

THE JAPANESE ECONOMY IN THE 1990s

Kenji YAMADA

The College of Business Administration and Information Science
Chubu University

1200 Matsumoto-Cho, Kasugai, Aichi, 487, Japan

Tel (Japan) : 0568-51-1111 ex.2833

Fax (Japan) : 0568-52-1505

This paper was presented at the symposium,

International Business in a Competitive Shrinking World

which was held at Ohio University, USA on September 17, 1993.

The Japanese Economy in the 1990s

Kenji YAMADA

1. Introduction

The purpose of this paper is to review the characteristics of the Japanese economy in the 70s and 80s, and to forecast the features of the economy in the 90s. The unusual reasons for such rapid economic growth can be said to be rapid economic growth without influential political or military power.

A single-race composition, a high level average of education and time-consuming groups decision making are assumed to be the key factors in Japanese economic growth. Japan has put her resources into only economic development without worrying too much about international political problems. Declining U.S. political power, the rise of OPEC in the 70s, and the unstable international financial mechanism of the 80s exposed the Japanese economy to international competition. Revaluation of the Yen and market depression since the end of the 80s to the early 90s have accelerated Japanese openness to the world economy.

The rise of global regionalism such as EC and NAFTA and the disintegration of the world economy on the other hand in areas such as the CIS and the East European countries have occurred simultaneously. The slow Japanese response to these global, political and economic changes are now making the situation worse than expected.

In the following, I will review the Japanese economy from three points. Firstly, Japanese de-industrialization will be accelerated due to the revaluation of the Yen. Secondly, the increase in the aged in the population will change Japanese economic structure. Thirdly, structural changes in labor market will promote new work ethics. Nexts I will predict that three future changes will occur in the Japanese economy. Firstly, the trade surplus will decrease due to product imports from overseas. Secondly, Japan will become much more consumer oriented rather than saver oriented in the world economy. And thirdly, the Japanese economy will become service-oriented.

In closing, I will mention what should be undertaken from three different perspectives. Firstly, the changes in the Japanese education system. Secondly, the investment into economic fundamentals that must be expanded.

And thirdly, that management systems will be adjusted to the international operation of companies as well as to the changing world economy.

2. Three features of the Japanese economy

2.1 De-industrialization of the Japanese economy

In the 80s the Japanese manufacturing sector moved its production facilities overseas in order to cope with the trade frictions caused by local content regulations in the U.S. Even though the recent global depression has caused a sharp decrease in Japanese direct foreign investment, the present trend of Japanese foreign operations will continue in the 90s.

Japan promoted direct foreign investment in the 80s. Although the recent domestic and overseas economic depression has caused a downward movement in direct foreign investment, trend in the present Japanese overseas production will not change.

Japanese labor-intensive industries, such as spinning and weaving, cannot compete with producers in the cheap labor countries even if the Japanese companies are highly mechanised. Recent trend declines in the Japanese spinning, weaving and shipbuilding industries show this kind of movement.

Therefore, price competitive products will be produced overseas and highly sophisticated products will survive in domestic production. The foreign operation of companies has been promoted by the revaluation of the Yen. A rapid expansion of direct foreign investment in the manufacturing sector will increase overseas production and Japanese imports in the near future. The electrical machinery industry shows this kind of operation and trade pattern. De-industrialization of the Japanese manufacturing sector is inevitable due to the revaluation of the Yen and the expansion of overseas production. These movements have come about with unemployment in the manufacturing sector due to the global depression in the 90s.

The unique Japanese superiority in the manufacturing sector has already fallen and wage increases due to the shortage of labor and the younger generation's desire to be employed as white-collar workers can be seen in the Japanese labor market. In order to cope with these movements, the manufacturing sector hopes to survive through robotics as well as the production of knowledge-oriented products.

2.2 Population Aging

The aging of the Japanese population is another problem for future expansion. It is assumed that, due to the aging population, the Japanese overall productivity will decrease, incomes will be distributed to finance pensions and the social vividness which has been the source of the Japanese high economic growth will fade.

One way to mitigate the bad effects of population aging is to admit an inflow of younger people from overseas. Recent press reports that there are side effects for guest workers such as those in Germany with violent demonstration etc. against foreign workers, especially in this recession period. People's hesitation to promote an inflow of foreign workers seems to be growing in Japan and there may be much hesitation to promote a legal inflow of foreign workers, to preserve a secure society as well as the Japanese decision-making process, to avoid cultural friction and also to resist a multi-racial competitive society.

2.3 Changes in labor practices

The Japanese seniority employment system has changed since the recession caused by the oil crisis in the 70s. The changes came mainly in shipbuilding and the steel industry, the so called smoke-stack heavy industries. Large firms have many subsidiaries to where some white collar workers move in their late 40.

Depressed firms cannot absorb surplus workers, so they are now taking employment adjustment measures such as laying-off part-time workers and through early retirement recommendations. Judging from these movements, I assume that Japanese companies cannot preserve the long experienced life-time and seniority employment system, and that they are looking for new employment practices such as the U.S. easy-to-lay-off system.

Firms need manpower that can adapt to new business environments. The efficient utilization of female workers and specialists is the key to raising productivity, and is also, a quick decision making process by top executives which is necessary for the changable business activities of today.

The world-wide operations of Japanese companies need a basic business management system which everybody can easily understand the meaning of. I wonder if the so called "Japanese Management" is easily recognized as well as accepted and that it raises productivity in every field of operations.

The life-time and seniority employment system which is applied to Japanese workers with equal quality, mental and cultural backgrounds is not necessarily the best of labor practices. If not, then why don't companies apply the competitive personal evaluation measures which, are used in many other countries? Now is the time to introduce double-track labor practices, i.e., by utilizing both the Japanese way and the U.S. way, into Japanese management.

3. New Direction for the Japanese Economy

The depression, political disorder and the trade surplus in dollar terms are issues for the Japanese economy. Domestic consumers cannot satisfy their living standards even though their incomes in dollar terms have become quite high by international comparison. Non-Japanese are complaining about the Japanese trade surplus, and companies are talking about Japanese bureaucratic regulations. Japan needs to solve these problems. In the following, I will discuss the various measures for the Japanese economy to take in the 90s.

3.1 Reduction in the trade surplus

The Japanese government is expanding public spending to increase imports but the recent political scandals related to public spending have caused a delay in the processing of actual investment. High land prices hamper the expansion of public spending. What easy measures are there to promote public spending?

The Japanese government is promoting public spending in the educational sector such as for computerization in elementary schools. Even if the government buys

computers though, the teachers have trouble fitting them into the curriculum. Therefore, budgets must include computer software and the manpower training for them as well. These things also happen at university level.

Japanese tourists overseas usually recognize how strong the Japanese Yen is in other countries but how weak it is in Japan. Revaluation of the Yen promotes this kind of sentiment. Therefore, Japanese often go abroad during the summer and year end vacations to enjoy the strong Yen. Shopping in Hong Kong and Paris for a handful of souvenirs is a very well-known phenomenon of revaluation of the Yen. The complicated Japanese distribution channels can also make profit for new-comers.

Cheap-but-less-service style shopping is becoming familiar to Japanese customers in the depressed economy. Never-the-less Japanese are mostly accustomed to a quasi-free serviced society, but such services do not come free of charge. Services are expensive in Japan. If you drink a glass of orange juice with ice in the Ginza Tokyo, you have to pay up to \$50 to enjoy the time and conversation.

Deregulation in every sector of the economy is urgent in order to promote an active economy. Revaluation of the Yen does not effect the price of non-traded goods and the service sectors. In three years, the revaluation of the Yen increase imports and decrease exports such as in the present auto industry. Revaluation of the Yen and deregulation in every sector of the economy will increase product imports and services such as with air flight tickets. Even though the trade imbalance comes from macro-economic factors, the inefficient Japanese absorption mechanism will hamper the smooth progress of this work and big money will flow only in to the hands of bureaucrats.

3.2 From a saving economy to a consuming economy

In macro-economics it is usually argued that the trade imbalance is realized due to Japan's excess saving and U.S. excess consumption. The Japanese saving rate is higher than that of the U.S. I am not sure if this gap will continue for ever. The Japanese younger and older generations could spend much more than is expected. People living in Tokyo and those who cannot afford to by houses, can spend their money on travel, educational and cultural expenses. As the Japanese are now entering into a service seeking economy, I am sure that in the late 90s Japan will move from a saving to a consuming economy.

3.3 Knowledge-intensive products and a service economy

As the Japanese manufacturing sector moves quickly overseas due to the revaluation of the Yen, the remaining products in the domestic production sector are competitive to low prices or are high-value knowledge-intensive products. Machinery equipped with computers and high-value autos greatly depend on knowledge and brain-intensive capabilities.

Japanese products are well suited to move quickly into the software oriented markets. Therefore, the fact that the structure of employment will change, as the present trend shows, to service-intensive sectors, is a strong possibility. Japanese manpower though lacks the know-how and ability to manage its financial assets in the overseas market and in risk-management techniques.

4. What to do now?

The Japanese economy is now following the U.K. and the U.S. What should we do in the late 90s to prepare for the 21st century? A shrinking trade surplus, a change from a saving economy to a consuming economy, and the expansion of knowledge-intensive and service-oriented products, are sure to come in the near future. What are the optimal strategies for the Japanese economy to prepare for? In the following, I wish to propose the manpower training in special technical field, the expansion of investment in Japanese infrastructures, and the adoption of economic policies and management methods which are suitable to the changing economic environment.

4.1 Educational systems to increase specialists

Of course, the Japanese primary and secondary educational systems promote a fairly good knowledge of language and mathematical skills. But, at the university level, where students are required to be motivated and active by themselves, they lose their sense of learning. Now, the Ministry of Education hopes to change this situation under formal and informal guidelines.

Companies faced with the depressed economy want their employees to have a much higher knowledge and the skills to cope with advanced management and technology. Japanese universities are now moving quickly into the fields of vocational and continuing education. One reason is that the number of entrants to universities is shrinking, and that people wish to change their jobs through favored treatment or are forced to change their jobs due to being laid off. They need new knowledge and know-how to adjust as soon as possible to new labour environments. Therefore, special training subjects for job adjustment and brush up courses for employees to go to overseas operations are required in and out of companies.

In Japan, universities are still enjoying the "ivory tower" image in regional society. Universities have to open their facilities and manpower to society as social and vocational educational centers. In order to cope with the changing labour market, Japanese universities have to change their structures and become much more competitive with each other and become much more regional-society oriented to serve as a basis of continuing education and as vocational education centers for the aged and retired peoples as well as for the younger generation, looking for good job opportunities.

4.2 Expansion of investment in the infrastructures

There is no doubt that Japan lacks infrastructure investment in such areas as airports, highways, housings, data-highways, and health care for the aged and the handicapped people. The large external surplus but the poor infrastructure frustrates both the Japanese as well as non-Japanese. The Unstable political situation due to political corruption and the loss of leadership, coupled with an inefficient bureaucracy have aggravated the people's support for political leadership. Even though a new government has been elected, the import liberalization for rice will not be decided due to the voter support from farmers. High food prices and low productivity in the

agricultural sector have worsened the Japanese standard of living.

Replacement investment as well as new investment, such as for highways, rail ways, telecommunication systems, campus facilities and for equipment in laboratories and so on are very important items to be undertaken as soon as possible. Japanese investment demands are very high if the public expenditure budgets are to be decided under the new government, in order to create new job opportunities.

4.3 New management methods in order to adopt global management

It is inevitable for Japanese companies to adopt global management systems to be globally understood. Japanese companies are worrying so much about this problems one which has already been experienced by western multinational corporations in Europe and the U.S.

New Japanese management styles will be realized in the late 1990s through the experience learned by the Japanese companies in the boom and depression stages with a shortage and then a surplus of manpower. Drastic decision making when managements are in troubled situations, and group decision making when they are in boom situations have been the norm and I wonder if there is a common way in some part as well as a specific method limited to certain regions. Can these two-way management systems co-exist with each other? I am sure that Japanese companies which can solve this problem will survive globally in the late 1990s.

5. Conclusion

The Japanese economy in the 1990s depends so much upon global trade and investment. If Japan can manage alone, the government can solve the current unemployment problem to stimulate the domestic economy.

The U.S. is Japan's most important trading partner. How can the Japanese standard of living be raised through trade is the key issue to be considered now. Revaluation of the Yen will promote product imports from overseas. Deregulation will create a new market access in the complicated distribution channel system. Competition will allocate resources much more efficiently.

It is very unfortunate that the Japanese do not take the initiative in moving in new directions. Japan is always the follower after the Europeans, the U.S. and many Asian countries. Japanese are not trained to take the lead in running the world's political race. It will take a lot of time to take the lead when the Japanese economic power fades due to declining productivity, growing trade deficits and population ages. Japanese will not work so hard, they will invest less in the manufacturing sector, and also, Japanese society will become less integrated in the late 1990s.

What I propose here is that the U.S. leads in the political and economic running and Japan follows. In order to preserve this system Japan will have to pay an adequate amount of money in various forms such as through foreign aid, investment and managed trade. As for the U.S. and Japanese trade negotiations, Japan's passive approach will not change in only a year or so, therefore, the negotiation style led by the U.S. will

continue. A slow but steady approach will create good results. Both governments should be careful and cautious not to be too nationalistic and not to motivate violent ultra nationalist violent actions.

References

1. *Japan 1993*, Keizai Koho Center.
2. *Japan Almanac*, Asahi Shinbun, 1993.
3. 『通商白書』各年号.
4. Laura D'Andred Tyson, *Who's Bashing whom? : Trade Conflict in High-Technology Industries*, Institute for International Economics, 1992.
5. Eennis J. Encarnation, *Rivals Beyond Trade : American versus Japan in Global Competition*, Cornell University Press, 1993.