Chapter XI

Recent Developments of Digital Cash Projects in Japan

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Abstract

Most discussions and analyses regarding Japanese financial institutions during the 1990s have focused on the lingering effects of the collapse of the bubble economy, including huge non-performing loans and large-scale bank failures. Thus, it is natural for foreign observers to fail to acknowledge that many Japanese banks and other non-bank enterprises have conducted forward-looking projects despite their financial difficulties. One of these projects has been to develop digital cash technology and promote its usage. Because people in Japan tend to use cash for daily payments more often than people in other nations, if the Japanese begin using digital cash instead of traditional cash (i.e., Bank of Japan’s notes and coins), we anticipate that digital cash will have a larger potential effect on the society and economy in Japan than in other
nations. Efforts to establish digital cash projects made discernible progress in the early 2000s, and digital cash is more commonly used now in Japan than in other IT-advanced countries. This chapter attempts to provide an overview of the recent development of digital cash projects in Japan, and to discuss the issues involved in the further growth of digital cash usage. This chapter is organized as follows. Section 1 presents the introduction. In Section 2, we explain the historical developments of digital cash projects in Japan. Section 3 discusses what factors led to remarkable progress in digital cash usage in the early 2000s. Section 4 describes the remaining issues that must be addressed for further growth of digital cash usage. Finally, Section 5 concludes the chapter.

Introduction

Foreign observers who know that Japan suffered prolonged financial difficulties and an economic slump in the 1990s may be surprised to find that the use of digital cash as a tool of payments or settlements has grown rapidly in Japan. In fact, an increasing number of people in Japan use digital cash for shopping. In addition, most Japanese people know the names used for digital cash, such as “Edy” or “Suica”, even if they do not use digital cash themselves. The Japanese have become familiar with digital cash.

Only several years ago, financial economists thought that the diffusion of digital cash or electronic money would not easily occur. The reason was that there were many obstacles to the spread of digital cash. As we indicate in this chapter, a significant number of those obstacles have been eliminated by the government and through the efforts of many private enterprises. The main purpose of this chapter is to examine the factors affecting digital cash diffusion in Japan. For this purpose, we would like to examine the history of various digital cash projects in Japan during the past decade.

We would like to point out that many problems remain to be solved before further growth of the digital cash business in this country can occur. One of the characteristics of the digital cash business in Japan is that digital cash schemes are mainly managed by the private sector rather than the public sector, and issuers of digital cash are not limited to banks. In other words, non-financial firms can issue “cash” now. In relation to such circumstances, it is necessary to consider what restrictions or policies are needed to maintain a stable payment system.

This chapter is organized as follows. Section 2 examines the history of digital cash projects in Japan during the past decade. Section 3 examines the factors for the spread of digital cash in Japan. Section 4 indicates the problems that must be solved for further growth and stability of the digital cash system in this country. Section 5 presents the conclusion.
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