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Industrial Finance during Japan's High-Growth Period: Implications for Emerging and Developing Economies

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〈Summary〉

◆ During its high-growth period, Japan developed an industrial finance system to meet companies' strong demand for funds. The system had four main features: (1) indirect finance under the main bank system; (2) the supply of long-term funds by long-term credit banks; (3) fund allocation through policy-based finance and policy guidance; and (4) financial system stability under the "convoy system."

◆ This system channeled household savings into large-scale corporate capital investment and promoted the upgrading of the industrial structure by allocating funds to priority industries. Long-term relationships between companies and banks also contributed to stable corporate management and employment. Together, these elements formed a key financial foundation for Japan's rapid economic growth.

◆ However, as the economy matured and corporate funding needs changed, part of bank lending flowed into real estate and related transactions, becoming one of the factors that fueled the bubble economy and deepened the subsequent financial crisis. Long-term company-bank relationships also tended to delay the downsizing of unprofitable businesses, business restructuring, and industrial renewal.

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◆ As industrial policy gains importance in emerging and developing economies, it is essential to develop industrial finance that translates policy into actual capital investment and commercialization. Rather than transplanting Japan's experience wholesale, it is important to distinguish the following functions and build frameworks suited to each country's economic and financial conditions.

(1) Functions that remain important regardless of the times

It is necessary to ensure financial system stability and to secure a stable supply of long-term funds for developing industrial foundations, drawing on domestic financial institutions, government-affiliated financial institutions, multilateral development banks, foreign financial institutions, and other sources.

(2) Functions that should be adjusted to changing times

It is important to regularly review the outcomes in priority sectors and flexibly adjust the targets, and to develop diverse funding channels, including not only bank lending but also equity, corporate bonds, and venture capital.

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1. Introduction

During Japan's high-growth period, the upgrading of the industrial structure, export expansion, urbanization and modernization, and improvements in living standards advanced rapidly. What supported these developments on the financial side was an industrial finance system centered on bank-based indirect finance. Specifically, with capital markets still immature and companies having limited capital of their own, a mechanism was formed whereby household savings were mobilized in the form of deposits and other instruments, and channeled through private banks, long-term credit banks, government-affiliated financial institutions, and others to meet companies' strong demand for funds. However, once the economy had matured and both corporate funding needs and the industrial structure had changed, distortions arose in fund allocation, contributing to the bubble economy and the subsequent financial crisis. This report therefore reviews the characteristics of Japan's industrial finance during the high-growth period and its contribution to economic development, looks back on the adverse effects that subsequently emerged, and considers the implications for emerging and developing economies.

2. What Was Japan's High-Growth Period?

Japan's high-growth period generally refers to the years from the mid-1950s to the early 1970s. During this period, heavy and chemical industrialization, export expansion, urbanization and modernization, and rising incomes and living standards progressed rapidly. From 1956 to 1973, Japan's real GDP grew at an average annual rate of about 9%, and in 1968 Japan became the second-largest economy among the capitalist countries, after the United States.

Over these years, under economic and industrial policies exemplified by the 1960 "National Income Doubling Plan" (hereinafter, the Income Doubling Plan), heavy and chemical industrialization advanced, centered on steel, shipbuilding, automobiles, electrical machinery, and other industries (Figure 1). The Income Doubling Plan set the goal of doubling real gross national product within 10 years, and aimed to strengthen the industrial base, expand infrastructure, earn foreign currency by strengthening export competitiveness, achieve full employment, and improve social security and social welfare. Against the backdrop of this policy support and expanding demand at home and abroad, companies actively undertook capital investment, including building new factories, modernizing production facilities, and establishing mass-production systems.

(Figure 1) Overview of the Income Doubling Plan

Overview and Purpose	• A long-term economic plan adopted by Cabinet decision under the Hayato Ikeda administration in 1960 • Ultimate goals: raising people's living standards and achieving full employment
Target	• Doubling real gross national product within 10 years (by FY1970)
Specific Policies	• Expanding infrastructure: developing the industrial base through investment in roads, ports, and other infrastructure • Upgrading the industrial structure: promoting heavy and chemical industrialization centered on petroleum, steel, and other industries • Increasing foreign currency earnings: earning foreign currency by strengthening export competitiveness and promoting exports • Developing human capabilities: fostering industrial human resources through enhanced education and training • Promoting science and technology: raising productivity by promoting technology adoption and R&D • Enhancing social security: developing the social security system, including establishing universal health insurance and pension coverage • Improving social welfare: enhancing welfare measures for older persons, persons with disabilities, children, and others

(Source) Prepared by JRI based on Economic Planning Agency, "National Income Doubling Plan," and National Archives of Japan learning content, "The High Economic Growth Period: National Income Doubling Plan" (in Japanese)

3. Characteristics of Industrial Finance during the High-Growth Period

As described above, while corporate capital investment expanded rapidly during the high-growth period, companies lacked sufficient equity capital, raising the importance of external financing. In capital-intensive core industries such as steel, electric power, petrochemicals, and shipping in particular, investments were large and took a long time to recoup. Consequently, as a mechanism for supplying long-term, stable funds to the corporate sector, a financial system emerged in which household savings were absorbed as bank deposits, postal savings, and the like, and supplied to companies through private banks, long-term credit banks, government-affiliated financial institutions, and others. Below, we highlight the four main characteristics of industrial finance during Japan’s high-growth period.

(1) Indirect Finance under the Main Bank System

The first characteristic is indirect finance under the main bank system. In the immediate postwar period, Japanese companies had limited equity capital, and capital markets were not sufficiently developed. As a result, companies financed their growth not mainly through direct finance such as stocks and corporate bonds, but through "indirect finance," in which banks lend to companies the funds that households deposit with them.

At the core of this supply of funds through indirect finance were the long-term, close relationships between companies and banks, known as the "main bank system." In Japan, it is common for companies to deal with multiple banks; among them, the bank that accounts for the largest share of a company's borrowings and mainly handles its settlement and cash management is called the "main bank." In addition to lending, main banks played a central role in handling companies' payment settlements and employee payroll accounts, and built long-term, multifaceted relationships with companies, including through cross-shareholdings. During the high-growth period in particular, they performed three functions: (i) a stable supply of funds, (ii) monitoring of management (debt governance), and (iii) rescue in times of crisis.

First, with regard to the stable supply of funds, banks that had built long-term relationships with companies provided long-term loans without being greatly swayed by short-term fluctuations in business performance. This enabled companies to make capital investments from a long-term perspective using loans from their main banks, while banks were able to earn stable interest income. Second, with regard to the monitoring of management, main banks, as major creditors, monitored corporate management and, where necessary, exercised debt governance by sending executives to serve as directors and lead corporate turnarounds. Third, with regard to rescue in times of crisis, when a company fell into management difficulties, the main bank took the lead in providing additional loans and restructuring its management. In this way, main banks played multiple roles, as "fund provider," "settlement institution," "shareholder," "major creditor," and "management supporter," and supported corporate growth on the financial side.

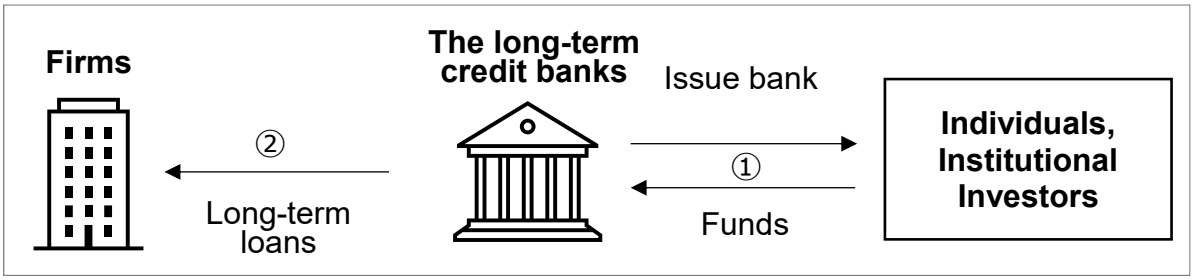
(2) Financial Institutions Supplying Long-Term Funds: Long-Term Credit Banks

The second characteristic is the presence of financial institutions that supplied long-term funds. Because industrial development during the high-growth period required large-scale, long-term financing, there were cases in which city banks, whose main source of funds was deposits (short-term funds), could not fully meet these needs on their own. It was long-term credit banks that supplied the necessary long-term funds. The long-term credit bank system was established by the Long-Term Credit Bank Law, which was enacted and took effect in 1952. Under this law, the Industrial Bank of Japan (IBJ) was converted into a long-term credit bank, and the Long-Term Credit Bank of Japan (LTCB) and the Nippon Fudosan Bank were newly established. The Nippon Fudosan Bank was renamed the Nippon Credit Bank (NCB) in 1977.

The business model of long-term credit banks was characterized by (i) raising funds mainly through bank debentures (long-term credit bank debentures)[1] and (ii) using those funds for long-term lending (Figure 2). On the funding side, they raised long-term funds by issuing interest-bearing and discount debentures to individuals and institutional investors. This mitigated the maturity mismatch between funding and lending and made it possible to supply the long-term funds needed for corporate capital investment on a stable basis.

On the lending side, IBJ and LTCB supplied long-term funds mainly to large companies, while NCB did so mainly to mid-sized companies and SMEs. IBJ in particular played a central role in supplying funds for capital investment to core industries such as steel, electric power, shipping, and petrochemicals. It was also actively involved in industrial restructuring, including the 1970 merger of Yawata Iron & Steel and Fuji Iron & Steel and the resulting creation of Nippon Steel Corporation.

(Figure 2) Business Model of Long-Term Credit Banks



(Source) Prepared by JRI

(3) Fund Allocation through Policy-Based Finance and Policy Guidance

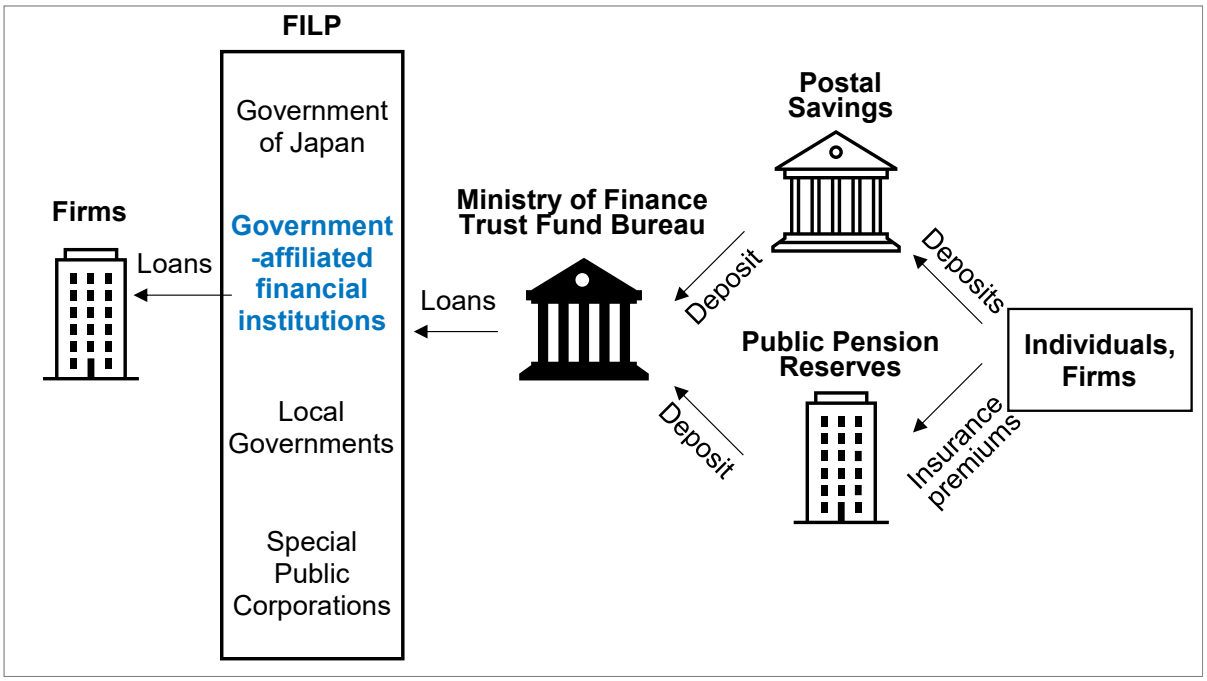
The third characteristic is fund allocation through policy-based finance and policy guidance. To complement private finance, a policy-based finance framework funded by the Fiscal Investment and Loan Program (FILP) was established. In postwar Japan, postal savings and pension reserves were required to be deposited with the national government (the Trust Fund Bureau of the Ministry of Finance). With these as its funding sources, FILP channeled funds through the Japan Development Bank and other institutions into large-scale, long-term projects, including infrastructure development, for which the private sector alone could not easily provide sufficient funding, while the Export-Import Bank of Japan supplied the funds needed for exports, imports, and overseas investment (Figure 3). Beyond its direct lending, policy-based finance also played a pump-priming role, crowding in additional funding from private financial institutions.

[1] Long-term credit banks relied on bank debentures as their main source of funding, and they were permitted to accept deposits only from the national and local governments, their borrowers, and other business counterparties.

At the core of this framework was the Japan Development Bank. Established in 1951 for the purposes of postwar reconstruction and industrial development, it supported the strengthening and modernization of key industries such as electric power, shipping, coal, and steel, and in the 1960s it was also involved in the industrialization of domestic technologies and the fostering of new industries, such as automobiles and electrical machinery.

Alongside the direct supply of funds through government-affiliated financial institutions, there were also mechanisms by which the authorities' policy stance effectively influenced and directed the lending behavior of private financial institutions. For example, at a time when the corporate sector as a whole faced a shortage of funds, the Bank of Japan conducted "window guidance," setting ceilings on the growth of commercial bank lending. In addition, the industrial policies of the Ministry of International Trade and Industry (MITI) and other bodies served as important reference points for private financial institutions in deciding which industries to direct funds to. As a result, under a division of roles in which the Bank of Japan managed the total volume of credit and the government and government-affiliated financial institutions influenced the direction of its allocation, a fund allocation mechanism emerged that concentrated limited funds in priority sectors, particularly heavy and chemical industries. Such policy-based fund supply helped meet long-term, large-scale funding needs that private financial institutions alone could not easily meet, and played a role in attracting private funds to industrial sectors prioritized by the government.

(Figure 3) Mechanism of the Fiscal Investment and Loan Program



(Source) Prepared by JRI

(4) Financial System Stability under the Convoy System

The fourth characteristic is financial system stability under the "convoy system." Just as a naval convoy sails as a group at the pace of its slowest ship, the Ministry of Finance, which was in charge of financial administration, managed the banking industry as a whole by closely regulating deposit and lending rates, new entry, branch openings, and other matters so that even financially weak institutions could survive.

Under this system, interest rate competition among banks was restrained, while the public came to believe that "banks do not fail." As a result, people felt secure depositing money in banks, and banks were able to lend those deposits to companies. Indeed, in postwar Japan there were virtually no failures of large financial institutions until 1990, which increased depositor confidence and drew large amounts of household funds into the banking sector. This financial system stability became the foundation for supplying low-cost, stable funds to industry.

These four characteristics worked in tandem to channel household savings into corporate capital investment. Specifically, while private banks built long-term business relationships with companies as main banks, long-term credit banks and government-affiliated financial institutions helped meet long-term, large-scale funding needs. In addition, a complementary structure emerged in which financial administration underpinned the stability of the financial system as a whole, and industrial policy set the direction of fund allocation.

4. The Role of Industrial Finance in Economic Development

As described above, the industrial finance system responded to companies' strong demand for funds and supported Japan's rapid economic growth on the financial side. Specifically, it enabled long-term, large-scale capital investment and promoted the upgrading of the industrial structure by allocating funds to priority industries. In addition, long-term relationships between companies and banks contributed to stable corporate management and formed a flow of funds that channeled household savings into corporate investment. Below, we organize its main roles into four points.

(1) Enabling Large-Scale Capital Investment

The first role was enabling large-scale corporate capital investment. During the high-growth period, Japanese companies built new factories, modernized their facilities, and established mass-production systems. In industries such as steel, electric power, petrochemicals, and automobiles in particular, investments were large and took a long time to recoup. Long-term loans from long-term credit banks and government-affiliated financial institutions therefore became an important funding source for such

investments. Using loans from financial institutions, companies were able to make investments that they could not have financed with their own funds alone, thereby expanding production capacity and modernizing their production facilities.

(2) Upgrading the Industrial Structure

The second role was promoting the upgrading of the industrial structure through the allocation of funds to priority industries. During the postwar reconstruction period, electric power, coal, steel, shipping, and similar industries were regarded as priority industries; subsequently, in tandem with the government's industrial policy, the targets of financial support were extended to high-growth industries such as chemicals, machinery, automobiles, and electrical machinery. As a result, Japan's industrial structure shifted from one centered on light industry to one centered on heavy and chemical industries, and Japanese industry became more internationally competitive.

(3) Stabilizing Corporate Management

The third role was contributing to the stability of corporate management. Under long-term business relationships with companies, main banks not only provided loans but also continuously monitored management information and, where necessary, supported companies with additional loans and management restructuring. This made it easier for many companies to build and renew facilities, conduct R&D, and expand production capacity without being unduly swayed by short-term business performance. By supporting the continuation and restructuring of businesses even for companies whose performance had temporarily deteriorated, main banks also helped stabilize corporate activity and employment.

(4) Utilizing Household Savings

The fourth role was forming a flow of funds that effectively channeled household-sector savings into the corporate sector. In Japan during the high-growth period, household savings increased against the backdrop of rising incomes and other factors, and were pooled in the financial sector as private bank deposits, postal savings, and the like. The funds thus collected were supplied to the corporate sector through private banks, long-term credit banks, and government-affiliated financial institutions. The corporate sector grew through capital investment and expanded production, increasing employment and incomes (wages), which in turn flowed back to the financial sector as deposits and savings. In this way, a virtuous cycle emerged in which household savings were used for corporate investment, corporate growth led to higher household incomes and savings, and these in turn became the source of new corporate investment.

As described above, industrial finance during the high-growth period not only supplied funds to companies but also enabled large-scale capital investment and promoted the upgrading of the industrial

structure through the allocation of funds to priority industries. Under the main bank system, it also stabilized corporate management as banks and companies built long-term relationships. Furthermore, it formed a flow of funds from household savings to corporate investment, linking household-sector savings to corporate-sector growth. This framework was well suited to the economic and financial environment of the time, when corporate demand for funds was strong and capital markets were underdeveloped, and became an important foundation supporting Japan's rapid economic growth.

5. Adverse Effects of Industrial Finance in the High-Growth Period and Changes in Industrial Finance after the Financial Crisis

While industrial finance during the high-growth period thus contributed greatly to the development of the Japanese economy, corporate funding needs and financing methods changed substantially after high growth ended, as the economy matured and the industrial structure shifted. Amid these environmental changes, the industrial finance framework formed during the high-growth period began to distort fund allocation and cause risks to accumulate at financial institutions. Below, we point out its main adverse effects and then review the changes in industrial finance after the financial crisis.

(1) Changes in Corporate Funding Needs and Shifts in Lending Destinations

During the high-growth period, when corporate demand for funds was strong, long-term bank lending was indispensable for supporting corporate capital investment. However, as Japan shifted from high growth to stable growth following the two oil shocks (the first in 1973 and the second in 1979), demand for funds for large-scale capital investment gradually declined. Companies also gained greater capacity to finance capital investment with their own funds through the accumulation of retained earnings and improved profitability. As a result, the corporate sector was no longer a chronic net borrower as it had been during the high-growth period, and its funding needs changed. Furthermore, as capital markets gradually developed, fundraising through direct finance, such as corporate bonds and stocks, expanded, mainly among large companies.

Under these circumstances, banks sought new borrowers and expanded lending to the real estate and construction industries, nonbanks, and others. In the late 1980s in particular, lending premised on rising land prices and the value of real estate collateral increased, triggering a spiral of rising land prices and expanding lending. As a result, part of bank lending flowed into real estate transactions dependent on rising land prices, becoming one of the factors that fueled the bubble economy and deepened the subsequent financial crisis (the massive nonperforming loan problem).

(2) Delays in Corporate Renewal and Business Restructuring

During the high-growth period, the main bank system contributed to stable corporate management through the supply of funds to companies, continuous management monitoring, and support for turnarounds in times of management crisis. However, as the economy matured and the competitive environment changed, banks' continued support for their client companies at times became one of the factors delaying the exit of companies and industries that had lost competitiveness. Cutting off financial support could disrupt a company's cash flow, while the bank, for its part, faced the risk of loan losses and a rise in nonperforming loans. Consequently, banks tended to have an incentive to maintain existing lending relationships rather than fundamentally review them. As a result, after the bubble burst, companies that had lost profitability were left with excess facilities and debt, while banks were saddled with large nonperforming loans. In the corporate sector, the "three excesses" of "excess capacity," "excess employment," and "excess debt" became serious problems, hindering the reallocation of facilities, human resources, funds, and other resources to growth areas.

(3) The Financial Crisis and the End of the Long-Term Credit Bank System

After the collapse of the bubble economy, land and stock prices fell sharply, and banks were left with large nonperforming loans, mainly real estate-related. In the late 1990s, a series of financial institutions failed, and Japan faced a severe financial crisis. Among the long-term credit banks that had supplied long-term funds during the high-growth period, the Long-Term Credit Bank of Japan and the Nippon Credit Bank failed as their nonperforming loan problems deepened, and were placed under special public management. LTCB subsequently became today's SBI Shinsei Bank, and NCB today's Aozora Bank.[2] Meanwhile, the Industrial Bank of Japan merged with the Dai-Ichi Kangyo Bank and the Fuji Bank to become part of Mizuho Financial Group. Through such post-crisis restructuring and consolidation, the long-term credit bank system formed during the high-growth period ceased to exist as a separate category of banking, and the supply of long-term funds became dispersed among private banks, capital markets, government-affiliated financial institutions, and others.

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[2] LTCB was placed under special public management (temporary nationalization) in October 1998. In March 2000, it was transferred to an investment partnership formed by Ripplewood Holdings, a U.S. investment fund, and other investors, and in June of the same year it changed its name to Shinsei Bank. It was relisted on the Tokyo Stock Exchange in February 2004 and converted into an ordinary bank in April of that year. In December 2021, it joined the SBI Group, and in January 2023 it changed its name to SBI Shinsei Bank. NCB, meanwhile, was placed under special public management (temporary nationalization) in December 1998. In September 2000, special public management ended when NCB was transferred to a consortium including SoftBank, ORIX, and Tokio Marine and Fire Insurance, returning the bank to private ownership. It changed its name to Aozora Bank in January 2001, converted into an ordinary bank in April 2006, and was relisted on the Tokyo Stock Exchange in November of that year.

(4) Reform of the Fiscal Investment and Loan Program

The Fiscal Investment and Loan Program, which had underpinned policy-based finance, was also fundamentally reformed in response to changes in the economic and financial environment. Under the previous system, postal savings and pension reserves were deposited in full with the Trust Fund Bureau of the Ministry of Finance, and these funds were supplied to the corporate sector through government-affiliated financial institutions and others. However, because funds were deposited automatically as postal savings and pension reserves grew, critics pointed out that it was difficult to match the volume of funds to actual funding needs. In the FY2001 FILP reform, the obligation to deposit postal savings and pension reserves with the Trust Fund Bureau was abolished, and the system shifted to one in which necessary funds are raised from the market through FILP bonds and other means.[3]

Government-affiliated financial institutions were also reorganized, and in 1999 the Development Bank of Japan was established through the merger of the Japan Development Bank and the Hokkaido-Tohoku Development Finance Public Corporation. The role of policy-based finance also shifted from concentrating funds in specific industries to providing diverse forms of funding that complement private finance. In this way, FILP changed from a system that centrally collected and allocated postal savings and pension reserves to one that raises necessary funds from the market and then supplies them.

As described above, the industrial finance formed during the high-growth period responded to companies' strong demand for funds and funding shortages, and played an important role in supporting economic development. However, the environment surrounding industrial finance changed substantially owing to economic maturation, changes in corporate funding needs, the development of capital markets, and other factors. Amid these changes, part of bank lending flowed into real estate, becoming one of the factors that fueled the bubble economy and deepened the subsequent nonperforming loan problem. Long-term relationships between companies and banks also, in some cases, delayed the downsizing of unprofitable businesses and business restructuring. Furthermore, following the financial crisis, the long-term credit bank system formed during the high-growth period effectively came to an end, and the Fiscal Investment and Loan Program was fundamentally reformed. In this way, the roles and fund supply mechanisms of industrial finance in the high-growth period changed along with changes in the economic and financial environment.

[3] In the FILP reform, the FY2001 amendments to the Trust Fund Bureau Fund Act and related laws introduced measures such as (i) abolishing the obligation to deposit postal savings and pension reserves with the Trust Fund Bureau; (ii) reviewing FILP-funded projects carried out by special public corporations and other entities from the perspective of complementing, rather than competing with, the private sector; and (iii) raising only the funds that are truly necessary from the market through FILP bonds (government bonds) or FILP agency bonds.

6. The Global Reassessment of Industrial Policy and Lessons from Japan's Experience for Emerging and Developing Economies

(1) The Importance of Industrial Policy in Emerging and Developing Economies

In recent years, industrial policy, in which governments strategically select important sectors and promote investment and business activities in them, has regained prominence around the world, against the backdrop of the growing importance of economic security, advances in digital technology, and increasingly apparent energy constraints. Not only advanced economies but also emerging and developing economies are actively using industrial policy to create jobs, strengthen export competitiveness (earn foreign currency), upgrade their industrial structures, and secure autonomy in terms of economic security. Indeed, according to the World Bank's "Industrial Policy for Development: Approaches in the 21st Century," published in March 2026, the national development plans of low-income economies target an average of 13 industries, compared with an average of 5 for high-income economies. Emerging and developing economies use a variety of policy tools, such as subsidies, industrial parks, skills development, R&D support, and export restrictions on raw materials, depending on their stage of development, resources, domestic markets, and industrial bases. The World Bank notes that the industrial policy tools that are feasible differ depending on each country's government bandwidth (the government's capacity to design and implement policies), local market size, fiscal space, and other factors (Figure 4).

(Figure 4) Country typology with feasible industrial policies, by type

Government bandwidth	Local market size	Fiscal space	Examples	Feasible industrial policies
Small	Small	Small	Mozambique Madagascar Cameroon	Industrial parks, Commodity export ban, Competitive exchange rate devaluation
Small	Small	Large	Nepal Kyrgyz Republic Nicaragua	Industrial parks, Commodity export ban, Export subsidy, Competitive exchange rate devaluation, R&D tax credit
Small	Large	Small	Brazil Nigeria Bangladesh	Industrial parks, Commodity export ban, Technology transfer quid pro quo, Import tariff, Local content requirement, Competitive exchange rate devaluation

Government bandwidth	Local market size	Fiscal space	Examples	Feasible industrial policies
Small	Large	Large	Uzbekistan Belarus Bulgaria	Industrial parks, Commodity export ban, Technology transfer quid pro quo, Import tariff, Local content requirement, Export subsidy, Competitive exchange rate devaluation, R&D tax credit
Large	Small	Small	Senegal Rwanda Namibia	Industrial parks, Skills development, Market access assistance, Quality infrastructure, Commodity export ban, Competitive exchange rate devaluation
Large	Small	Large	Georgia Botswana Latvia	Industrial parks, Skills development, Market access assistance, Quality infrastructure, Commodity export ban, Production subsidy, Specific innovation subsidy, Export subsidy, Consumer demand subsidy, Competitive exchange rate devaluation, R&D tax credit
Large	Large	Small	Indonesia Japan Philippines	Industrial parks, Skills development, Market access assistance, Quality infrastructure, Commodity export ban, Technology transfer quid pro quo, Import tariff, Local content requirement, Competitive exchange rate devaluation

Government bandwidth	Local market size	Fiscal space	Examples	Feasible industrial policies
Large	Large	Large	India China United States	Industrial parks, Skills development, Market access assistance, Quality infrastructure, Production subsidy, Specific innovation subsidy, Commodity export ban, Technology transfer quid pro quo, Import tariff, Local content requirement, Export subsidy, Consumer demand subsidy, Public procurement, Competitive exchange rate devaluation, R&D tax credit

(Source) Prepared by JRI based on World Bank, "Industrial Policy for Development: Approaches in the 21st Century"

(Note) Country names are examples for each category and do not definitively indicate each country's classification or the effectiveness of policy tools.

To translate such policies into actual capital investment and commercialization, industrial finance that provides a stable supply of the necessary funds is important. At the same time, as the World Bank's classification of industrial policy shows, the industrial policy tools available to each country differ depending on its government bandwidth, local market size, fiscal space, and other factors. Industrial finance, too, will need appropriate frameworks tailored to each country's economic and industrial structure, corporate-sector funding needs and financial conditions, the funding capacity of financial institutions, the stage of development of financial and capital markets, and the government’s bandwidth and fiscal space.

(2) Implications for Emerging and Developing Economies Based on the Evolution of Japan's Industrial Finance

As emerging and developing economies increasingly recognize the importance of industrial policy and the industrial finance that supports it, it is useful to draw implications from the characteristics of Japan's industrial finance during the high-growth period and its subsequent evolution. However, there are many differences between Japan more than half a century ago and today's emerging and developing economies, including their stage of economic development, industrial structure, social conditions, the spread of technology, and the size and nature of financial markets. Rather than adopting the industrial finance

framework of Japan's high-growth period as it is, therefore, it is necessary to distinguish between functions that remain universally important regardless of the era and functions that should be adjusted to the current economic and financial environment.

(i) Functions that remain important regardless of the times

The first function that remains universally important regardless of the times is financial system stability. For industrial finance to function, it is essential to maintain the soundness of financial institutions and ensure confidence in the financial system as a whole. In Japan during the high-growth period, financial system stability was maintained under the regulation and supervision of financial institutions, and household-sector savings were collected as bank deposits, postal savings, and the like. These funds were supplied to the corporate sector through private banks, long-term credit banks, government-affiliated financial institutions, and others, becoming the foundation for large-scale capital investment. The soundness of financial institutions and the stability of the financial system are likewise fundamental prerequisites in today's emerging and developing economies for supplying the surplus funds of households and companies to the corporate sector through financial institutions and other channels. Financial authorities in emerging and developing economies therefore need to ensure financial system stability by establishing deposit insurance systems, applying prudential standards such as capital requirements to banks, understanding the actual state of financial risks, ensuring effective inspection and supervision, and identifying and resolving nonperforming loans at an early stage. That said, while the convoy system adopted in Japan during the high-growth period was effective in preventing failures of financial institutions, it also tended to hinder appropriate competition among financial institutions and weaken management discipline. Authorities should therefore respect the autonomy of financial institutions in principle, while requiring appropriate corrective action from institutions with problems in risk management, governance, and other areas, thereby creating an environment in which depositors are protected and critical financial functions such as payments and lending are maintained.

The second such function is a stable supply of long-term funds. Developing industrial infrastructure and making large-scale capital investments involve large amounts of money and take a long time to recoup. If companies rely on short-term funding, interest rates may rise when they refinance, or in some cases they may be unable to refinance at all, making it difficult to continue investing. In Japan’s high-growth period, long-term credit banks and government-affiliated financial institutions supplied long-term funds to complement private financial institutions. Emerging and developing economies, too, need to strengthen the capacity of domestic financial institutions to supply long-term funds and to secure long-term industrial funding through government-affiliated financial institutions and others. For funding needs that domestic financial institutions alone cannot meet, it is also effective to seek long-term commitments from multilateral development banks (MDBs) and foreign financial institutions and have them participate through co-financing or credit enhancement. In doing so, it is important to attract stable funds that contribute to building the industrial base, such as long-term project finance and direct investment, without

relying excessively on short-term or foreign-currency-denominated funds.

(ii) Functions that should be adjusted to changing times

On the other hand, the sectors targeted by industrial policy and the means of supplying funds need to be adjusted flexibly in response to changes in the economic and industrial structure and in technology. Japan's high-growth period can be described as a process of heavy and chemical industrialization that took about 20 years, from the mid-1950s to the early 1970s. Today, however, digital technologies, led by artificial intelligence (AI), are evolving at a rapid pace, and the environment surrounding economic security is also changing quickly, reshaping the industrial structure accordingly. In emerging and developing economies, where capital, human resources, and social and economic infrastructure are limited, focusing on sectors with high growth potential and policy importance is a rational policy response; given the speed of environmental change, however, it is difficult for governments to keep accurately identifying future growth sectors. Moreover, as noted in Section 5, in Japan after the high-growth period, long-term relationships between companies and financial institutions were one of the factors that delayed the downsizing of unprofitable businesses, business restructuring, and industrial renewal. In light of these points, emerging and developing economies will need agile policy management in promoting industrial policy and industrial finance: setting priority sectors with clear policy objectives, while regularly reviewing outcomes and flexibly adjusting targets.

Flexibility is also required in the means of supplying funds. In Japan during the high-growth period, capital investment centered on tangible assets such as factories, production equipment, and ships, which were well suited to long-term bank lending. In today's growth sectors such as digital-related industries, by contrast, while there are large funding needs for semiconductor facilities, data centers, and the like, competitiveness is often determined by intangible assets such as software, data, and intellectual property. In such sectors, tangible assets that can serve as collateral are scarce and future cash flows are uncertain, so traditional indirect finance premised on real estate collateral and long-term installment repayment alone may not be able to supply sufficient funds. Emerging and developing economies, too, should therefore gradually develop funding channels such as equity, corporate bonds, venture capital, and private equity in addition to bank lending (indirect finance), so that these can be used selectively according to companies' growth stages, business risks, and other factors. In doing so, it is also effective to actively draw on the knowledge and expertise of foreign financial institutions. In addition, enhancing the functions of industrial policy and industrial finance requires not only financial measures but also the development of industrial infrastructure, human resources, technological foundations, legal systems, and the like.

7. Conclusion

This report has reviewed Japan's industrial finance during the high-growth period, including its characteristics, its role in economic development, and the adverse effects that emerged as times changed, and has drawn implications for emerging and developing economies. In Japan during the high-growth period, with capital markets underdeveloped and corporate equity scarce, a framework was formed consisting of (i) indirect finance under the main bank system, (ii) the supply of long-term funds by long-term credit banks, (iii) fund allocation through policy-based finance and policy guidance, and (iv) financial system stability under the convoy system. These four characteristics complemented one another to channel household savings into the corporate sector, providing an important foundation for Japan's industrial development and rapid economic growth. However, after the high-growth period ended and corporate funding needs, financing methods, the industrial structure, and other conditions changed, part of bank lending flowed into real estate and related transactions, becoming one of the factors that fueled the bubble economy of the late 1980s and deepened the subsequent financial crisis.

In recent years, industrial policy has also been gaining importance in emerging and developing economies from the perspectives of creating jobs, strengthening export competitiveness, upgrading the industrial structure, and securing autonomy in terms of economic security. To translate such policies into actual capital investment and commercialization, industrial finance that responds to corporate funding needs and provides a stable supply of the necessary funds is indispensable. In this light, Japan's experience with industrial finance during the high-growth period holds important implications for emerging and developing economies. What matters is not to imitate Japan's system as it is, but to combine functions that should be pursued universally across eras, such as financial system stability and the capacity to supply long-term funds, with the flexibility to review fund allocation and funding methods as times change.

For emerging and developing economies, it is therefore important to develop industrial finance frameworks suited to their own economic and financial conditions, while adapting the allocation of funds and the choice of financial instruments to changes in their economic and industrial structures.

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