined by 1997 as shown in Table 14.<sup>14</sup> Concurrently, Japanese importation of goods from the Newly Industrial Countries (NIEs) showed an increase from 10 percent in 1963 to 33 percent in 1988 but then fell back to 20 percent in 1997.

In order to promote economic recovery, Japan continued to provide financial assistance to Asian countries that were hit by the 1997 financial and currency crisis through the New Miyazawa Initiative<sup>15</sup> which was introduced in October 1998. The New Miyazawa Initiative successfully overcame the Asian currency crisis that occurred in 1997 and 1998. In 1999, Asian economies began to improve, as shown by the increase in Southeast Asia's GDP growth rate of 0.8 percent after the GDP growth rate declined by 7 percent in 1998. In 2000, GDP growth rate for East Asia rose higher, namely 2.8 percent as shown in Table 15. Meanwhile, the pace of economic recovery among the Asian countries was different from each other with South Korea and the Philippines growing faster than Thailand, Malaysia and Indonesia.

Table 15 Economic Growth for East Asia and Southeast Asia Nations

Country/Region	GDP growth rate (Annual percentage changes)				
	1996	1997	1998	1999	2000
<b>Southeast Asia</b>	7.1	4	-6.9	0.8	2.8
Cambodia	7	2	0	4	6
Laos	6.9	6.9	4	-	-
Vietnam	9.3	8.2	4	3.7	4.5
Thailand	5.5	-0.4	-8	0	2.5
Indonesia	7.8	4.9	-13.7	0	2
Malaysia	8.6	7.7	-6.2	0.7	2.7
Myanmar	6.4	4.6	4	3	4
Philippines	5.8	5.2	-0.5	2.4	4
<b>Newly Industrial Countries</b>	6.3	6	-1.4	2.3	4.3
Hong Kong	4.5	5.3	-5.1	-0.5	2
South Korea	7.1	5.5	-5.5	2	4
Singapore	6.9	7.8	1.5	1	4
Taiwan	5.7	6.8	4.8	4.9	6.3

Source: Asian Development Outlook 2001. Manila: Asian Development Bank, 2001.

In 2007, the GDP growth rate for East Asia amounted to 10.1 percent and in 2010, the GDP growth rate for East Asia grew by 5.3 percent as shown in Table 16. So, it is reasonable to argue that Japan should continue to provide financial assistance to countries hit by Asian financial and currency crisis. This is because the economic recovery in Asia would assist in the Japanese economic recovery as shown in Table 17. With reference to Table 17, Japan's exports to the Asian region showed increasing trend from 6.3 percent in 2006 to 11.5 percent in 2007 and 2008. Japan's export situation to the growing Asia region also increased Japan's GDP growth rate from 1.9 percent in 2005 to 2.4 percent in 2007. However, Japan's GDP growth rate experienced a reduction in 2008 and 2009 by 0.6 percent and 6.2 percent respectively as a result of the United States financial crisis that began in 2007.

Table 16 GDP growth rate for the Asia

Country/Region	2005	2006	2007	2008	2009	2010 (Estimate)
<b>Japan</b>	1.9	2.0	2.4	-0.6	-6.2	0.5
<b>East Asia*</b>	8.1	9.1	10.1	6.6	2.9	5.3
China	10.4	11.6	13.0	9.0	6.5	7.5
South Korea	4.0	5.2	5.1	2.2	-4.0	1.5
ASEAN 10**	5.9	6.2	6.6	4.5	-0.7	2.2
<b>India</b>	9.2	9.8	9.3	7.3	4.5	5.6

Source: JETRO, 2009 JETRO White Paper on "International Trade and Foreign Direct Investment," Tokyo: Japan External Trade Organization, 2009.

Note: \* East Asia includes ASEAN 10, China, South Korea, Hong Kong and Taiwan.

\*\* Indonesia, Singapore, Thailand, the Philippines, Malaysia, Brunei, Vietnam, Laos, Myanmar and Cambodia.

Table 17 Exports of Japan Based on National and Regional

(Unit: US\$ million, %)

Country/Region	2005		2006		2007		2008	
	Value	Growth rate						
Asia	289,661	5.8	307,779	6.3	343,113	11.5	382,658	11.5
China	80,340	8.8	92,852	15.6	109,060	17.5	124,035	13.7
South Korea	46,880	6.1	50,321	7.3	54,199	7.7	58,985	8.8
Taiwan	43,910	4.7	44,152	0.6	44,780	1.4	45,708	2.1
Hong Kong	36,132	2.1	36,469	0.9	38,818	6.4	39,988	3.0
ASEAN 10	76,074	4.4	76,349	0.4	86,990	13.9	102,799	18.2
India	3,539	16.4	4,457	25.9	6,152	38.0	7,850	27.6
US	134,889	6.4	145,651	8.0	143,383	-1.6	136,200	-5.0
Central America and South	25,112	16.0	30,574	21.8	35,063	14.7	40,684	16.0
EU27*	88,249	0.9	94,139	6.7	105,270	11.8	109,383	3.9
Middle East	16,575	14.6	19,194	15.8	26,184	36.4	33,722	28.8
World	598,215	5.9	647,290	8.2	712,735	10.1	775,918	8.9

Source: JETRO, 2009 JETRO White Paper on "International Trade and Foreign Direct Investment," Tokyo: Japan External Trade Organization, 2009.

Note: \*Austria, Belgium, Denmark, Germany, Greece, Finland, French, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, Netherlands, Britain, Cyprus, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Romania and Bulgaria.

But in 2010, the GDP growth rate for Japan was expected to grow by 0.5 percent following the Japanese economy recovery as shown in Table 16. This is because Japan and Asia have a co-dependent relationship. Asia is the main importer for Japanese exports while Japan is a major importer of Asia exports. The gradual economic recovery increased Japan's ability to compete with other countries in East Asia and Southeast Asia as shown in Table 17. There is an obvious increase of Japanese exports to developing countries in Central America and South America and the Middle East.

Japan's experience in facing the Japanese Baburu Keizai from 1989 to 2001 provides many important lessons for other countries. The asset prices bubble in 1980s showed Japan the need to have a careful control policy to avoid the financial instability emerging from the development and the fall of asset prices. Careful control policy is needed because Japan is a country where banks dominate its financial industry.

In addition, the implementation of a sound monetary policy in the foreseeable future is important to face potential risks that threaten the Japanese economy. The implementation of monetary policy in the foreseeable future must be able to prevent the risk of inflation in order to avoid the late action taken when the Baburu Keizai emerged. Besides that, late 1998, Japan also promoted a formal supervision and control framework of the banking sector to create a stable macroeconomic environment. This is because there are advantages available from a well designed official deposit insurance system. The final lesson that countries can learn from this experience is the manner in which Japanese banks received support and low cost solutions from the government to overcome the problem quickly.

## **Conclusion**

The study concludes that the Baburu Keizai faced by Japan in the late 1980s not only was the largest in Japan, but it also is a Baburu Keizai that ended with a prolonged economic downturn. In this study, Japan's experience in facing the Japanese financial crisis in the 1990s not only promoted awareness for the Japanese government of the weaknesses of its economic restructuring that threatened Japan's economic growth but it also serves as an important lesson for the United States government that is trying to overcome its own that started in 2008. The situation in the United States financial system remains unsolved and the impact of the financial crisis is not yet known.

For the United States, Japanese experience shows that it needs to learn from the Japanese government's past mistakes and that Washington needs to be quick and take more aggressive actions in its efforts to overcome the financial crisis. In addition, the solutions taken by Japan are expected to benefit Tokyo in the long term as it has the potential to restore and strengthen the almost stagnant Japanese economy.

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