

Japan

I. Economic Overview

A Major Trading Nation

Japan is the second largest economy among developed nations. The two most striking characteristics of the Japanese economy are first, the speed with which Japan has achieved its position, and second, the extent to which its phenomenal growth has been based on trade. In 1960, Japan's total trade (exports plus imports) amounted to \$8.3 billion and accounted for 3.5% of world trade. By 1989, Japan's total trade had grown to \$570.6 billion and its share of world trade had climbed to 8.2%. Exports led this expansion. In 1960, Japan's imports and exports were roughly in balance. By 1989, Japan's exports totalled \$323.2 billion and its imports were only \$247.4 billion, a trade surplus of \$75.8 billion.

An Emphasis on Consensus

This striking economic success has been based on a uniquely Japanese approach to domestic economic activity that seeks harmony and consensus. That approach has included:

- a general acceptance of close coordination between the activities of business and government;
- restrictions on destructive internal competition between Japanese companies and avoidance of hostile corporate takeovers;
- cooperation and information-sharing among firms coupled with a reluctance to damage each other's commercial interests;
- strong ties of loyalty between companies in a supplier-client relationship;
- guarantees of lifetime employment in

companies as a means of securing the loyalty of employees;

- formal and informal measures inhibiting foreign import penetration;
- a low interest-rate policy and controls on the direction of bank lending.

Key elements of this traditional approach, however, are changing. For example, the Japanese government has recently encouraged a more market-oriented approach to many economic practices by adopting policies promoting financial and trade liberalization. It is also government policy to reduce Japan's dependence on exports as the engine of growth and to encourage domestic demand to attract imports and balance Japan's trade surplus.

The Shift to Higher Value-Added

The Japanese economy is also undergoing profound restructuring. Japan's original export drive was fueled by low-end manufactured goods that competed on price. The proceeds from that early success went into creating a heavy industrial base in sectors such as steel and shipbuilding. The oil shocks of the 1970s and 1980s hit such heavy industries hard. As a resource-poor country dependent on foreign raw materials, Japan was conscious of its dependence on foreign supplies of energy and raw materials. Japanese industry tried to reduce that dependency by rationalizing existing industries and emphasizing energy efficiency. At the same time, it refocused its economic emphasis away from heavy industry and toward higher value-added activities and advanced technologies.