

## JAPAN'S ROLE AND POSITION IN THE GLOBAL CAPITAL MARKET

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### Abstract:

Japan's role and position in the global capital market have been a subject of significant interest and analysis. The country's capital market has unique characteristics and historical developments that have shaped its current standing. Japan's economy, as the third-largest globally, has a substantial impact on the financial landscape. Despite its potential to become a global financial center, Tokyo has faced challenges due to a risk-averse capital environment and limited diversity in domestic markets. The Japanese capital market has historically been dominated by banks, but over the years, it has been evolving, becoming broader and deeper, capable of handling larger and more innovative transactions. The market's growth has been fueled by domestic economic changes and an increasing international role for Japan's economy and financial system. The internationalization of the yen has been a strategic move to attract global investors and enhance the market's competitiveness. As Japan continues to adapt to both domestic and global economic forces, its capital market is undergoing structural changes to align more closely with major global markets. The ongoing process of liberalization and integration with world markets is driven by Japan's economic success and its ability to navigate international trade dynamics.

**Keywords:** *capital market, net exporter, world economy, foreign markets, economic policies, industrial development, economic relationship, political relationship, financial market, monetary, diplomacy.*

### INTRODUCTION

Japan's role and position in the global capital market, one can highlight Japan's significant presence as the world's largest net exporter of investments. Japan plays a crucial role in international capital movements, influencing global trends in this vital economic sphere. The country's direct investments abroad, particularly in regions like China and NIS countries, are substantial and contribute significantly to Japan's industrial potential. Despite this outward orientation, Japan's

import of direct investments remains relatively low, indicating an unbalanced participation in the international capital movement. Japan's economy is heavily reliant on "capital trade," with investment income exceeding export revenues, making it a more substantial sector than industry. The country's economic activities are geared towards expanding its presence in foreign markets, acquiring new technologies, and exploring new avenues. Major Japanese corporations, like sogo shosha, play a pivotal role in merger and acquisition strategies, shaping Japan's economic landscape. Furthermore, Japan's demographic challenges, characterized by an aging population and a declining birth rate, have contributed to economic stagnation and deflation. The nation faces the impact of external factors such as economic downturns in foreign countries, yen appreciation, and natural disasters like floods in Thailand. Despite these challenges, Japan is expected to recover moderately and continue its economic activities, focusing on strategies like market expansion, technology adoption, and diversification.

## **LITERATURE REVIEW**

The significance of studying Japan's role in the global capital market is crucial due to its impact on the world economy. Japan's position in international capital movements and its influence on the global economy are key areas of interest. Japanese companies have been actively engaging in mergers, acquisitions, and expanding their presence in foreign markets[1][2]. Additionally, developments in the management systems of Japanese companies, the evolution of economic and political relationships with other countries, and the impact of economic factors on political dynamics are essential aspects to consider[2]. Understanding Japan's economic policies, industrial development, and its interactions with other major economies like the United States and Europe provides valuable insights into the dynamics of the global capital market[2]. The study of Japan's model of economic regulation, the transformation of industrial policies, and the role of state interventions in economic planning further enriches the understanding of Japan's position in the international capital market[3]. Moreover, exploring the concept of human capital, including education, science, and technology, as integral components of Japan's economic growth, sheds light on the country's readiness to make technological advancements and compete globally[4]. In essence, delving into Japan's role in the global capital market encompasses a broad spectrum of economic, political, and industrial factors that are essential for a comprehensive analysis of its significance on the world stage.

Japan's financial market has undergone significant transformations over the years. From the post-World War II era to the present day, the country has experienced various economic shifts that have shaped its financial landscape[5]. The financial market in Japan faced challenges such as financial crises and deflation, impacting its growth and stability. Several factors have influenced the development of Japan's financial market. Demographics, including an aging population and a declining birth rate, have had profound effects on the economy. Additionally, the traditional industry of shipbuilding has been a significant contributor to Japan's economic growth, with key shipbuilding regions along the coastlines of the Inland Sea, Kyushu, and the Pacific coast. Japan's financial market has shown resilience in the face of crises[6]. Despite challenges like the overheating of the financial market in the late 1920s, the country's banking system remained stable and played a crucial role in providing financial services to the government[7]. This stability contributed to Japan's economic growth and its emergence as a major economic power. Analyzing Japan's external trade relations can provide valuable insights into its economic development. Trends in Japan's foreign trade over the past decade can shed light on the country's economic performance and global economic interactions. To provide a comprehensive historical overview of Japan's financial market development, consider including a table with key indicators such as GDP growth rates, inflation rates, stock market performance, and major economic events that have influenced the financial market over time.

Following World War II, Japan underwent a remarkable period of rapid economic growth known as the post-war economic miracle. This era, characterized by impressive average growth rates of 10% in the 1960s, 5% in the 1970s, and 4% in the 1980s, solidified Japan as the world's second-largest economy until 2010. However, the late 1990s brought a significant slowdown in growth, termed the Lost Decade, due to the burst of the asset price bubble. This period was marked by massive budget deficits to fund public works programs and structural reforms aimed at addressing speculative excesses in the stock and real estate markets, leading to a deflationary phase between 1999 and 2004[8]. In response to economic challenges, the Bank of Japan implemented quantitative easing measures to stimulate growth. By 2005, Japan began a sustained recovery, with GDP growth rates surpassing those of the US and EU. Despite these efforts, persistent challenges, including deflation, prompted further policy adjustments and initiatives to combat deflation and drive economic expansion.

Japan plays a significant role in international capital movements and has a major impact on global investment flows. As the world's largest net exporter of investments, Japan's participation in international capital movements is a complex topic that requires comprehensive study.

## **METHODOLOGY**

Japan maintains its competitive advantage in exporting parts, components, materials, and other intermediate goods, while importing primary products and consumer goods. This has led to a division of labor model between Japan and East Asian countries. Japan has high positions in international rankings assessing investment climate. However, the inflow of foreign direct investment (FDI) into Japan is much lower compared to other developed countries. The Japanese government has taken measures to stimulate foreign capital inflows, such as relaxing various restrictions on foreign capital access. Difficulties for foreign investors include high overall price levels in Japan and language and cultural barriers. Japan's outward FDI has been growing, with Japanese companies becoming more interested in cooperation with foreigners. This reflects a shift towards greater openness of the Japanese economy and deeper participation in globalization processes. Abenomics, Japan's economic policy framework, has contributed to Japan's increased engagement in international capital movements. However, Japan still faces challenges in reviving its economy and finding the most promising investment opportunities. Japan's huge international investments, with cumulative Japanese purchases of assets by country during Kuroda's term, pose a \$3 trillion threat to global financial markets as the Bank of Japan considers changing its ultra-loose monetary policy.

In summary, Japan's role in international investments is significant, with the country being a major capital exporter while also seeking to attract more foreign investment to support its economic development. The government has taken steps to facilitate international capital flows, but cultural and economic factors continue to shape Japan's participation in global investment markets.

The influence of Japanese companies on the global economy is significant. Japan has been a major player in various industries, contributing to global trade and innovation. Japanese corporations like Toyota, Sony, and Honda have had a profound impact on the world economy through their advancements in automotive technology, electronics, and other sectors. These companies have set high standards for quality, efficiency, and technological innovation, shaping global markets and consumer preferences.

## **RESULTS**

The unique characteristic of Japanese financial capital is its influence on the formation of monetary and credit policies in the country, which has significantly contributed to Japan's lower inflation rate

compared to other developed nations. This influence stems from the distinctive features of the Japanese financial system, capital markets, and financial institutions, which have shaped the monetary policies in Japan across different stages of its development. Additionally, the historical roots and specific characteristics of the Japanese financial system have led to a lower inflation level in Japan today, a result of the monetary and credit policies implemented in the country

Japan's economic landscape has been significantly impacted by prolonged economic stagnation and deflation, largely attributed to its aging population and low birth rates. This demographic challenge is underscored by the fact that as of September 2021, approximately 29.1% of Japan's population was over 65 years old, highlighting a pressing demographic crisis. In the realm of the shipbuilding industry, Japan boasts a rich heritage with major shipbuilding hubs situated along the coast of the Inland Sea, northern Kyushu, and the Pacific coast. Leading Japanese shipbuilding companies such as Sasebo, Mitsubishi, Kawasaki, and Universal have played pivotal roles in shaping Japan's shipbuilding prowess. Japan's security strategy is evolving towards a multilateral approach, aiming to establish a stable rules-based order to counter Chinese dominance in the region. Despite this strategic shift, Japan faces concerns regarding potential risks associated with its reliance on security guarantees and the implications of military operations involving the United States. Renowned for its soft power initiatives, Japan stands out as a global leader in leveraging cultural diplomacy, innovative business models, and cultural heritage to enhance its international image. The country's soft power potential is deeply rooted in its blend of traditional and modern culture, innovative business practices, and other facets that project a positive image worldwide.

## **ANALYSIS**

The collaboration between the United States and Japan in the military sphere has intensified, exemplified by the establishment of a Joint Defense-Industrial Council aimed at evaluating opportunities for cooperation in arms production. This collaboration is deemed essential in navigating geopolitical risks and countering China's expanding influence in the Indo-Pacific region. Japan's global economic positioning has undergone a notable transformation, marked by a declining share of its GDP in the global economy. The country has strategically focused on exporting to East Asian nations and implementing extensive projects abroad, with a specific emphasis on industrial technologies, energy initiatives, and eco-business ventures.

The Japanese management model has several advantages and disadvantages compared to the Anglo-Saxon approach:

Advantages of the Japanese model:

- Japanese firms rely more on long-term bank loans rather than capital markets, providing stability and long-term financial support to the company[9]. This contrasts with the Anglo-Saxon focus on shareholder returns which may compromise job security[10].
- Japanese companies prioritize job security and employee involvement, fostering a sense of loyalty and stability within the workforce[10]. Japanese managers are more likely to cut dividends before resorting to layoffs, demonstrating a commitment to maintaining employment even during challenging times[11].

Disadvantages of the Japanese model:

- The dominance of shareholders in Anglo-Saxon countries may lead to less job security and more flexibility in hiring and firing practices compared to the Japanese model[5]. This allows Anglo-Saxon firms to be more agile in responding to market changes.
- The emphasis on stability in Japanese companies can be seen as a disadvantage, as it may limit their ability to quickly adapt to evolving business conditions and maximize shareholder returns in the short-term[11]. The Japanese model prioritizes employee welfare over shareholder value.

In summary, the Japanese management approach prioritizes long-term stability, job security and employee loyalty, while the Anglo-Saxon model focuses more on shareholder returns and flexibility. Both models have their own advantages and disadvantages in terms of financial stability, employee welfare and organizational agility.

Japan is anticipated to uphold a substantial position in the global capital market, with expectations for the country to remain a key source of capital and investment. However, the precise nature of Japan's role is poised to transform in reaction to diverse economic and geopolitical influences.

## **DISCUSSION**

Japan's aging population and declining birth rate may trigger alterations in domestic savings and investment behaviors, potentially impacting the availability of capital for overseas investments. The trajectory of Japan's economic growth and the policies implemented by its government and central bank will determine the country's capital outflows and investment strategies. Tensions with China and other regional powers, alongside Japan's relationship with the United States, could influence the country's investment choices and its reputation as a stable and dependable capital contributor. Japan's capacity to embrace and lead in emerging technologies may influence its competitiveness and appeal as a destination for global capital. The increasing emphasis on environmental, social, and governance (ESG) considerations in investment decisions may necessitate Japan to adjust its practices and strategies to remain appealing to international investors.

In essence, while Japan is expected to retain a significant role in the global capital market, the specific nature of its involvement is likely to evolve in response to demographic, economic, geopolitical, technological, and sustainability-related factors. Adapting to these transformations will be vital for Japan to sustain its prominent position in the international financial landscape.

Here are the key aspects to consider regarding possible changes and trends in Japan's financial market:

- Japan's financial system comprises commercial banks, specialized government financial institutions, corporate securities, and capital markets[12].
- The Bank of Japan plays a crucial role in supporting the financial market, allocating significant funds for this purpose[12].
- Japan has faced economic stagnation and deflation for three decades, influenced by demographic factors like an aging population[13].
- The country's investment culture, characterized by high savings rates and low consumption, impacts the financial market dynamics, potentially leading to the inflation of financial bubbles[13].
- The Japanese stock market has experienced significant growth followed by a prolonged decline, reflecting the country's economic and market fluctuations.
- Projecting Japan's stock market situation onto other markets may not be accurate due to unique circumstances in each country[15].

- The Japanese mentality emphasizes hard work, saving, and minimal consumption, leading to a high demand for investment instruments that exceeds supply, contributing to potential financial bubble expansion[14].
- Challenges in the regional economy, particularly for second-tier banks, due to record-low interest rates and interventions by the Bank of Japan in the ETF market, raise concerns about market distortions and price disruptions in the medium to long term[15].

In summary, the financial market in Japan is influenced by a complex interplay of economic, demographic, and cultural factors, which may lead to potential changes and trends in the future, including challenges related to aging demographics, investment behavior, and market dynamics[16].

## **CONCLUSION**

Japan plays a significant role in the global capital market as the world's largest net exporter of investments. The country's outward foreign direct investment (FDI) has a major impact on global trends in this important sphere of international economic relations. Japan's capital exports are the main form of its foreign economic activity. The country's capital is invested primarily in the United States, Europe, and Asia. Japanese companies are actively engaged in mergers and acquisitions abroad, which allows them to expand their presence in foreign markets, acquire new technologies, and enter new business areas. At the same time, inward FDI into Japan remains relatively low, indicating an imbalance in the country's participation in international capital flows. This is partly due to Japan's strict immigration policies and demographic challenges, such as a declining and rapidly aging population. Despite the economic stagnation and deflation that Japan has experienced for three decades, the country remains a major player in the global economy. Japan has very high rankings in terms of market size, infrastructure quality, and human capital (health). In conclusion, Japan's role in the global capital market is significant and multifaceted. As a major exporter of capital, the country shapes international investment trends and plays a key role in the global economy.

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