

JAPAN AND THE UNITED STATES: A CASE STUDY IN GLOBAL ECONOMICS

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The world is a very different place than a few short years ago. Who would have believed the restructuring of Europe, culminating into the European Community in 1992, the demise of Communism and the end of Cold War, all culminating in less than three years? Further who of us would have predicted the velocity of the economic transformation occurring in the Pacific Rim which has prompted some observers to talk about "The Asian Century" with Japan, the world's second largest market economy, offering significant leadership. These events, are catalysts for global, political and economic transformations for the remainder of this decade and well into the 21st century. The outcomes of events are not entirely clear, but we do know that the global market economy is well underway, it is irreversible, and it is redefining the market place for all, creating new opportunities for nations and people to participate in a global economy.

The new international order is a growing multi-state system where political and economic power are increasingly diffused. The boundaries that separate the residents of the world are faded with the aid of new data processing and communication technology. The U.S. and the Soviet Union's extreme economic and political influence on world affairs is diminishing as the international system becomes more plural in terms of states with power and influence.

Given these global realities, it is in everyone's interest to become knowledgeable about directions of the future. The discussion that follows addresses an important dimension of these transformations - the Japanese economy. Given that Japan is the world's second largest market economy, and that her economic linkages with the U.S. are extensive, the relationship between our countries, in many respects, is symbiotic. It is crucial then that this generation and future generations of Americans gain knowledge and understanding about Japan as well as reasoned attitudes about U.S.\ Japan relations. Currently this is not a straight forward task, as various sectors of

the media in both countries have been engaged in distorted representations of the other's cultural traditions and institutions. This article attempts to provide information that can be used by practitioners to teach students about the Japanese economy.

HISTORICAL AND CULTURAL FACTORS

A country smaller than the state of Montana with virtually no natural resources has succeeded in equaling or surpassing the per capita personal income of the United States. This same country was a feudal society isolated from the rest of the world until the mid 1800's, and was devastated by military defeat by the United States in 1945. It seems all the odds were against Japan's becoming a world economic power, but it happened. How?

The historical success of the Japanese economy is explained in a number of ways. Briefly, Japan had developed a tradition of capitalism during the Meiji period (1867 to 1912). The Japanese government had imported experts from the West to aid in economic development, and had sponsored the zaibatsu or large industrial organizations. This helped create the necessary mind set and cultural structure to foster capitalistic development after the defeat by the U. S. in 1945. The tradition of feudalism was also a strength with its emphasis on strong cooperative involvement of the government. And, the life view borrowed from China and confucianism, which emphasized harmony, group success, order, strong family, and compromise over struggle provided the social psychology necessary. Finally, the American occupation imposed a competitive economic system, a new constitution, and a prohibition against ever going to war again.

This historical, cultural background along with an important accident of history, the economic stimulus of the Korean War, which provided the rapid increase in demand for goods and services purchased by the Americans in their pursuit of the war, gave the necessary stimulus to create the rapid economic development of Japan.

Important policy differences also need to be explained. The United States has developed both monetary and fiscal policy along with a pro-competition policy to guide the economic activity of the country. The Japanese developed all of this along with an "Industrial Policy" which is designed to create economic and industrial success. The Japanese Ministry of Finance along with the Ministry of International Trade and Industry (MITI) sponsor industries for expansion and dominance. This targeting provides special finance and trade barrier support to stimulate the success of the activity. To an important extent this seems to work. It is this industrial

policy that helps explain some of the differences in the recent performances of the U. S. and Japanese economies.

Cultural differences lend additional insight into the success of the Japanese economy. Popular culture in the U. S. stresses independence, competition, and individual success. Japanese culture on the other hand stresses dependence, cooperation and the importance of group success. Hard work, thrift, cooperation and the desire for group success on the part of the Japanese help explain the phenomenal results of their efforts.

From an economic perspective the results of these historical and cultural dimensions are manifested in a multitude of ways in the global economy. The data and narrative that follows tries to illustrate the incredible interconnection of the Japanese economy with the U.S. as well as with the rest of the world in terms of trade, investment, agriculture structure and evolutionary changes that are occurring in the Japanese economy.

FIGURE 1

WORLD TRADING PARTNERS, 1989

UNITED STATES

Exports

Canada	22.9%
Japan	11.3%
Mexico	5.8%
U. Kingdom	5.6%
Germany	4.7%

Imports

Japan	20.8%
Canada	19.9%
Germany	6.6%
Mexico	4.8%
U. Kingdom	4.2%

JAPAN

Exports

U. S.	36.8%
Korea	5.8%
Germany	5.6%
Hong Kong	3.9%
U. Kingdom	3.7%

Imports

U. S.	21.2%
Indonesia	6.1%
Korea	5.4%
Australia	5.3%
U. Arab Em.	5.0%

The data in figure 1 shows Japan ranks second to Canada as a market for our exports, and is first as a source of imports. For the Japanese the story is even clearer. The U. S. is both the largest buyer of Japanese goods and the greatest source of foreign products for the society. Global economic entanglements are growing rapidly and we should have important visions of the future market place from current data.

It is obvious from this and many other data, that Japan is very important to the U. S. and the U. S. is very important to the Japanese. Preliminary research indicates strongly that the Japanese do a much better job of educating students about the United States than does the U. S. at educating about Japan.

Cultural relations between Japan and the United States are difficult from time to time. The press is guilty of ethnocentrism and leads us to believe that we are being bought out lock, stock and barrel by the Japanese, and we will soon be a colony of Japan. The implication is that the Japanese will be controlling our lives, absorbing our income, and shipping the profits of our enterprise to Japan. We have engaged in "Japan bashing" partly because we don't understand the Japanese, their culture, and society, and partly because we don't realize the economic globalization process underway. Japan is just one of the players with whom we will be increasingly trading. The world economy will never be the same, and all players must adjust.

FIGURE 2

EMPLOYMENT STRUCTURE OF JAPAN (Percent of the Population is the data)

	AGRICULTURE	MANUFACTURING	SERVICE
1950	48.3	21.9	29.8
1960	32.6	29.2	38.2
1970	19.3	33.9	46.8
1984	8.9	34.2	56.9

EMPLOYMENT STRUCTURE OF THE UNITED STATES

	AGRICULTURE	MANUFACTURING	SERVICE
1970	4.5	33.2	62.3
1983	3.5	26.8	69.7

While the numbers in figure 2 aren't exactly the same, the trends in employment are similar. A decreasing proportion of the Japanese and the U. S. population is engaged in agriculture. And in both Japan and the United States the proportion of workers devoted to the service sector is increasing. The difference is the amount of manufacturing employment. In Japan this sector is still gaining in importance, while in the United States this sector is losing. The Japanese are beginning to shift manufacturing activity "off shore" to cheaper sources of labor and because it is physically more difficult to find space-location sites for manufacturing. It seems reasonable to predict it will not be long until manufacturing will lose importance as an employment source in Japan.

While our two cultures are quite different, even mysterious to one another, the Japanese are becoming more like the American-European model, and young Japanese almost secretly idolize the popular culture of the West.

While the Japanese are frugal and conservative historically, they are changing. Savings rates for the Japanese are declining, and consumerism is on the rise. Japanese men and women have learned to like flashy products and are increasingly buying American products through mail order catalogs. Long working hours are slowly giving way to increased leisure, more travel abroad, and more consumer goods at home. The stoic Japanese society is gradually giving way to the showy Western model. The purchasing power of the increasingly affluent Japanese is creating changes no government policy can create or resist.

The huge trade surplus Japan has enjoyed in autos, machinery and electronics is falling, and Japan is increasingly in deficit for food, petroleum, industrial materials, and consumer nondurables.

FIGURE 3

FOREIGN INVESTMENT IN THE U. S. - 1989

United Kingdom	30%
Japan	17%
Netherlands	15%
Other Europe	14%
Canada	8%
Germany	7%
Latin America	5%
All other	4%

UNITED STATES INVESTMENT ABROAD

Other Europe	20%
Canada	18%
United Kingdom	16%
Latin America	16%
All other	13%
Germany	6%
Japan	5%
Netherlands	5%

The investment patterns shown in figure 2, indicate that Japan is second in the amount of direct foreign investment in the United States. It should be noted that a significant proportion of Japanese investment is in the form of savings for the Japanese. They have purchased stocks and bonds and are in effect loaning us money.

FIGURE 4

EXPORTS	PROPORTION OF GNP, 1987
UNITED STATES = \$220B	5.3%
JAPAN = \$180B	13.3%
IMPORTS	
UNITED STATES = \$360B	9.1%
JAPAN = \$140B	9.8%

The absolute volume of foreign trade by the United States as shown in figure 4, is greater than for any other country. Notice second place Japan (tied with Germany) in terms of the absolute level of trade. However for other countries including Japan, trade is a greater percentage of total production than it is for the United States. Only for the Soviet Union is the proportion of international trade smaller (exports = 4.2% and imports = 4.0%) than for the United States.

FIGURE 5

**WORLD EXPORTS
BY PERCENT OF TOTAL WORLD TRADE, 1989**

Crude petroleum	11.0%
Motor vehicles	7.8%
Petroleum products	4.8%
Machinery, non-elect.	3.7%
Electrical machinery	2.8%
Office machines	2.5%
Clothing	2.1%
Other	6.0%

CONCLUSION

There are a large number of reasons why we should study the globalization process and Japan in particular. It is impossible to rank the following, so I'll simply share them in no meaningful order.

Japan and the United States are very important trading partners, and the relationship will grow. Japan and the United States are important investors in each other's economies at a time when the capital and financial markets are becoming globalized.

Japan is an important historic model of economic development and is an important case study for the world for this reason alone.

Finally, it seems reasonable to predict three great trading blocks in the future: the United States of North America (Mexico, Latin America and Canada included with the United States), the United States of Asia (the Pacific Rim economies and Japan), and the United States of Europe. A focus on the global economy and the trading blocks of the future will be instructive for all.