

Japan's Steady, High Economic Growth and the Fabrics of Japan, Inc.

Steady Economic Growth

- Japan's real GNP average growth: 9.7% (4.0% in the US) b/w 1955 – 1973
c.f. China: 9.3% b/w 1990 and 2002
- B/w 1961 – 1973: Japan's GDP per capita grew at 8.52% (Australia: 2.9%, Korea: 5.8%, US: 2.8%, China 8.1% between 1990 and 2002)
- The average unemployment rate b/w 1955 and 1973 is 1.5% (5.0% in the US)

Characteristics of Japan's Growth

- Strong government initiative
 - Continuity from the war period
- Strong sense of self-reliance
 - Strong sense of inferiority complex and xenophobia(?)
- Prevalent view of "export-led growth"
- No allergic reaction to socialism/communism
- Strong sense of egalitarianism
 - As a result of pre-war laissez faire policy
 - Structural change model

Why Japan experienced high growth?

1. War destruction
2. 5-year planning (?)
3. Stable macroeconomic management
4. Emphasis on exports (?), weak yen
5. Tech. Transfer
6. High saving
7. Cooperation b/w bureaucrats (technocrats) and the private sector (?)
8. Alliance with the U.S. and its geopolitically important location

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The "renunciation of war" ideal was illustrated with this soon-famous graphic in a booklet titled *The Story of the New Constitution*, which was issued by the Ministry of Education in 1947 and used as a text in middle schools for several years.

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Table 3.7

Postwar economic plans in Japan.

Nickname	Cabinet decision date Name of prime minister	Planning horizon and plan survival	Growth	
			Planned	Actual
Five-year Economic Independent Plan ^a	December 23, 1955 Hatakeyama	FY 1956-1960	5.0	6.1
New Long-term Economic Plan	December 17, 1957 Kobayashi	FY 1961	5.8	6.1
		FY 1962	7.8	7.8
		FY 1963-1965	6.0	6.0
		FY 1966	11.2	11.2
Doubling Income Plan	December 27, 1960 Ikeda	FY 1961-1970, avg.	7.8	10.6
		FY 1961	9.0	13.5
		FY 1962	9.0	6.4
Middle-term Economic Plan	January 22, 1965 Sato	FY 1963	9.0	12.5
		FY 1964-1968	6.1	6.1
		FY 1969	10.6	10.6
Economic and Social Development Plan	March 13, 1967 Sato	FY 1965	5.7	5.7
		FY 1966	11.6	11.6
		FY 1967-1971	8.2	13.1
		FY 1968	13.8	13.8
New Economic and Social Development Plan	May 1, 1970 Sato	FY 1969	12.3	12.3
		FY 1970	19.2	19.2
		FY 1971	5.6	5.6
Economic and Social Basic Plan	February 13, 1973 Tanaka	FY 1972	10.4	10.4
		FY 1973-1977	9.4	9.4
		FY 1973	6.5	6.5
		FY 1974	-0.0	-0.0
First Half of Showa Six Economic Plan	May 14, 1976 Miki	FY 1975	3.2	3.2
		FY 1976-1980	6.0 ^a	6.0 ^a
		FY 1976	5.1	5.1
		FY 1977	5.3	5.3
		FY 1978	5.1	5.1

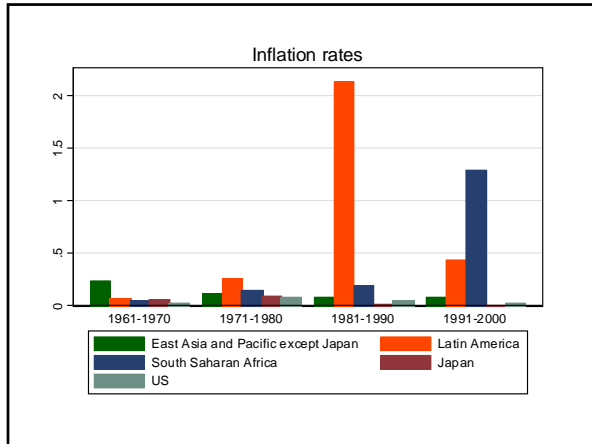
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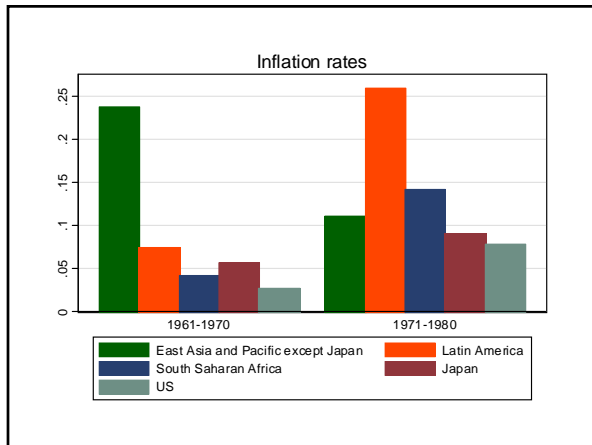
(continued)

Nickname	Cabinet decision date Name of prime minister	Planning horizon and plan survival	Growth	
			Planned	Actual
New Economic and Social 7-year Plan	August 10, 1979 Ohira	FY 1979-1985	5.7	5.7
		(midterm correction, 5.1)		
		FY 1979	5.3	5.3
		FY 1980	4.6	4.6
Outlook and Guide for the Economy and Society in the 1980s	August 12, 1983 Nakasone	FY 1981	3.5	3.5
		FY 1982	3.3	3.3
		FY 1983-1990	about 4.0	4.0
Japan Together with the World— Five-year Economic Plan	May 27, 1988 Takehita	FY 1983	3.7	3.7
		FY 1984	5.1	5.1
		FY 1985	4.5	4.5
		FY 1986	2.7	2.7
a. This plan survived only two years and was replaced by the next plan.		FY 1987	5.2	5.2
		FY 1988-1993	3.75	3.75
		FY 1988	4.9	4.9
		FY 1989	4.01	4.01
		FY 1990		

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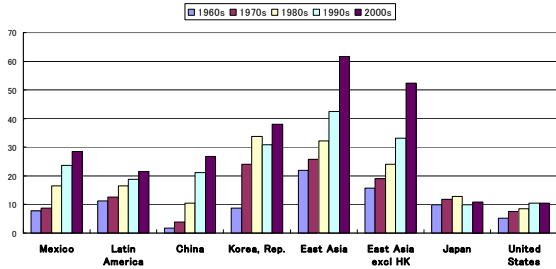


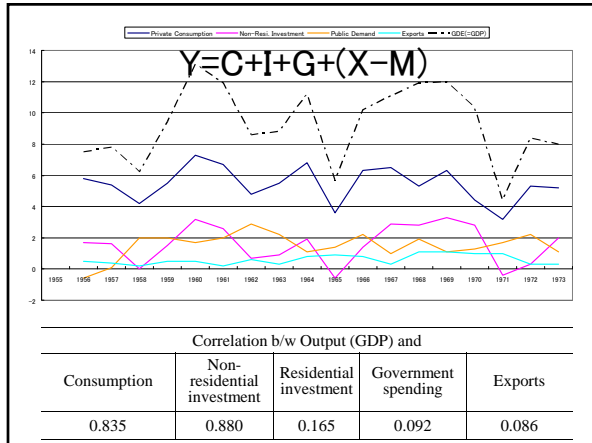
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Export-led?

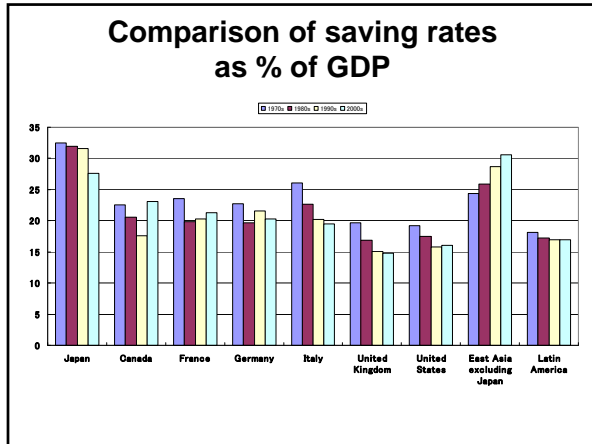
Export as a ratio to GDP

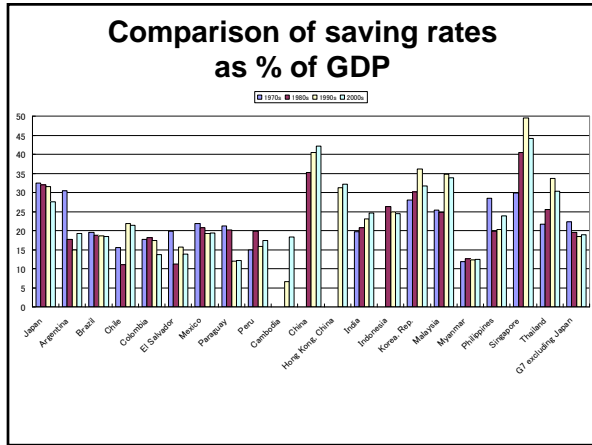




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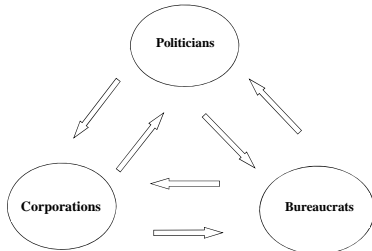




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The “Iron Triangle”

- Bureaucrats played an important role in policy making (like they did during the war).



Overview of Japan’s Industrial Policy

- It is rooted in the war-time economy.
- Two main players of industrial policy
 - Ministry of Finance (MOF)
 - Ministry of International Trade and Industry (MITI, Munitions Ministry during the war; now METI: Ministry of Economy, Trade, and Industry)
- Looked very effective. Impressed the ROW (esp. East Asia) with the “Japan model”

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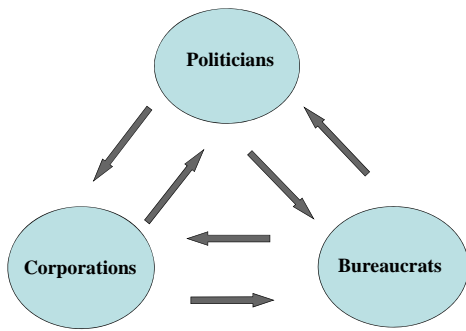
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One more factor that may have contributed to Japan's high growth

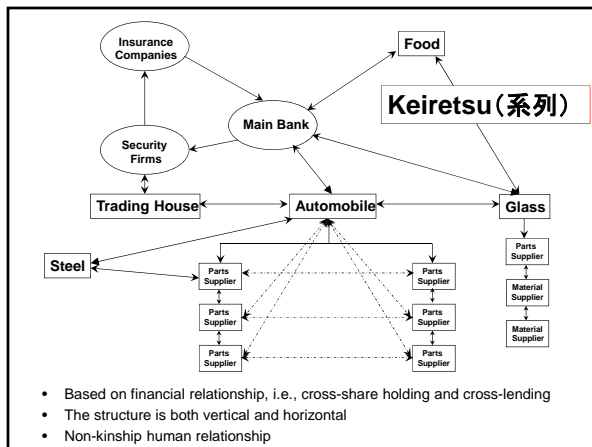
9. Strong emphasis on egalitarianism

- Created social coherence
- Led to a rise in preference for social and political stability → strong motive for status quo

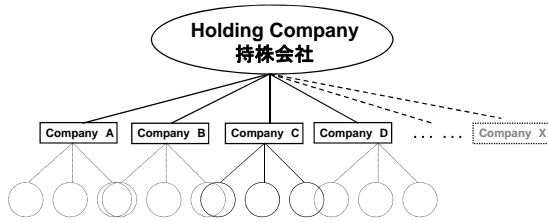
The "Iron Triangle"



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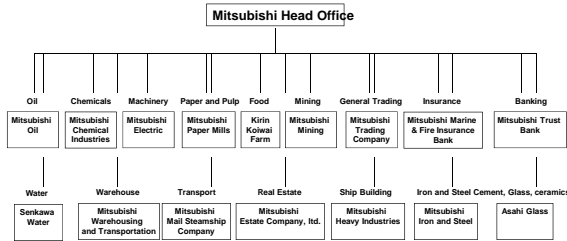


Zaibatsu (財閥)



- Based more on kinship
- The structure is relatively more vertical

Mitsubishi Zaibatsu (三菱財閥)



Many companies in Japan weathered economic/business hardships by strengthening *keiretsu* relationships

図22-1 両主要持株比率の推移 (1945-89年)

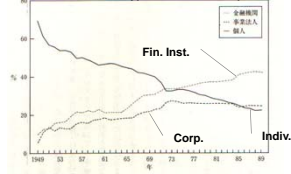
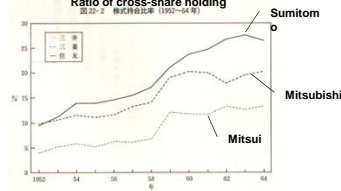


図22-2 株式持分比率 (1952-84年)



Characteristics of “Japan, Inc.”

Finance

- Cross-sharing holding
- Excessive dependence on bank lending (w/ land as collateral) and keiretsu-financing → underdevelopment of risk management
- Ample cash, but low dividends and high expenditure on capital spending
- Weak shareholder rights and rubber stamping board of directors and shareholder meetings
- Long-term oriented business plan
- Keiretsu-relationships provided hedge

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Characteristics of “Japan, Inc.”

Marketing, distributing, procuring

- Heavily keiretsu-dependent
- Exclusive, not just internationally but also domestically
- Fierce competitive among incumbents, but almost no exposure to external, potential competition

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Characteristics of “Japan, Inc.”

HR, labor-management relationship

- Dependent on fresh college graduate and “life-time employment custom”
- Non-existence of secondary labor markets
- Paternalistic attitude by the management
- Peaceful labor-management relationships → no such a thing as “lay-off”

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Generalization of Japan, Inc.

Bright-side

- Good at establishing and maintaining stability
- No blue-vs-white-collar conflicts
- Strong sense of loyalty (company vs. company, company vs. customers/clients)
- Accuracy, punctuality
- Smooth communication w/in an entity
- Strong emphasis on education and OJT

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Generalization of Japan, Inc.

Down-side

- Obsession w. stability, status quo, & risk-aversion
- Poor at dealing with emergency, crisis, or unprecedented situations
- Lack of flexibility
- Tendency to lack internal dynamics; rigidly defined hierarchy and seniority
- Mistrust on external groups
- Lack of compatibility of workers
- “cooperation” or collusion?

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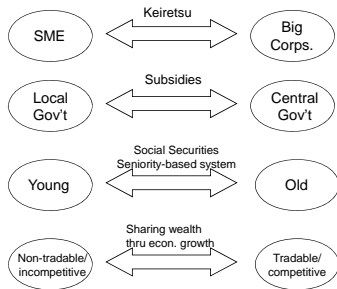
A quote from *The Economist*,
July 26, 2007

Chinese executives often joke about Japanese rigid management system by saying,

*“if you want to learn about communism,
work for a Japanese firm.”*

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The “cross-subsidy” system

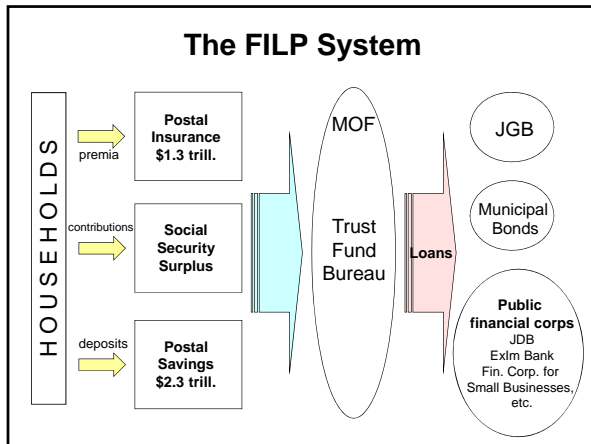


Industrial development

- Industrial development cycle
 - Textile, footwear, apparel
 - Machine tools, simple manufactured goods
 - Heavy industries such as steel, coal, petrochemical
 - More complicated manufactured goods such as automobile, consumer electronics, chemicals, etc.
 - High-tech hard goods such as semiconductors
 - High-tech soft goods such as computer software and game ware
- Higher value added = more capital intensive
- More labor intensive goods will be taken over by foreigners who can provide cheaper prices

Industrial Policy during the High Growth Era, 1952 – 73

1. The rationing of foreign exchange
 - MITI and MOF jointly controlled forex allocations
 - Outward controls disappeared after 1964, but inward controls remained until 1980
 - Both ministries expanded power through this policy
2. Fiscal Investment and Loan Program (FILP)
 - Used ample funds of postal savings and insurance
 - Funds allocation is under direct control of MOF
 - Through JDB and ExIm Bank, funds were invested mainly in electric power, marine shipping, coal mining, and iron and steel



Industrial Policy during the High Growth Era, 1952 – 73

3. Preferential tax stipulations

- Many tax exemptions were given to export industries during the 1950s and 60s
- Depreciation was accelerated for “important” industries during the 1950s
- Other tax exemptions were given to facilitate the procession of “rationalization”

4. Antitrust exemptions

Industrial Policy after 1975

- After the first oil shock in 1973, some of the “leading” or “strategically important” industries became “declining” industries
- Industrial policy in general became more reactive
- Industrial policy since then focused on
 - Dampening the effect of structural decline of industries ex. Coal and textile
 - Facilitating cross-firm R&D ex. VLSI
 - MITI became more occupied with trade negotiations with the US in 1970s and 80s

Was Japan's industrial policy effective after all?

- Empirical evidence is not encouraging
- Government intervention meant market distortions
- May have had some signaling effects
- Inter-firm cooperation was initiated by Keiretsu groups, leaving not so much room for the gov't
- Could've contributed to prolonging the life of declining industries

U.S.-Japan Economic Conflicts

- Japan's allegedly "anti-competitive" practices vs. Relative decline in U.S. industry
- Trade disputes
 - Textiles and apparel, footwear (1960s), TV, VCR, home electronics, steel, bearing, automobiles, motorcycles, glass (1970s), agricultural products (oranges, beef, etc.), semi-conductors, computers, supercomputers, telecom equipment (1980s), retailing, construction, banking, insurance (1990s)
- Trend: U.S. retaliation (up to 1989) → market opening (1990s)
