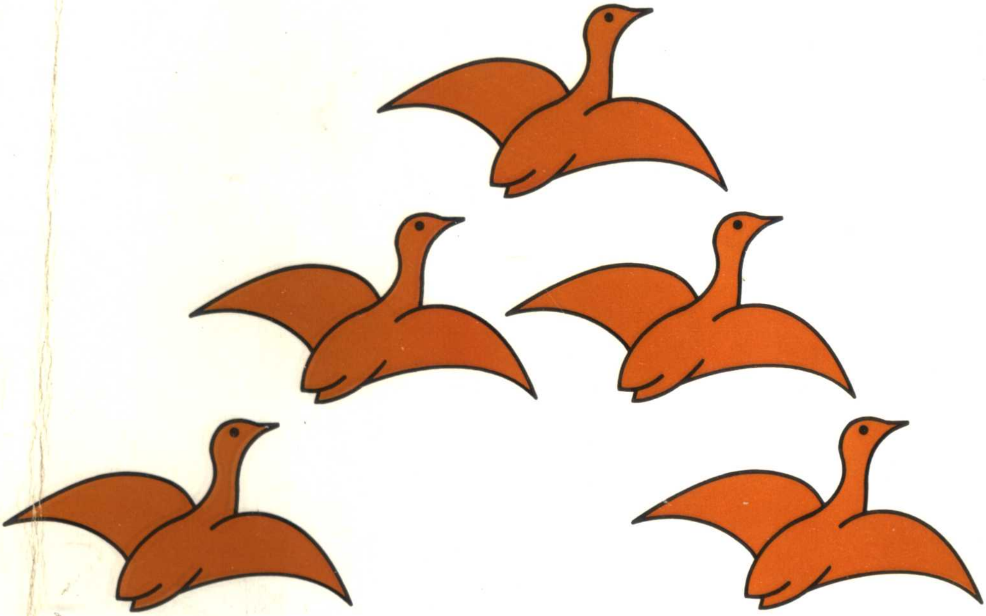
Economic Development and International Trade

The Japanese Model

By Ippei Yamazawa

Translated and revised by Ippei Yamazawa



East-West Center
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Preface

International trade has played a key role in Japan's economic development. Through it Japan has obtained energy and resources unavailable domestically; trade has also introduced new products and technology and has contributed to the development of modern industrial production through import substitution at home and export expansion abroad. As a late-starting industrial country, Japan's industries have typically followed a catching-up product cycle (CPC) process of development.

The catching-up product cycle development process is characterized by import substitution followed by export expansion. Import substitution versus export expansion has become the major choice in development strategy confronting contemporary developing economies. Economists in the developed countries, as well as those at multilateral institutions such as the World Bank, suggest that many developing countries have overemphasized import substitution, which thus hampers export expansion after import substitution is achieved; many of these economists recommend that these countries shift their policies toward export expansion through deregulation and promotion of exports. The CPC development process differs from this orthodox view by stressing the continuity of import substitution while pursuing export expansion.

The term "Japanese model" used in this book describes not so much a development experience unique to Japan but a rational pattern of industrial development and trade in a late-starting industrial country under certain resource and market constraints. This pattern is relevant for contemporary newly industrializing economies (NIEs), and near-NIEs, in spite of the greater technological gap and more severe international market situation confronting them.

What role has the Japanese government played in Japan's successful import substitution and export expansion? Since its first attempts at development Japan has had a strong centralized government staffed by well-trained bureaucrats. Some foreign observers have attributed Japan's success to the foresight and leadership of the government, as in the oft-cited notion of "Japan Incorporated." However, many Japanese economists believe this view overemphasizes the government's role and are inclined to give more credit to private entrepreneurship. Nevertheless, there has long been closer cooperation between government and private business in Japan than in the United States and some European countries, and this does seem to have contributed to Japanese industrial development. This book attempts to present a balanced assessment of the government's role in Japan's economic development.

The Japanese economy managed to overcome the two oil shocks of the 1970s but it has accumulated huge trade surpluses and faces severe trade conflicts with its major trading partners, especially the United States. Japan's main policy efforts have recently been geared toward restructuring its economy and industry so that further growth is compatible with that of its trading partners. Japanese economists are helping to shed light on the changes by explaining these restructuring efforts and how they are being implemented. They can be properly understood only with a precise knowledge of the Japanese policy environment.

This book is organized into four parts. Part I gives a summary of Japan's development process over the long term and analyzes the interaction between production and trade structures with ample consideration given to statistical evidence. Part II analyzes the strategic role of four industries at different stages of Japan's economic development—silk exports during the initial stage; textile and steel industries during CPC development, which is typical of such labor- and capital-intensive industries; and the trading companies in the trade expansion period. Part III focuses on trade and industrial policies adopted by the Japanese government during the pre-Second World War period, the high-growth period of the 1950s and 1960s, and the post-oil shock period. Part IV discusses the relevance of the Japanese development experience to contemporary NIEs and near-NIEs and presents two case studies of the catching-up product cycle and general trading companies in representative developing countries.

This book is based on its Japanese edition (*Nihon no Keizai Hatten to Kokusai Bungyō*), which was published in 1984 and won the *Japan Economic Journal*'s Best Economics Book of the Year Award. However, Chapters 2, 9, and 10 have been revised significantly in order to include the recent changes in Japan's role in the international environment in the 1980s. For other chapters, beyond mere translation into English, explanations and English-language references for English-language readers have been added. Readers with knowledge of the Japanese language should refer to the 1984 edition for Japanese sources that have been omitted from this edition. The interaction between industrial growth and international trade in Japan has occasionally been treated in the English-language economics literature (for example, Lockwood, Allen, Akamatsu, Kojima, Shinohara, Tatemoto-Baba, and Ohkawa and Rosovsky). This author's debt to these studies is great. To these has been added this author's research, which is based on the recent *Long-term Economic Statistics of Japan* series. This book attempts to present a complete picture of the development mechanism and government policies in a long-run historical perspective—this author's version of the Japanese model.

The concept of the catching-up product cycle provides the main analytical framework for Japanese economic development into which such institutional devices as industrial policy and trading companies are incorporated. Although based on Vernon's version of the product cycle, CPC was first proposed by Akamatsu in the early 1940s and is known to Japanese economists as the "flying wild geese pattern" of industrial development. The concept was based on Akamatsu's statistical study of the interrelated development of Japanese industries and trade. The concept was developed further by Kojima and Shinohara. Since introduced by Ohkita at the 4th Pacific Economic Cooperation Conference (PECC) in Seoul in May 1985, the theory has been attracting the attention of economists in the Asia-Pacific region as the theory that best explains industrial transmission among the Asian economies. The phrase "flying wild geese" has become a popular way to describe economic cooperation in the Pacific. This book endeavors to present to English-language readers this Japanese model, with all its implications for the economic development of late-starting countries.

Long-term Japanese economic statistics are used to the fullest extent to describe the process of economic development; these are taken from the coauthored work, *Trade and Balance of Payments* (Yamazawa and Yamamoto, Volume 14 of the *Long-term Economic Statistics of Japan* series) and from other publications in the series, which are available in English translation and may be referred to by interested readers.

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The publication of the English-language edition would not have been possible without the generous permission of Toyo Keizai, Inc., the publisher of the 1984 Japanese version. I would also like to acknowledge the other sources and publishers upon which parts of this edition were based. The materials in this edition, and the publications in which they appeared, are as follows: Figure 10.2 appeared, in part, as Figure 16.1 in Chapter 16, by I. Yamazawa and S. Tambunlertchai, *Japan and the Developing Economies: A Comparative Analysis,* K. Ohkawa and G. Ranis, eds. (Basil Blackwell, Inc., Oxford, England, 1985). Tables 6.7, 6.8, 10.1, and 10.2 appeared as Tables 18.1, 18.2, 18.3, and 18.5, respectively, in Chapter 18, by I. Yamazawa and H. Kohama, of the same title. Sections of an earlier version of Chapter 5 of this edition appeared as "Industry Growth and Foreign Trade: A Study of Japan's Steel

Industry," by I. Yamazawa (*Hitotsubashi Journal of Economics,* Vol. 12, No. 2, Feb. 1972, Hitotsubashi University, Tokyo), and an earlier, shorter version of Chapter 7 appeared as "Industrial Growth and Trade Policy in Pre-War Japan," by I. Yamazawa (*The Developing Economies,* Vol. 13, No. 1, 1975, Institute of Developing Economies, Tokyo).

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Part I

Japan's Economic Development and International Trade

One

Economic Development and Trade Structure: The Long View

At the core of Japanese economic development was Japan's rapid industrialization and great capacity for change. Japan was late in developing, yet Japan's domestic production and trade structures underwent a remarkable change from the period of the introduction of modern industries from the United States and Europe to the period of export-oriented growth. For a country lacking in natural resources—except labor—the strategy of importing raw materials and exporting finished products was most appropriate. Beginning in the Meiji period (1868–1912), the interaction between industrialization and changes in trade structure led to over a century of Japanese economic development, and although severe balance-of-payments constraints characterized Japan's initial period of growth, these gradually eased.

This chapter overviews Japan's development over a century, focusing on the interaction between industrialization and changes in trade structure.[1] This interaction, which is seen through Japan's high capability of transformation, characterizes Japan's economic development. Chapter 2 presents the interaction as a "Japanese model," which provides the framework for the presentation of industry case studies in Chapters 3 through 6. The role of government policy in the process of this successful interaction during the pre-Second World War period, the high-growth period after the Second World War, and the period after the two oil shocks is analyzed. Towards the end of this book it is pointed out, however, that Japan has outgrown this traditional pattern of catching-up industrialization and now searches for a new pattern of economic growth that corresponds to its position as a new industrial leader. Chapter 10 discusses the relevance of the Japanese development experience to contemporary developing countries.