




# Japanese Experience 1

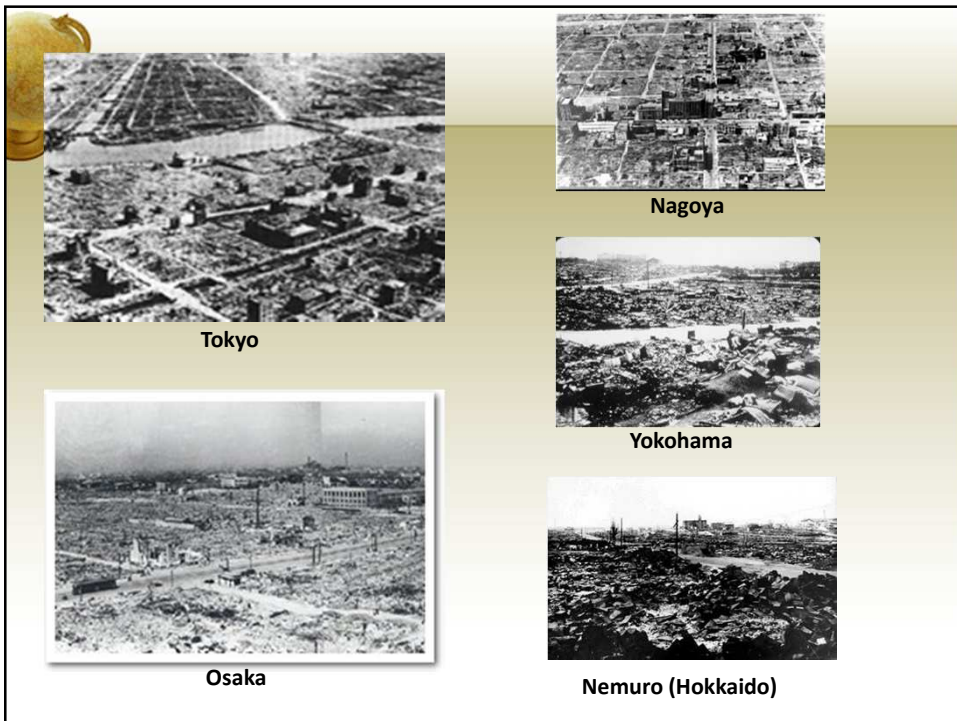
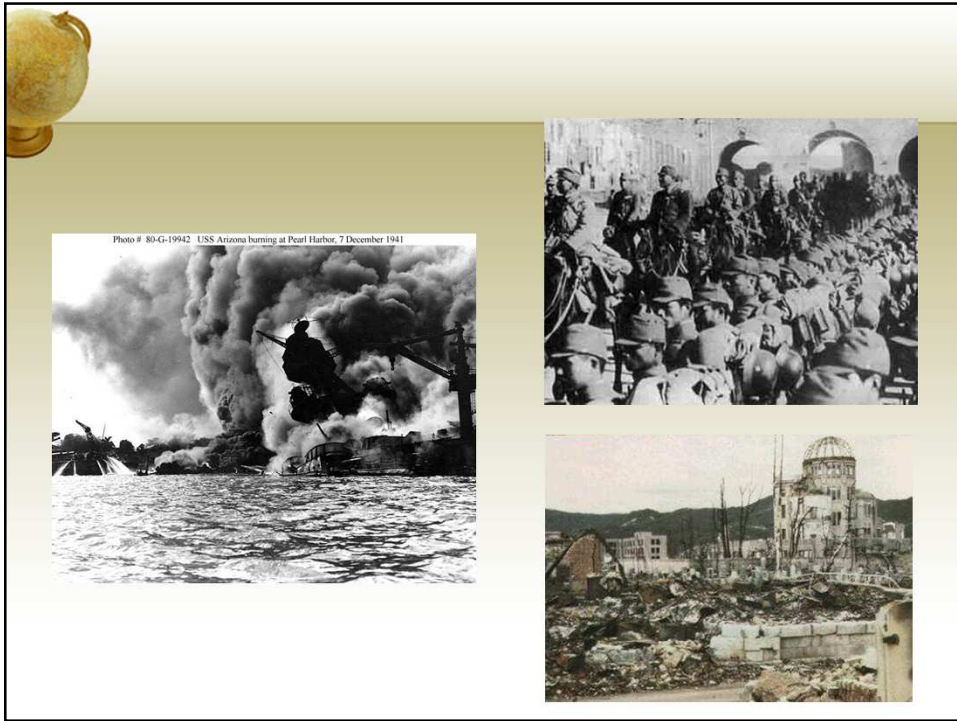
## 日本経済

**ECON448/548: East Asian  
Economic Development**

**Hiro Ito**  
**Professor of Economics**  
**Fall 2016**



<https://www.google.com/maps/place/Japan/data=!4m2!3m1!1s0x34674e0fd77f192f:0xf54275d47c665244?sa=X&ved=0CB0Q8gEwAGoVChMlz8H57IaiyAIVDjKICH15UQ41>





The first victors to enter defeated Japan were stunned by the extent of urban destruction they confronted. This aerial view takes in downtown Tokyo by the Sumida River.



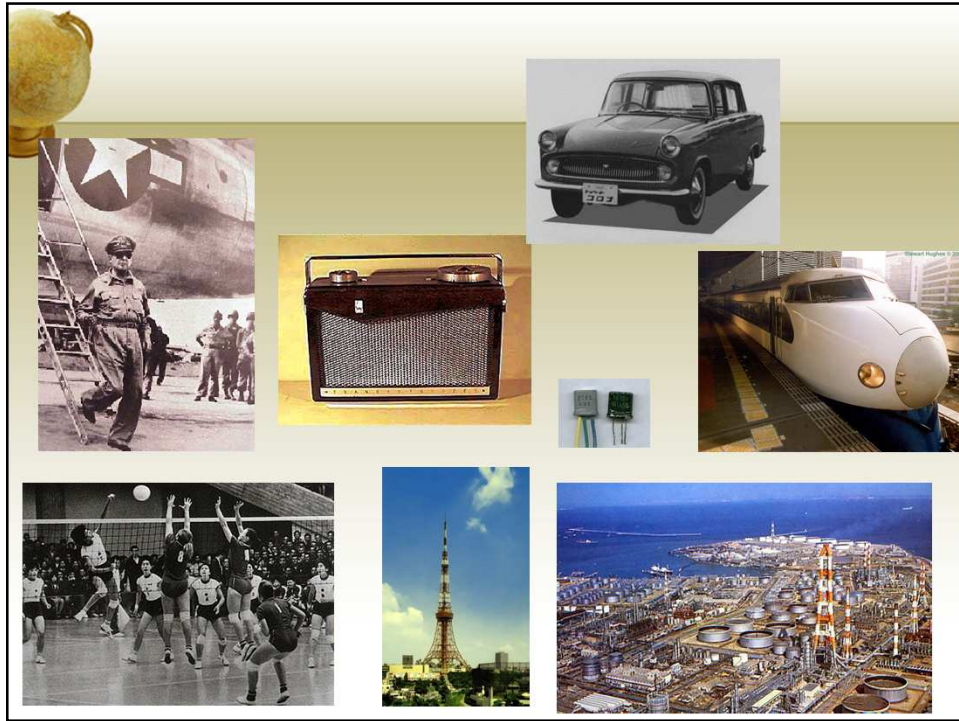
For years after the defeat, many city dwellers continued to eke out a precarious existence in shantytowns such as this.

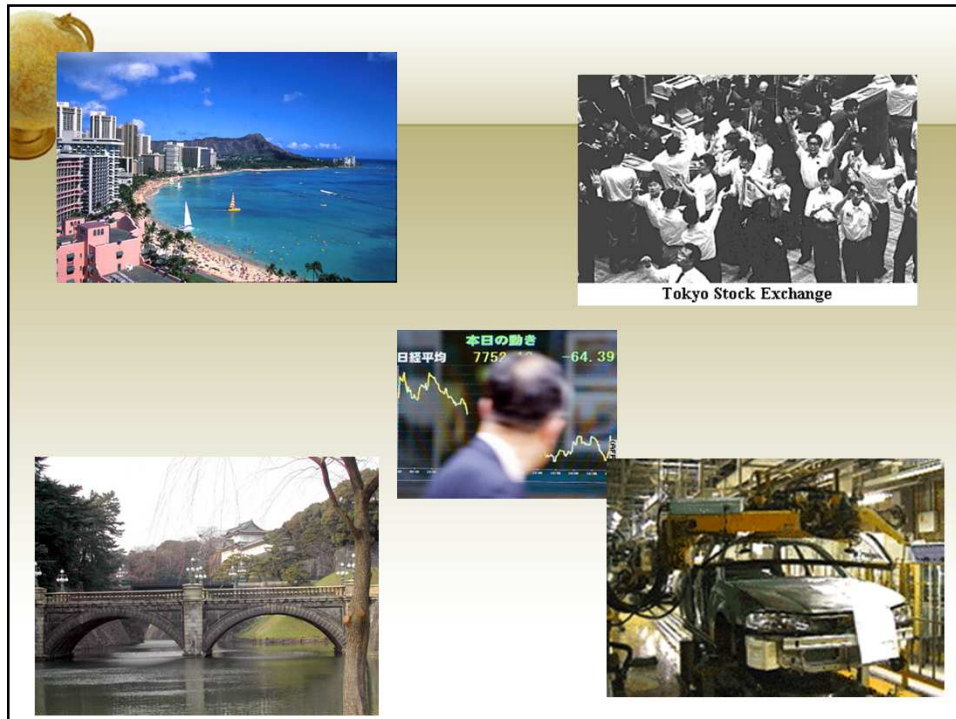


Street children near Tokyo's Ueno station, 1946.



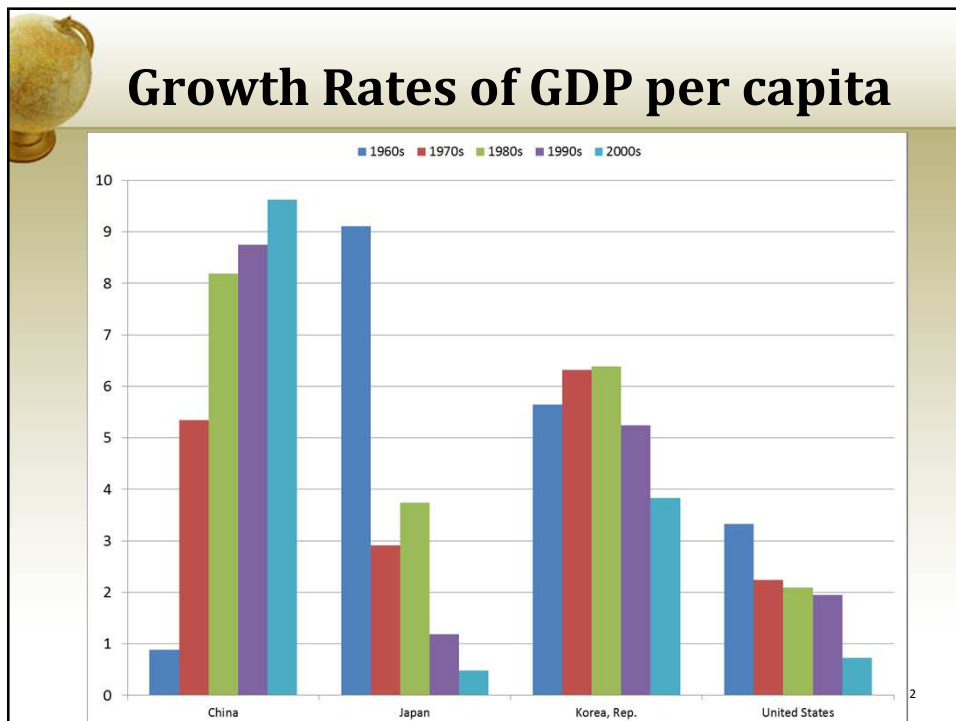
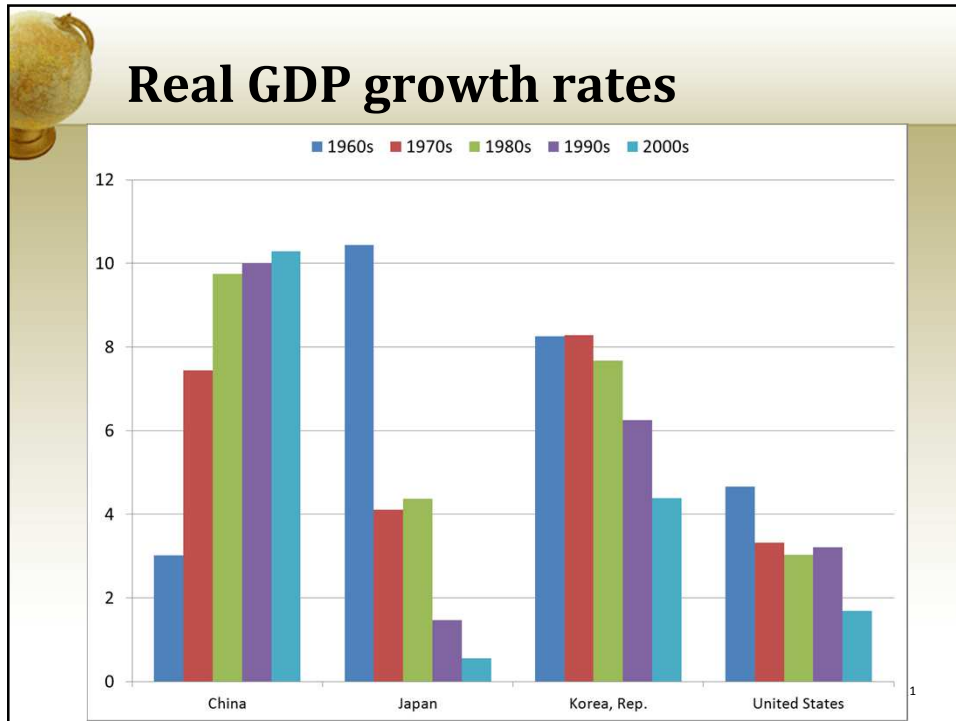
The people's economic life was hardest from late 1945 to 1946. Many urban people lost their houses and properties, even if they survived the US bombing. From left to right, (1) life in a makeshift hut; (2) eating simple food at a black market; (3) a train packed with city dwellers traveling to countryside to barter clothing for food (but if caught by police, they would confiscate your purchase).






## “Miraculous Growth”!

- Japan’s real GNP average growth: 9.7% b/w 1955 and 1973
- B/w 1961 – 1973: Japan’s GDP per capita grew at 8.5%
- The average unemployment rate b/w 1955 and 1973 is 1.5% (5.0% in the US)





## What can we learn from Japan's experience?

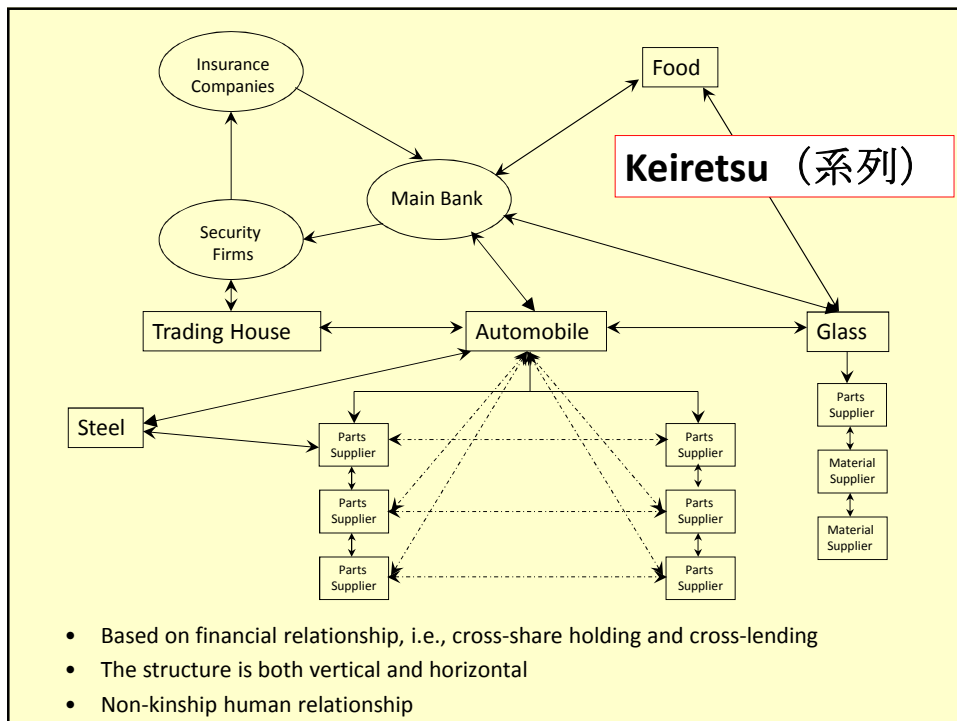
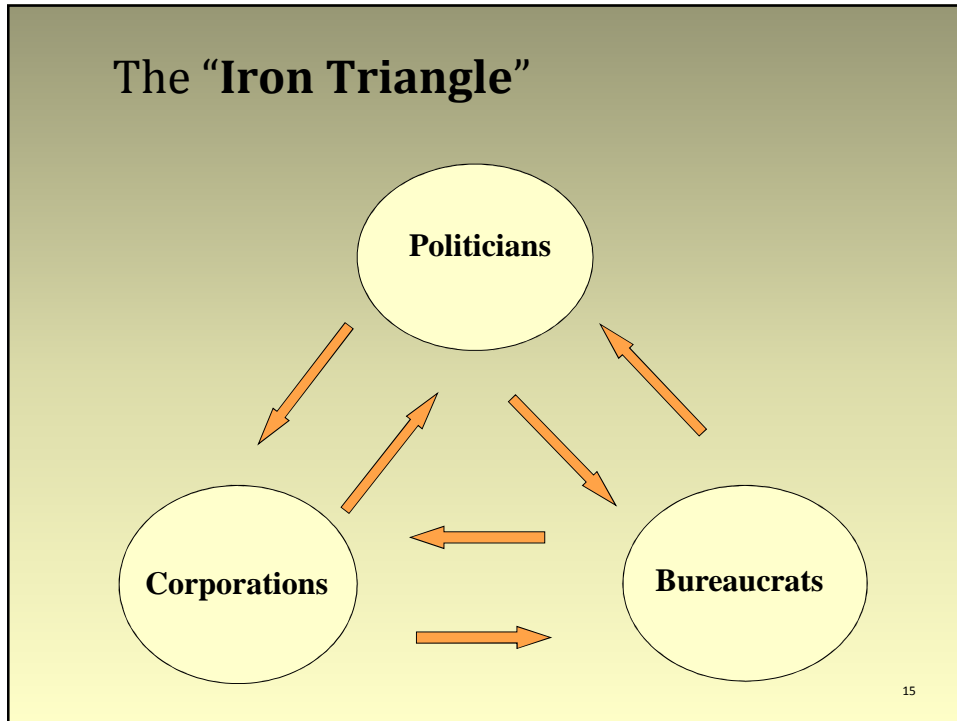
- What led Japanese economy/business to succeed?
- What is the "Japan model"? Any implications on other East Asian countries?
- Japan's success is now the biggest obstacle; how is Japan's established structure in its way to reforms?
- What kind of external and internal changes is Japan facing now?

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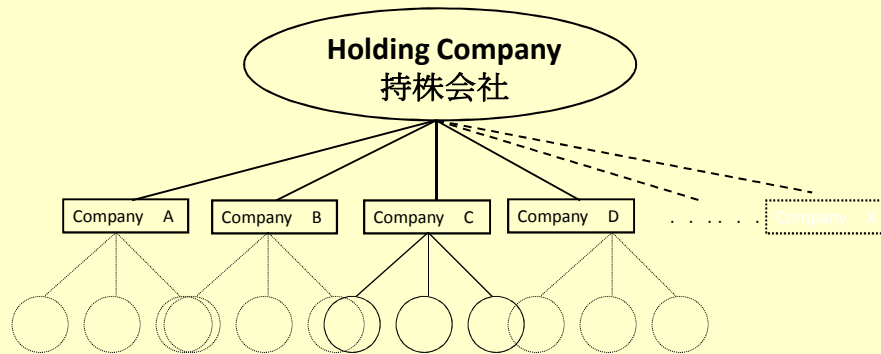
## Why high growth?

0. War destruction
1. Strong gov't initiative,  
e.g. 5-year planning, industrial/trade policy
2. Stable macroeconomic management
3. Emphasis on exports, weak yen
4. Tech. Transfer thru trade
5. Cooperation b/w bureaucrats (technocrats) and the private sector



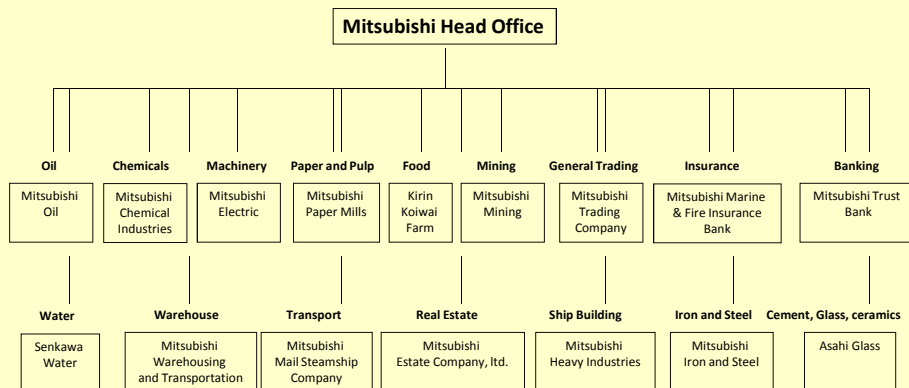


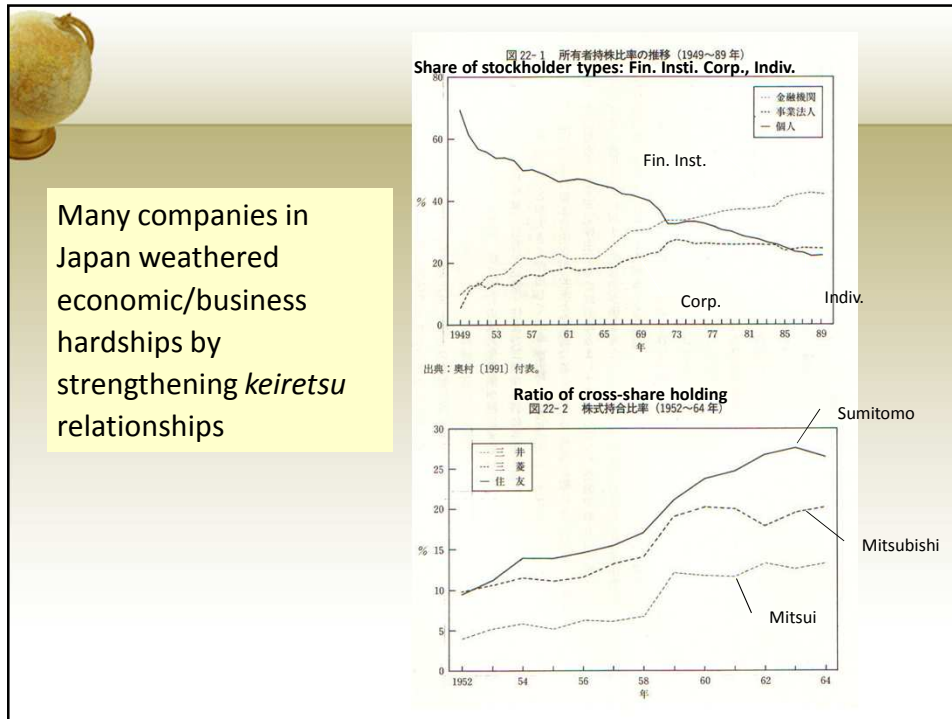
## Zaibatsu (財閥)



- 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

## 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




## 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 royalty (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?

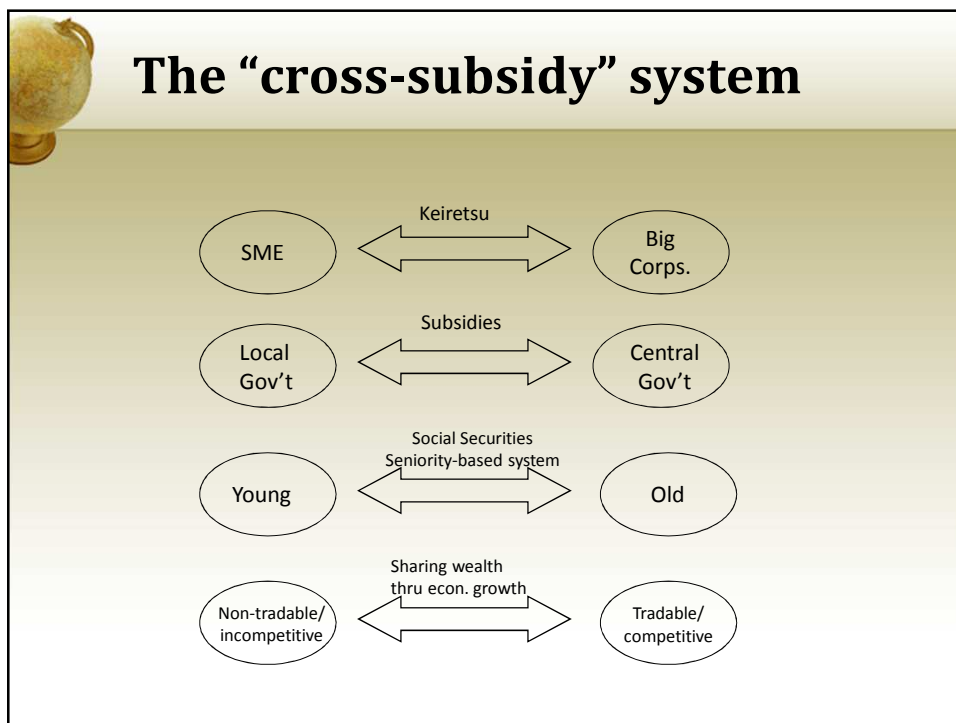
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A quote from *The Economist*,  
July 26, 2007

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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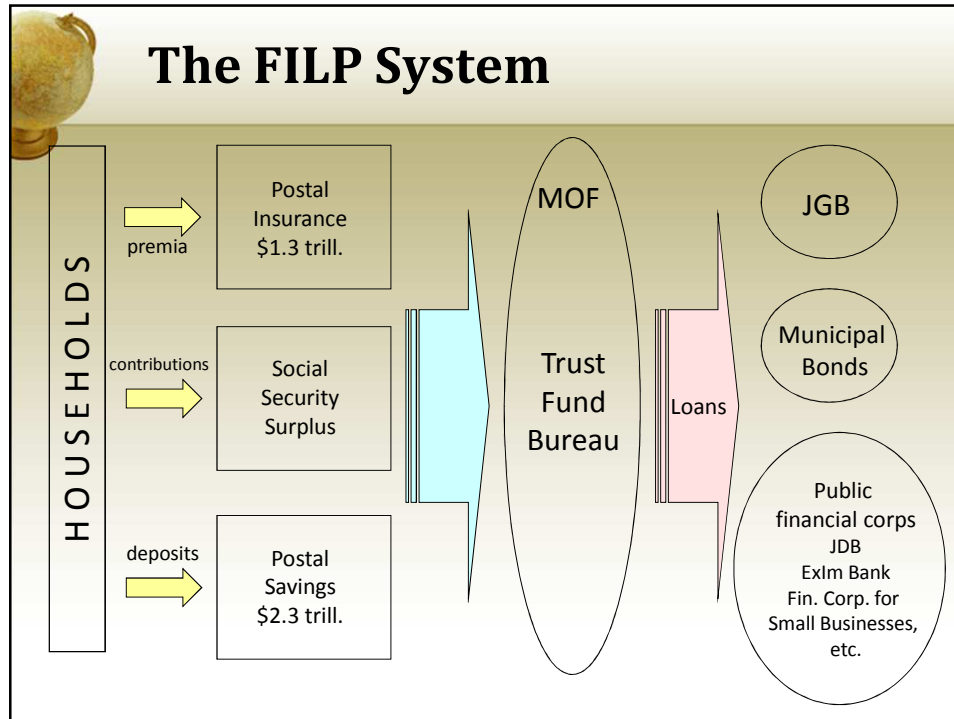
## Industrial development

- Industrial development cycle
  - Textile, footwear, apparel (1950s)
  - Machine tools, simple manufactured goods (1950s-60s)
  - Heavy industries such as steel, coal, petrochemical (1970s)
  - More complicated manufactured goods such as automobile, consumer electronics, chemicals, etc. (1970s-80s)
  - High-tech hard goods such as semiconductors (1980s-90s)
  - High-tech soft goods such as computer software and game ware (2000s-present)
- 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



## 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)





## **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