CAUSES BEHIND THE JAPANESE PENETRATION OF SOME U.S. MARKETS

A Research Topic
Presented to Business Division
Beirut University College

In Partial Fulfillment
of the Requirements for the Degree
Master of Science in Business
Management

By
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January, 1994

BEIRUT UNIVERSITY COLLEGE

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BEIRUT, LEBANON

APPROVAL OF RESEARCH TOPIC

CANDIDATE: SEVAG VAHE PANOSSIAN DATE: JANUARY 1994

DEGREE : MASTER OF SCIENCE IN BUSINESS MANAGEMENT

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TITLE OF RESEARCH TOPIC: CAUSES BEHIND THE JAPANESE PENETRATION OF SOME U.S MARKETS

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Dedication

To My Lovely Sister, Shaghig

For Being on My Side All The Time

Acknowledgement

It was natural that while writing this research paper, I encountered many problems and difficulties. The beginning was the choice of the right topic which was supposed to be interesting enough for me to carry on it a detailed study. Then came the process of long library readings, data collection and interpretation. Finally the writing of the chapters as they appear in this research.

All these wouldn't have been done properly without the guidance, advise, suggestions and encouragement of my advisors professors **Yusuf Shibl** and **Tarek Mikdashi**. I would like to thank them sincerely for their help and support.

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Chapter I

Introduction

A. Purpose of The Study.

Since the late sixties economic relations between Japan and the United States are witnessing increased problems accompanied by a rising tone of competition and antagonism. Japan, with its fast recovery and growth after World War II came to dominate many industries. United States suffered great losses in its textile, consumer electronics and auto industries and now it is on the way of losing the "high technology" industry which was considered to be the future of American power. If this retreat continues there will be a doubt about the future of the U.S.and its role in the leadership of world economy.

The Japanese admit that their goal is to strengthen Japan, not to weaken the United States which is their ally. But it seems that the more Japan succeeds and advances, the more America fails and loses.

Americans on their side visualize an economic war and aggression against their country, which aims for an attempt of the world's industrial and technological leadership. They claim that Japan is "unfair" in its competition and its dominance comes as a result of anti competitive behavior rather than fair market practices.

The purpose of this project is to study the reasons beyond the Japanese penetration of some U.S. markets and their dominance over some major industries which had played an important role in establishing the American economic power.

B. Scope and Methodology.

This project consists of six chapters. The first is an introductory chapter describing the purpose, scope and methodology of this study. The second chapter is a survey of literature on the economic growth of Japan covering major economic developments in Japan starting since 1850s. The emphasis of chapter II goes to reveal the effects of world war II on Japanese economy and the period of recovery and growth that follows in the next decades. Different opinions, ideas and discussions are presented describing the Japanese American trade relations and the reasons beyond their conflict.

The third chapter is an analysis of the economic performance of Japan and United States. The aim is to elaborate the points of strengths and weaknesses of both countries, and the way these findings are related to our topic. Fourth chapter presents the major industries that the Japanese were able to penetrate and dominate in the last three decades. It mainly consists of consumer electronics, auto and semiconductor industries. The fifth chapter includes major findings of this study which summarizes the causes beyond the Japanese penetration and success, also presents recommendations and policies which may look necessary for the American recovery. The last chapter concludes the project.

The Methodology followed is a comparative study of certain aspects of Japanese and American economies in order to identify their strengths and weaknesses. Basic data, as exports, imports growth rates, reaserch and development expenditure, productivity, and market share are presented and analyzed to support the derived arguments. In addition, a simple regression analysis is conducted relating economic growth in USA and Japan to the balance of trade. Another regression relates growth rate to the unemployment rate in the United States.

C. Sources of Data.

The main sources of information and data are library readings and researches from books, periodicals, articles, documents and previous researches related to Japanese American trade relations.

Chapter II

Review of Literature:
Historical Background of Japanese Economy

A. Historical Record of Japanese Economy.

The career of modern Japan started in 1868 when due to some political changes the ruling House of Tokugawa was overthrown, and the emperor Kei-O was restored. But before this date in 1853 Commodore Perry with a squadron of four ships arrived in Tokyo Bay with a demand: open your markets or suffer the consequences, presumably blockade by his ships. Actually it was a hard and painful choice for the Japanese. The Tokugawa Shogunate, which had ruled and isolated Japan for more than 250 years, was not eager to open the markets of the country easily. But "Perry's steam frigates that represented a level of technology far beyond Japan's, was able to blockade and starve Tokyo which received its food supply by sea." [1]

Japan's response to Perry became classic. They understood that it would be foolish to fight without equal or superior technology. They determined a strategy that will allow them to

[1] Clyde V. Prestowitz, Jr., Trading Places (New York: Basic Book, inc., Publishers, 1988),p.8.

acquire this technology, while maneuvering to minimize foreign penetration. Their answer to Perry was that they will open the market but of course it couldn't be done at once. Two small ports were allowed where foreigners could trade. One in the far north of Japan and the other on a shore 150 miles from Tokyo. While attempting, in this way to limit foreign penetration, Japan immediately launched an intensive and historic effort to catch up with the industry and technology of the West.[2]

Missions were dispatched to Europe and America and foreign experts hired to come to Japan to transfer the technology and skills that had put it at such an uncomfortable disadvantage. "Japan wanted the technology of the west, not to become westernized but to maintain its autonomy and purity as a society."[3]

In 1875 according to official statistics, the number of foreigners in service reached a maximum of 527, of whom 205 were technical advisors, 144 teachers, 69 managers and administrators and 36 skilled workmen. Japanese were encouraged to go abroad to acquire western knowledge and means were devised to provide technical training.[4]

All these efforts to develop industry and economy were under the guidance of government authorities. "this mission was too

[2] Prestowitz, P.8.

[3] Prestowitz, P.8.

[4] G. C. Allen, <u>A Short Economic History of Modern Japan</u> (London: George Allen and Unwin, 1968), P.32.

important to be left to those known as entrepreneurs in the west." [5] In 1869 the government founded a Commercial Bureau to supervise and encourage foreign trade, and in 1871 a postal and telegraph system was introduced. At the same time the first railway was built connecting Tokyo with Yokohama also a steamship line was formed between Osaka and Tokyo.

Results came with amazing speed. By 1900, Japan's industries had reached a level of technology, if not yet a scale, comparable to that of the west. The efficacy of Japan's effort was dramatically demonstrated in 1905 when, with all the world watching, the Japanese trapped and sank the pride of the Russian navy in the straits of Tsushima thereby avenging to some extent the humiliation inflicted by Commodore Perry. [6]

In 1938 Japan was already one of the world's leading industrial and military powers, At that time it dominated Asia's textile market and its steel production was greater than that of France and Italy and nearly the same as that of Great Britain and its industrial growth was faster than that of the United States.

One of the most perceptive observers of Japan was E.H. Norman, who in discussing the modernization of Japan, described how its "keenest minds were concerned with such questions as the creation of trade and industry, not for their own sake, but rather to establish those industries which might conveniently

[5] Prestowits, P.9.

[6] Prestowitz, P.9.

call strategic."[7] These industries included shipbuilding, iron, machinery and machine tools, railroads, coal mining, and telegraphy. Norman pointed out that in Japan, as a result of the concern with strategic industries, the normal order of the stages of capitalist development had been reversed. Classically, the starting point in the none administered economies of the West had been light industries that produced consumer goods, but in Japan, heavy industry had received the first emphasis.

B. The Recovery of Japan After World War II.

On September 2, 1945, when the Second World War was concluded ceremoniously abroad the battleship USS Missouri, the economy of Japan was in ruin. Most of the cities had been devastated by air attack which had destroyed about a quarter of the housing accommodation of the country together with a high proportion of industrial buildings and plants. This War stripped Japan from all it had gained from previous military successes. It lost the colonies and spheres of influence on the continent of Asia. All the great foreign investments, mainly in Manchuria and china, were lost, and its commercial dominance in the Far East was overthrown.

"The amount of physical destruction, was estimated, to be equivalent to about twice the national income of the fiscal year

[7] Prestowitz, P.106.

1948-1949."[8] At the same time the economy had become structurally defective when viewed from the standpoint of peace time needs. Firms that had served the civilian market or the export trade were required to use their resources for war production. Production and distribution had become disorganized and in 1945 a very hard inflation was in progress. Raw materials were very scarce and people were short of food and other necessities of life. Most serious of all, the people had lost faith in their leaders.

Fifteen years later Japan was independent, prosperous and progressive again. Industrial production has increased by more than the double compared to the middle thirties. The standard of life had risen well above the prewar level.

A more detailed study of this period from December 1945 to the end of 1960 reveals several distinct phases of economic development. "The first phase which lasted until February 1949 was a period of economic confusion."[9] The industry which was in complete collapse began to recover slowly and agriculture showed some revival. During this period of time the goal of the Occupation Authority was to create a social and political reform in Japan and at the same time prevent the recreation of war potential. "They also aimed to democratize the country by encouraging a wider diffusion of wealth and political and

[8] Allen, P.170.

[9] Allen, P.171.

economic power." [10]

This period was brought to an end in 1949 by an important change in American policy, due to the deterioration in relations with the Soviet Union and the advance of the Communists in China. It was realized that "an impoverished and enfeebled Japan would not serve America's strategic interests." [11] Starting then the attention of the United States was directed primarily to economic revival and recovery of Japan. The main goal was to control the inflation and develop a program for monetary stabilization.

The outbreak of the Korean war in June 1950 was beneficial for the Japanese economy due to large orders of goods received on account of the United Nations forces. In 1951 industrial production exceeded the pre war level for the first time since 1944. This war effected also Japan's political relations with the West. "It was now clear that Japan constituted a necessary base for the deployment of American power in the Pacific and this consideration influenced the terms of the Peace Treaty and the Security Treaty which in the 1952 restored sovereignty to the Japanese government." [12]

In 1957 Japan's recovery was already completed. Most of the industries had been reorganized and reequipped. "The GNP was 50 percent higher than the prewar period, and the national income

[10] Allen, P.172.

[11] Allen, P.172.

[12] Allen, P.173.

per person 10 percent higher." [13]

These achievements were related to the great structural changes that was introduced in Japan's industry. The emphasis was gradually shifted from the textile, mining, and agriculture to the expansion of metal, chemical, and engineering industries. In 1960 the output of steel(in tons) was about four times greater than in 1937. The volume of output of machinery and chemicals had grown even more than that of steel. By the late fifties Japan had become the world's leading shipbuilder, a very large supplier of electric apparatus and electronic equipment and an important manufacturer of motor vehicles.[14]

Foreign trade of Japan has experienced a major change, as compared the periods before and after the second World War. In the nineteen-thirties Japan depended on two great regions both as markets and as source of supply, namely East Asia and the United States. North China and Manchuria also were important markets for the Japanese products. The post war political settlements came to destroy the already existing trade lines between Japan and these countries. China and Korea ceased to count as valuable markets or sources of supply. At the same time, the raw silk trade to the United States suffered a steep and permanent decline due to the introduction of nylon. So Japan, at this period was forced to look for new markets, and new sources of supply. At the same time she had to change the product mix, intending to export to

[13] Allen, P.173.

[14] Allen, P.176.

meet the requirements of the markets. This is why Japan created a large and widely distributed export of both light and heavy engineering goods (machinery, railway materials, ships, electrical equipment, sewing machines). The geographical distribution of Japan's trade has changed as follows. Trade with North East Asia became insignificant. South East Asia rose in importance and the United States moved into the position of chief customer and supplier.

C. The U.S. - Japanese Trade conflict.

The period from 1956 to 1958 is known as the "Jimmu boom" in Japan (meaning the greatest boom since the dawn of history). The average annual growth rate of the economy during 1956 - 1960 was 14.5 percent. In 1960 the government new plan was to double the national income. The aim of this plan was to raise the national standard of living, achieve full employment under a system of free enterprise and free markets and maximize a stable rate of growth for the economy.

This plan was directed towards several major aspects of the Japanese economy:

First: Reorganize the infrastructure, such as roads harbors and water supplies.

Second: Introduce further changes in the industrial structure to meet the increasing demand accompanied with the economic growth, and increase productivity in general.

Third: Increase exports to expand foreign exchange earnings.

Fourth: Progress in science and technology to contribute to the industrial modernization.[15]

The implementation of this plan was carried out carefully all during the following years. At the same period the trade frictions between Japan and U.S. began "as minor irritants in an otherwise smooth relationship."[16] This was due to the accelerating attempts of the Japanese government of the economic growth and implementation of the mentioned plan.

The American view of Japan as an underdeveloped country during the postwar period led the U.S. into "a big brother posture toward it that was not adopted towards Europe."[17] It permitted Japanese exports into the U.S. market and Japanese investment in the U.S. while the same was denied to the U.S. in Japan. This caused an imbalance between the Japanese exports to the United States and imports from it.

In the second half of 1960's the relatively smooth and peaceful development of trade between the United States and Japan began to dissipate. In about 1965 Japanese exports to the U.S. began to exceed imports, which led to an export surplus of $3.8

[15] Takashi Shiraishi, Japan's Trade Policies 1945 to the Present Day (London: The Athlone Press, 1989), P.125.

[16] Clyde V. Prestowitz, Jr., "U.S.-Japan Trade Friction: Creating a New Relationship," California Management Review, Volume XXIX, Winter 1987, P.9.

[17] Prestowitz, P.10.

billion in 1972 and 38.566 in 1991. Japanese exports to the U.S. increased from 7% of total U.S. imports in 1960 to 16% of total in 1970, at the same time, U.S. exports to Japan only increase from 8% to 11% of total Japanese imports.[18]

This sharp increase of Japanese imports in the United States triggered a reaction by many threatened U.S. industries, such as cotton fabrics, ceramics, iron, and steel, seeking to restrict these imports.[19]

The 70's and 80's were worse than the previous decade. By mid 1970's the United States had effectively lost its consumer electronics industry. In 1981 it begged Japan to restrain its auto exports because of its high losses in auto industry. And in 1986 Japan's leading computer manufacturer, the Fajitsu Corporation, withdrew its offer to buy Fairchild Semiconductor Company after opposition raised by secretary of defense Caspar Weinberger reasoning that the United States is becoming too dependent on Japan for critical technology. The Japanese also were able to beat the Americans in the race for semiconductor industry when in 1980 they were able to introduce the 256K RAM chips while the Americans were still struggling to get their 64K chips out of the lab.

All these were associated with an increasing trade deficit between the U.S. and Japan from $10 billion in 1980 to $60

[18] Prescilla Clapp and Morton H. Halperin, United States-Japanese Relations the 1970's (Cambridge, Massachusettes: Harvard University Press, 1974), P.59.

[19] Clapp and Halperin, P. 60.

billion in 1987 and $47 billion in 1991.

In his recent book entiteled **"Trading Places"**, former U.S. trade negotiator Clyde Prestowits Jr. gives a detailed description of the U.S. Japanese trade conflict, and the major reasons behind the Japanese dominance over major industries in the United States. For him, the United States has been relatively easy to penetrate. its open society makes for an open market that has welcomed foreign goods and foreign businessmen, on the other hand the social and industrial structure of Japan have made it an extremely difficult market to penetrate.[20] Furthermore "the Japanese government views industrial performance as akin to national security and pours enormous energy into ensuring that its industry is the world leader."[21]

Edward J. Lincoln in his book entiteled **"Japan's Unequal Trade"**, reveals the peculiar trade patterns of Japan and emphasizes the American perceptions and accusations of unfair Japanese business practices in the U.S. market, which have been used to justify protectionist reactions, and in allegations of visible and invisible barriers to the Japanese market. The American criticism of Japan is basically an antitrust view. They believe that in many cases market outcomes are shaped by Japanese business unfair practices ex. predatory pricing, patent infringement, industrial espionage, and explicit or implicit protection of Japanese markets from import competition. Japanese

[20] Prestowitz, P.13.

[21] Prestowitz, P.13.

success in blocking imports into their own country or in penetrating U.S. market comes, at least in part, from anti competitive behavior rather than from competitive ability.[22]

In an article published in California Management Review, Prestowitz declares that forty years after the end of World War II, Japan and the U.S. are again engaged in conflict, which threatens to explode into a full-scale trade war and can seriously damage if not destroy, the bilateral relationship between the two countries.

"The conflict is more dangerous than it appears because its real nature is partially hidden. Japan is once again challenging the U.S., only this time the issue is not China or the Pacific, but world industrial and technological leadership and the military and economic powers which have always been its corollaries."[23]

For years the United States watched the Japanese growth without great concern and "with the pride of the teacher in a star pupil. Americans were confident that they would always be ahead."[24]

If things continue on this present course, Japan will come to dominate many of the world's industries, in particular, high technology. This will have two major economic consequences.

[22] Edward J. Lincoln, Japan's Unequal Trade (Washington: The Brookings Institution, 1990), P.2.

[23] Prestowitz, P.9.

[24] Prestowitz, P.9.

First, the U.S. will become increasingly poorer compared to Japan. The terms of trade will continue to go against the U.S. and its relative standard of living will decline. Second, the U.S. will become militarily dependent on Japan for the technology of its weaponry.[25]

Several attempts have been made to measure the impact of the Japanese import trade barriers on the American economy. In 1985 the U.S. Department Of Commerce estimated that removal of all known barriers would have increased U.S. exports to Japan by $16.9 Billion in 1982. C. Fred Bergesten and William Cline in another research estimated that there will be an additional figure of between $5 billion and $8 billion sales to Japan if all import barriers were removed.[26]

David MacEachron, in his article entitled, **America: Don't Take No for An Answer**, describes the obstacles to close cooperation between Japan and the United States as almost entirely economic. "We have no territorial or ideological disputes, and in broad terms, both nations agree on the need for a peaceful world where trade and capital move freely. But the economic problems are difficult and deeply rooted. They are the product of profound cultural differences."[27] These differences are the real story behind the American trade deficit with Japan.

[25] Prestowitz, P.9.

[26] Lincoln, P.16.

[27] David MachEachron, "America: Don't Take No for an Answer,"Harvard Business Review, March-April 1990, P.180.

To correct this trade deficit the, United States has adopted the position that Japan should open its markets and drop its trade barriers.

In discussing the successful Japanese penetration of the U.S. markets, Abegglen and Stalk refer for two main factors beyond this ability. Factor cost advantage and labor productivity advantage. Many sectors of the Western economies have wages far higher than average and higher than is justified by the skill requirements. As to productivity, Japanese export competitors will usually be able to manufacture an equivalent or better product using fewer labor hours per unit than will the Western rival.[28] For many types of machinery, ranging from machine tools, to autos, to bulldozers, lower costs and high productivity give the Japanese a 5% cost advantage in finished products.

In a recent book enteteled **"The Coming War With Japan"** the authors reveal the political reasons that led the United States to rebuild the destructed Japanese economy after the Second World War. "The new political order pitted America against the Soviet Union, and America needed every ally it could get in it's struggle - Japan more than most, for its location, manpower, and industrial potential."[29] In order to secure its own interests, Japan was pleased to be a part of the American Far Eastern war

[28] James C. Abegglen and George Stalk, Jr., "The Japanese Corporation as Competitor," California Management Review, Volume XXVIII, Spring 1986, P.23.

[29] George Friedman and Meredith Lebard, The Coming War With Japan (New York: St. Martin's Press, 1992), P.3.

machine. Thus there was a perfect synergy between Japan's economic interests and America's political interests. Japan was so important to America's strategic interests that the United States was willing to endure substantial discomfort from Japanese economic competition.

"The United States has paid an extremely high price for its relationship with Japan. It has permitted Japan to close its consumer and capital markets to American companies, while allowing Japanese companies access to American markets."[30]

Against all these, the concept of protecting their markets is gaining ground in the United States. " What's wrong with protecting yourself if you are getting the stuffing beat out of you?" says Lee Iacocca the chairman of Chrysler.[31] U.S. semiconductor companies plan to push the White House to retaliate against Japan for failing to keep the pledge to give foreign chip-makers 20% of its domestic market. U.S. car makers are continuing to press for a new 25% tariff on imported mini vans and may revive their broader anti dumping case against all Japanese cars.[32]

Suddenly Japanese has become the people its okey to hate. But Japan is not an enemy. The extraordinary complex military, political, financial, and trade relationship between the two

[30] Friedman and Lebard, P.7.

[31] Jerry Flint, "The Case for Protection," Forbes, 17 February, 1992, P.44.

[32] Rob Norton, "Will Tough Talk Mean Trade Wars?," Fortune, 8 March 1993, P.57.

countries has stabilized the North Pacific and elevated living standards on both sides of it. Lee Smith advances the idea that Japan is neither righteous nor wicked, just different, and will never have a free market like that of the U.S. "The only answer is managed trade, maybe we should put tariffs on Japanese imports, or we should create an American Department Of International Trade And Industry to coordinate economic policy."[33]

[33] Lee Smith, "Fear And Loathing of Japan," Fortune, 26 February, 1990, P.25.

Chapter III.

Strengths and Weaknesses of Japanese and U.S. Economies.

A: Analysis of Japanese Economy.

In the study of the performance of Japanese economy, we realize the unique social and cultural characteristics of Japanese people, its distinctive industrial structure and policies, and the role of the government ministries in the resurrection of their economy after the end of World War II. No attempt is made to cover and analyze all the details. The aim is to elaborate the main points that reveal and justify the tremendous growth achieved by the economy during a short period of time.

1. Social and Cultural Characteristics of Japan.

a: The Importance of the Group.

One of the unique aspects of Japan is the extreme emphasis placed on the group, rather than on the individual, as the key social entity. There is no life outside groups, which define a persons' existence.

Many, who have studied Japan have noted this phenomenon and have given various explanations for it. Lafcadio Hearn, who lived and wrote about Japan, thought that this group mentality arose from the religious obligations of the community to take care for the spirits of the dead. Other observers have attributed it to the cooperative efforts required in rice cultivation, while others have argued that it has to do with the fact that in Japan success is measured more in terms of power and influence which can be exercised only in groups.[34]

b: The Concern With Harmony.

For the Japanese, the far most value is harmony within the group, an idea unfamiliar to Americans. Achieving and maintaining harmony among human beings is not easy. In the West, the emphasis is on means internal to the individual, while in Japan the stress is on external pressure, such as conformity, group ethics, and close human ties.[34]

c: The Importance of Personal Relations.

Human relations is the glue of all Japanese groups. Establishing good personal relations with colleagues and others is an overriding priority with the Japanese. In the West contracts or professional obligations often are expected to take precedence over friendship or even family ties. In Japan,

[34] Prestowitz. P.82.

[34] Prestowitz, P.83.

personal ties and family relationships are far more important.[35]

d: The Sense of Exclusiveness.

While all societies recognize a difference between members and strangers or foreigners, Japan emphasizes the distinction. Exclusionism comes naturally to groups that are tightly bound by self-conscious sense of uniqueness. New entrants disturb the intricate web of relationships. The only position open to newcomers in an established hierarchy is at the bottom. There is no room for an outsider for whom a higher rank may be more appropriate. Such a person threatens harmony, the ultimate value of the group, and therefore tends to be rejected.[36]

2: Industrial Policies and Their Role in Growth.

Japan's industrial policy was the base of its great economic success. The purpose of industrial policies was explained by Ministry of International Trade and Industry (MITI) officials as "When the technology concerned is critical to the security of a nation's economy, the government of that country will be forced to take necessary measures to develop the industry concerned so that its firms can become competitive and assure the security of

[35] Prestowitz. P.84.

[36] Prestowitz, P.86.

the countries economy."[37]

Explicit packages of assistance have been directed at particular industries, including access to loans from government financial institutions.

In 1952 the critical decision of Japan was rapid industrialization. Everything that followed was the result of this decision. They decided that capital will not come from abroad in order to preserve autonomy. Their savings were the source of their capital. They emphasized the importance of education because a modern industrial state needs well trained, educated people, specially engineers.

Macroeconomic and even social policies set in Japan serve as tools of industrial policy. For example Japan maintains low interest rates, which benefit its heavily indebted, capital intensive industries. It sets energy prices relatively high for consumers but keeps them low for industry. In other words, everything in Japan is structured with one objective in mind: To achieve industrial strength. This is the opposite of the United States where the consumer is king: in Japan the consumer comes last.[38]

The key bodies in developing industrial policy in Japan are the Industrial Structure Council of the Ministry of International Trade and Industry and the Telecommunication Advisory Council of

[37] Miyohei Shinohara, Industrial Growth, Trade, and Dynamic Patterns in the Japanese Economy (Tokyo: University of Tokyo Press, 1982), P.33.

[38] Lincoln, P.67.

the Ministry of Posts and Telecommunication, and similar groups established to advise other ministries.

At the policy execution stage, the Japanese ministries have many tools at their disposal. Special depreciation rates, tax incentives, and government supported research and development are standard devices. Beyond favorable finance there exists such devices as legal cooperative agreements between companies on the types of goods to be produced. These devices have one thing in common, they induce investment and sometimes disinvestment by reducing risk.

a: Employment Policies.

It is surprising how carefully, the Japanese, choose the candidates for employment, They administer long entrance exams and conduct background checks and investigations to look into every aspect of the candidates' private lives. The only major difference between a Japanese and American company in the hiring process is that the U.S. company is hiring a new employee while the Japanese company is adopting a new member into the family. The first is a contractual obligation while in the second the employee and the company make a long term emotional commitment to each other. The employee devotes his time , energy and talent entirely to the well being of the company. In return the company promises to support the employee financially and provides him an identity and strong emotional support.

These factors minimize confrontation within the Japanese organization. Lifetime employment eliminates the fear of dismissal. Seniority and promotion from within minimizes competition among executives. Company unions create a cooperative rather than an adversarial basis for labor-management relationships. In such an environment, companies can profitably invest in training their staffs. Employees are not worried about the introduction of new technology because it does not threaten their position.

The way responsibility and obligations are handled by the superiors in a Japanese company is completely different from the way in a U.S. company. In Japan, superiors are expected to support subordinates and to assume responsibility for the entire organization. When a Japan Airlines 747 crashed in 1985 with a loss of 450 lives, the president of the airline took the responsibility himself and resigned. Also when Toshiba Machine Company was caught violating export controls, the chairman of the entire Toshiba Corporation resigned by way of an apology. This is not the case in the U.S., where both business and political leaders do not consider themselves responsible for the actions of their subordinates.[39]

b: Growth and Financial Policies.

The basic Japanese belief about growth is that "in a growing world economy with rapidly developing markets, survival demands

[39] Prestowitz, P.153.

growth."[40] Although all executives, western and Japanese claim growth to be one of their principle goals, but there is a huge difference in the emphasis Japanese and American managers put on growth.

The result of the drive for growth was demonstrated by Nippon Electric Company (NEC). Between 1979 and 1986 its sales went from $3.6 billion to $16.7 billion for an average annual growth rate of 21.2% .

The picture in research and development is similar. NEC spend between 12% to 14% of sales on research and development, between the years 1980 to 1986. On the other hand American companies did not spend more than the half of these values on R&D during the same period.

The financing of growth is mainly done by borrowing. The ratio of debt in total capital of a typical Japanese company is 70% . while in the United States the situation is the opposite with most companies carrying about 30% debt and 70% equity. The high debt in Japan has major powerful positive effect. It lowers the cost of capital.

The cost of capital goes down for two main reasons:

First: Interest payments on debt instruments are usually less than the total returns expected by shareholders on equity because of the higher risk assumed by them .

Second: Interest payments are deductible from taxes as a business expense while payments to shareholders are not.

[40] Prestowitz, P.167.

For the past twenty years, the cost of capital in the United States has been triple of Japan. The high debt oriented structure of Japanese industry has long been encouraged by the Japanese government. To reduce risk the government has always demonstrated that it will help in some way when major companies get into trouble.

c: Exports and the Closed Market Policy.

The Japanese have always had an export oriented economy. In 1930 Japan's exports equaled nearly 20% of its GNP, compared with 6% for the U.S. Although the rate fell in the immediate postwar period but by 1970s the figure began to grow again. Until 1987 it had climbed to nearly 16% of GNP. American export dependency grow only to about 11% .

Since 1980 exports have accounted for 37.4% of Japan's economic growth and as much as 50% in some years.[41]

The export orientation of Japan is explained by Edward J. Lincoln by the fact that since Japan is a very poor country in natural resources, and depends heavily on imports of basic raw materials, hence it needs to export manufactured goods to pay for these imports. Thus was born the notion of Japan as a "processing nation" which prospered by importing raw materials adding value

[41] Friedman and Lebard, P.151.

to them and exporting back to pay for the original imports.[42]

On the other hand Americans blame the Japanese for their "closed" market policy and seek for the opening of these markets. This problem is not with the Americans alone, but it extends to European and Far Eastern countries. In 1984 the European Economic Community requested from Japan a list of market opening measures and followed it up with further demands in 1985-1986. The same was repeated with Malaysia, Korea, Taiwan, and Hong-kong.

The closed market policy concept was explained by Clyde Prestowitz as a result of Japanese self-perception of uniqueness, group orientation, suspicion of foreigners and their drive of self sufficiency.

The director general of MITI's industrial policy division in 1983, Mr. Keichi Konago explained the purpose of Japan's industrial policies as: "every government is responsible for developing its economy and promoting the economic well being of its people. Because industrial activity provides the basis for national economic development, it is natural that governments should be concerned with, and should conduct policies related to such activities."[43]

[42] Lincoln, P.66.

[43] Prestowitz, P.147.

3: **MITI and the Role of the Government.**

A large part of Japanese economic success is attributed to the role of Japanese Government and its powerful ministries, specially the Ministry of International Trade and Industry. "Japan's ministries are the central organizations in governing the country and founding its industrial economy. They view economics and industrial development as vital matters of national security."[44]

MITI first came into being in 1881 as part of the Ministry of Agriculture and Commerce. In the postwar period it played a big role in developing policies for the rapid industrialization and growth of Japan. MITI sees industrial and trade issues as closely related to the nation's overall security. "Japanese companies valued MITI's advice because of its superior information and its analytical ability."[45]

Clyde Prestowitz suggests that MITI in its perception of its own role and relationship to the nation, is similar to the U.S. Defense Department, a concept which is not understood by the American.

[44] Shinohara, P.38.

[45] Christofer Freeman, <u>Technology Policy and Economic Performance</u> (London: Printer Publishers, 1987) p.33.

4: Economic Performance of Japan in a Comparative Perspective.

Japan's economic performance after the end of World War II exceeds that of any other comparable economy during this period. In 1945 the Japanese were starving and freezing in a destroyed and occupied country. Half a century later they have the second largest economy of the world after the United States. In terms of per capita gross national product GNP Japan has slightly surpassed the United States.

Japan has shown its greatest spurt of growth in the postwar period, when it consistently equaled or outperformed other industrialized countries including Germany, a nation that shared the fate of being defeated and having to reconstruct its economy. (Table 3-1)

Table 3-1

Average Annual Rate of Growth.(In Constant Prices)

Year	Japan	U.S.	U.K.	France	Germany
1947-50	9.7%	2.4	1.5	10.4	-
1951-55	10.9	4.8	3.4	4.5	11.4
1956-60	10.1	2.3	2.6	5.6	7.4
1961-65	11.3	5.1	3.4	6.5	5.3
1966-70	14.6	3.1	2.6	6.0	4.5
1971-75	4.7	2.3	2.3	3.7	5.2
1976-80	5.5	3.7	1.8	3.3	3.6
1981-85	4.2	2.7	1.9	1.5	1.2
1986-87	3.4	3.2	3.5	2.2	2.2

Source: Economist: One Hundred Years of Economic Statistics.

For several decades after the war the Japanese economy grew at an extraordinary rate. This is explained by the reconstruction process that Japan experienced during that period. But starting since early 1970s, this rate decreased to be closer to the general average of the industrialized countries. "It must be emphasized that in spite of this decrease, the Japanese economy did grow consistently even during global stagflation and recession, and its performance remained impressive."[46]

The picture in research and development is similar. Although in the early postwar period the United States had a very strong lead in R&D over both Japan and European countries, but later on as a result of rapid growth policy in Japan it lost the leadership.

Table 3-2

Total Research & Development

as a Proportion of GDP

	Japan	U.S.	W.Europe
1967	1.58%	3.07%	1.78%
1975	2.01	2.38	1.81
1983	2.67	2.73	2.08

Source: Patel and Pavitt: 1987, Based on OECD Statistics.

[46] Freeman, P.62.

Table 3-3

Non Defence Research & Development

as a Proportion of GDP

	Japan	U.S.	W. Europe
1967	1.56%	1.97%	1.78%
1973	2.00	1.75	1.81
1983	2.66	1.97	2.08

Source: Patel and Pavett: 1987, Based on OECD Statistics.

We realize that in non defence R & D Japan has a higher ratio compared to the U.S. because of the very low defense expenditures of Japanese government. This is explained by the prohibition of the Japanese in building a military power after the end of World War II. Japan spends less than 1% of its GNP on defense, while the U.S. spends 6 to 7 % its GNP on defence.[47]

Exports is another field which reflects the huge growth of the Japanese economy. Being an export oriented country, Japan believed that it must export to grow. Imports on the other hand were preferred to be low specially for manufactured goods, in order to protect their newly established industries. The trade balance of Japan reflects this fact. (table 3-4)

[47] David R. Gergen, "One Bash Too Many", U.S. News And World Report, (May 1988, P.86.

Table 3-4

Trade Balance of Japan. ($ Billion)

Year	Exports	Imports	Balance
1960	4.055	4.49	-0.436
1965	8.451	8.17	0.282
1970	19.318	18.88	0.436
1972	29.088	23.39	5.226
1974	55.469	61.95	-6.479
1976	67.304	64.89	2.409
1978	98.211	79.92	18.289
1980	130.441	141.30	-10.855
1981	151.495	142.87	8.625
1982	138.385	131.5	6.887
1983	146.965	126.44	20.528
1984	169.700	136.18	33.523
1985	177.164	130.49	46.675
1986	210.757	127.18	83.204
1987	231.286	151.03	80.254
1988	264.856	187.378	77.478
1989	273.932	209.715	64.217
1990	287.581	235.368	52.213
1991	314.786	236.995	77.791

Source: IFS, Direction of Trade Statistics Yearbook, 1992.

The American accusations of Japan as adopting a closed market policy and setting formal and informal trade barriers, is illustrated in table 3-5 which shows the low level of imports of manufactured goods, compared to the United States and other industrial countries.

Table 3-5

Manufactured Imports as a % of GDP

	1970	1973	1978	1980	1985	1987
Japan	2.3%	2.4%	1.9%	3.0%	2.6%	2.4%
U.S.	2.5	3.3	4.7	4.8	6.5	7.3
Australia	11.1	9.6	11.0	11.7	12.6	13.7
Canada	13.4	15.4	17.1	17.4	19.2	18.8
France	7.7	8.9	9.8	11.0	12.3	12.9
W.Germany	8.9	8.9	11.1	12.6	15.0	14.4
U.K.	22.7	20.6	21.1	25.2	25.1	24.4
Switzerland	7.9	11.3	15.2	13.6	16.4	17.0

Source: World Bank, World Tables (Washington, 1989).

It is worth to note that Japan has the lowest level of imports of manufactured goods compared to all of the above listed industrial countries.

The GDP growth rates of Japan compared to other industrial countries reveal its fast growth and recovery after the war. In fact these rates were higher than all other industrial countries through all the periods. The growth of GDP reached its maximum in 1968 with a rate of 12.5% while in the U.S. the rate for the same year was 4.1% (table 3-6).

Table 3-6

GDP Percent Change over Previous Year.

Year	Japan	U.S.	France	W. Germany	U.k
1963	10.5%	4.1%	5.3%	3.0%	4.5%
1966	10.1	5.9	5.2	2.5	2.0
1968	12.5	4.1	4.3	6.3	4.2
1970	9.5	-0.3	5.7	5.1	2.8
1973	5.5	4.9	5.4	4.7	7.7
1975	2.7	-1.0	0.2	-1.6	-0.7
1978	5.2	5.2	3.3	2.9	3.9
1980	4.3	-0.2	1.6	1.4	-1.9
1982	3.1	-2.5	2.5	-0.6	1.3
1984	3.1	6.8	1.3	2.8	1.8
1986	2.7	3.0	2.3	2.3	3.5
1988	6.2	4.6	3.9	3.5	4.2
1989	4.8	2.4	4.2	3.9	2.3
1990	5.2	1.1	2.2	4.7	1.0
1991	4.5	-0.7	1.3	3.2	-2.1

Source: IMF, International Financial Statistics Yearbook, 1992.

Japan's Trade with the United States has created a huge surplus in the last two decades. Table 3-7 shows the Japanese exports to the U.S. and its imports from it.

Table 3-7

Japan's Trade With the U.S.($ Million)

Year	Export	Import	Balance
1985	66,684	26,099	40,585
1986	81,926	29,410	52,516
1987	85,017	31,957	53,060
1988	90,245	42,267	47,978
1989	93,954	48,253	45,701
1990	91,121	52,842	38,279
1991	92,200	53,634	38,566

Source: IFS, Direction of Trade Statistics Yearbook, 1992

Japan's Nightmare: Import Dependency of Natural Resources.

Japan is dependent on imports for almost all of its raw materials. The more it produces, the more raw materials it needs to import. For a growth oriented economy, a lack of resources creates a serious and potentially disastrous economic problem.

Japan imports 99.6% of all its mineral ores, and 96.3% of all its fuel. the food situation is marginally better. It needs to import 85% of its wheat, 70% of corn, 80% of its barley, and 97%of its oil seed.[48] (Table 3-8).

Japan faces two problems from its import dependency. The first is economic. It must be in a position to pay for the goods

[48] Friedman and Lebard, P.162.

it imports, and their prices must be such that Japan can make a profit from purchasing and processing them into manufactured goods. The second problem is the Physical threat. The commodities that it purchases must be transported to Japan, by a freighter or a tanker. Any delay or disorder in the transport may cause severe damage to the Japanese Economy. Any interference in the resource supply is disastrous for this powerful economic country.[49]

Table 3-8

% of Apparent Domestic Consumption of

Raw Materials Met by Import

Raw Material	Japan	U.S.	W. Germ.	France	U.K.
Coil	86.7	3.8	0.5	52.4	7.3
Oil	99.6	36.8	95.4	95.9	0
Nat. gas	94.8	4.1	73.0	85.9	22.0
Iron Ore	99.8	28.7	99.4	68.1	98.0
Copper	97.4	24.2	99.7	99.9	99.9
Lead	87.2	50.2	82.1	95.5	97.0
Zinc	76.2	81.0	78.1	88.1	96.0
Bauxite	100	93.0	100	44.4	100
Cement	1.8	18.4	5.0	2.0	4.7

Sources: Bureau of Mines, Minerals Yearbook , Vol. 3: Area Reports-International (Washington: U.S. Department of the interior, 1987.)

[49] Friedman and Lebard, P.168.

5: **Current Performance of Japanese Economy.**

The current economic situation in Japan is not promising as it was in the 1980s. After enjoying its longest sustained economic boom since World War II, Japan is facing some painful experiences that seem to be indicators of an economic instability.

One of the biggest problems facing Japan is its bloated work force. Saddled with 6% redundant workers, companies are starting to move production overseas, slashing the number of contract workers, and shutting down production lines. It is expected that unemployment rate could almost double within three years to about 5% .[50]

Another source of concern is the competition from Asia's newly industrializing countries (NICs). Their emerging economic powers are getting bigger and better by building a powerful manufacturing export base, which has climbed from less than 2% in early 1970 to nearly 20% today. They have gained their shares largely at Japan's expense. It is expected that by combining labor and technology-intensive techniques of production, Asian NICs will do to the Japanese in the coming decades what Japan did to the United States during the 1970s.[51]

In technological innovations, Japanese companies are lagging in many strategic industries that are likely to be of great

[50] Robert Neff, "Japan: How Bad?," Business Week, 13 December 1993, P.14.

[51] Abu Selimuddin, "Will the 21st Century Belong to Japan?," USA Today, May 1993, P.52.

importance in the 1990s. Examples are information highways , software, and systems integration. In their attempt of lowering costs, Japanese manufacturers are also cutting R&D programs, which they once regarded as "lifelines to the future." For this year Toshiba's R&D is down 2% and Fujitsu Ltd.'s by about 14%[52]

The Nikkei index is another sign of weakness. During the last three months of 1993 it has lost 19% of its value. The banking sector on the other hand is saddled with over one trillion dollars in bad real estate loans. These two factors create the feeling that Japan's banks will not be able to meet sufficiently the financial needs of the industry at low interest rates as it was usual.[53]

The high Yen is hurting Japanese exporters too. Accompanied with high labor wages, which rose by 8% in 1992, products are becoming expensive in world markets. It was estimated that Japanese labor costs were 14% higher than those in America. Companies such as Sanyo, Honda, and Nippon Steel have begun restructuring to reduce costs and increase efficiency. U.S. exporters are reaping the benefits of this situation and are challenging Japanese producers in their markets.[54]

In view of these facts, Japanese companies are facing demands to reform the way they operate. For example, Akio Morita chairman of Sony, is calling for a significant reconstruction of

[52] Neff, P.15.

[53] Neff, P.14.

[54] Neff, P.16.

the economy and a radical reform of Japan's business practices at home and abroad.[55]

B: The Declining American Economy.

After the end of the second world war the U.S. economy was the strongest among all nations. With the industrial capacity of Europe and Japan being destroyed, U.S. produced approximately 60% of the world manufactured goods in 1950. At the same time it had the most advanced technology, the highest level of investment per worker, and also the highest output per worker. In short, the U.S. economy was the best.

The power of U.S. industry had not been particularly evident in the 1930s. At 1941 in response to the attack on Pearl Harbor and Hitler's military advances in Europe, the United States launched a wartime production policy, that not only brought factories to full capacity, but increased their production several times over. In a short period of five years the U.S. production program resulted in some of the greatest advances in productivity, technology and investment that have ever been seen. At that time it was a dream for the Japanese to think about equaling the U.S. industry during the next few decades. "It seemed that U.S. industry was destined to lead the world for a long time, if not forever."[56]

[55] Selimuddin, P.53.

[56] Prestowitz, p.193.

But the reality was different. After three decades from the end of the war, the inability of U.S. industry to continue and compete had become a national issue, and in 1983, president Reagan appointed a commission to make recommendations for improving U.S. business.

During the 1950s European countries recovered their economies and were able to compete with the U.S. in world markets. Japan entered the field of competition in the 1960s and became a major player.

Now "although the United States is the leader in military power, but in other areas, in which it had played the role of first occupier and then protector and mentor, had traded places with Japan." [57]

Actually, during all the decades that followed the second world war, "Japan and European countries have grown faster than the United States in terms of real GDP and industrial output."[58] This has resulted in a shrinking U.S. share of world output and exports and closing the productivity differentials. In 1980 the U.S. share of world export of manufactures has fallen from 29% in 1953 to 17% in 1963 and 13% in 1976.

In table 3-9 we realize the decrease of U.S. share in total manufacturing output of major industrial countries, from 62% in 1950 to 44% in 1977. The countries gaining shares were Japan and

[57] freeman, p.45.

[58] Michael L. Wachter and Susan M. Wachter, Toward a New Industrial Policy (Philadelpia: University of Pennsylvania Press, 1983), P.380.

European countries.

Over the same period of time U.S. lost 55% of its share of exports of manufactured goods to the world market. This share fell from 29.4% in 1953 to 13.4% in 1971. (Table 3-10)

The United States lost two thirds of its share in the period between 1953 to 1959. Japan's share increased by 2.1% which was 75% more than the 1953 share. Later on, from 1959 to 1971 United States lost market share at a slower pace while Japan doubled its Share from 4.9% to 10.0% .[59]

Table 3-9

Shares of Total Manufacturing output

in 8 industrial countries.

Countries	1950	1955	1960	1965	1970	1975	1977
U.S.	61.9%	58.1	50.5	50.1	43.6	42.3	44.0
Japan	2.1	3.5	6.3	8.0	13.1	13.2	13.4
Canada	3.5	3.4	3.3	3.5	3.4	3.7	3.6
France	7.6	7.1	8.1	8.1	8.9	9.8	9.6
Germany	10.1	14.1	17.2	16.7	17.2	16.5	16.0
Italy	2.2	2.5	3.1	3.1	3.7	4.3	4.3
Sweden	2.0	1.7	1.9	1.9	1.9	2.0	1.6
U.K.	8.2	7.2	6.9	5.9	5.3	4.9	4.5

Source: U.S Department of Labor.

[59] Wachter and Wachter, P.385.

Table 3-10

% Distribution of Exports of Manufactures.

Country	1953	1956	1959	1962	1965	1968	1971	1974	1976
U.S.	29.4	23.0	18.7	17.6	15.8	15.8	13.4	13.2	13.2
Japan	2.8	4.2	4.9	5.5	7.1	8.1	10.0	10.9	10.9
Germany	9.7	12.2	15.6	14.8	15.4	14.8	15.4	16.3	15.4
Canada	5.0	4.3	3.9	3.5	3.7	4.1	4.6	3.4	3.5

Source: U.S. Department of Labor.

1. Decline in Productivity.

The slowdown of American productivity growth starting since the early 1970s until early 1990s is one of the most important reasons beyond the decline of U.S. economy. Productivity ratio which measures the output per worker or work hour, is a good indicator of improvement in the economy of a country. [60]

Until 1970 the average rate of productivity rose at a rate of 2.3% . Since 1970 this rate decreased to 1.2% per year.

[60] Wachter and Wachter, P.369.

Table 3-11

Productivity Growth Rate

Years	Growth Rate
1889-1909	1.6%
1909-1919	1.7%
1919-1929	2.7%
1929-1939	1.1%
1939-1949	2.2%
1949-1959	3.05%
1959-1969	2.6%
1969-1979	1.3%

The reasons beyond this decline are not clear. Some economists blame the 1973 oil crises and the increase in energy cost. Others blame the increased government regulations and some others, the long term effects of the social upheavals of the 1960s on mores, motivation and quality of education.

2. Increasing Trade Deficit.

The U.S. trade balance has deteriorated sharply since late 1960s. Trade surpluses have changed to deficits growing to a value of 173.676 billion Dollars in 1987.

Table 3-12

U.S. Trade Balance ($ Billion)

Year	Exports	Imports	Balance
1960	20.601	16.30	4.220
1965	27.530	23.23	4.297
1970	43.241	42.70	0.546
1973	71.404	74.20	-2.876
1975	108.112	105.88	2.232
1978	143.766	186.05	-42.279
1980	220.786	256.98	-36.619
1981	233.739	273.95	-39.613
1982	212.276	254.88	-42.608
1983	200.538	269.88	-69.346
1984	217.890	341.18	-123.289
1985	213.144	361.63	-148.483
1986	217.307	387.08	-168.744
1987	250.405	424.08	-173.676
1988	322.43	459.54	-137.11
1989	363.81	492.92	-129.11
1990	393.59	516.99	-123.40
1991	421.73	508.36	-86.63

Source: IFS, Direction of Trade Statistics Yearbook, 1992.

The broadest measure of U.S. trade, the current account balance of payments, which was in surplus till late 1970s, revealed negative results that reached to a value of -126.500 billion dollars in 1988. (Table 3-13)

Table 3-13

U.S. Current Account Balance

($ Million)

1975	1978	1982	1984	1986	1988	1990
18,060	-15,400	-7,000	-104,230	-133,700	-126,580	-92,160

Source: IMF, International Financial Statistics Yearbook, 1991.

An explanation of this trade deficit is given by Paul Krugman. "By mid 1980s national saving fell, that is consumption spending increased as a share of national income. But investment spending remained high, because an inflow of foreign capital took the place of reduced flow of domestic saving. So overall spending in the U.S. economy rose faster than national income. The only way for an economy to spend more than it earns, however, is to import more than it exports, ie. to run a trade deficit." [61]

A part of this deficit, 34% in 1987 was from the U.S. trade with Japan. The United States which was a major exporter to Japan

[61] Paul Krugman, The Age of Diminished Expectations (London: The MIT Press, 1992), P.46.

in early 1950s came to be a major importer after the mid 1970s.

Table 3-14

United States Trade With Japan

($ Millon)

Year	Export	Import	Balance
1985	22,631	72,380	-62,749
1986	26,882	85,457	-58,575
1987	28,249	88,074	-59,825
1988	37,620	93,128	-55,508
1989	44,585	97,110	-52,526
1990	48,585	93,070	-44,485
1991	48,147	95,010	-46,863

Source: Direction of Trade Statistics Yearbook. 1992.

In an attempt of interpreting some of the aspects of the declining U.S. economy, a simple regression analysis was carried on by using the facilities of the SPSS computer package. The aim was to find a relation between the growth rate of United States GDP and its trade balance with Japan. Figures of the past 22 years were covered (since 1970), from the International Financial Statistics, and Direction of Trade Statistics Yearbooks. The results were insignificant because the analysis resulted for a correlation coefficient, R= -0.26 and R^2= 0.07, meaning that although they are negatively correlated, but only 7% of the change in the growth rate is explained by the change in trade balance.

Trying to find a better correlation, growth rate of every year was related with the trade balance of the previous year, but the results were still insignificant, resulting for an R= -0.1.

The second choice was to find the effect of unemployment rate in the United States on the trade balance. The regression analysis resulted for an R= 0.12 and R^2= 0.015 which were insignificant again in explaining any strong relation between these two variables.

The last test was an attempt to relate growth rate and unemployment rate in the United States. Figures of the years starting since 1970 were covered again, and it resulted for a correlation coefficient R= -0.32 and R^2= 0.1. A negative but not very strong correlation exists between these two variables, and only 10% of the change in growth is explained by the variable unemployment rate.

These results make us to conclude that a simple regression, with one independent variable, is not enough to find a strong correlation within the above variables. A multiple regression analysis with many independent variables may have resulted for better results, but doing this is beyond the scope of this research.

3. **The Role of U.S Government and Major Characteristics of U.S. economy.**

There is a huge difference between the role that the Japanese and U.S. governments play in the performance of their economies. Although the U.S. government played a certain role during the war to guide and control investments, bur later on this role was diminished and not central.

The U.S. government did not interfere to guide or protect companies from foreign competition. It did not develop guidelines or plans for how or where investments should be made. At the same time companies never thought of consulting the government about strategic business questions. "Most important however, the United States did not view industry as a matter of national security as Japan did."[62]

U.S. and Japan have fundimentally different understandings of the purpose and workings of a national economy. While the United States embraces Adam Smith, the seventeenth century prophet of free trade, and has concentrated an consumption as the main economic engine, Japan has focused on production and dominance of key industries that will enhance its strategic position.[63]

The formulators of economic equation in U.S. have assumed that the only purpose of the economy is to satisfy consumer needs, and that the best way to that is to minimize government

[62] Prestowitz, P.13.

[63] Prestowitz, P.14.

intervention in the free market. Hence responding to Japan's challenge appears to be inadequate and in conflict with the requirements of an efficient economy.

In other side, the view of business as being operated primarily for the financial benefit of shareholders gave rise to labor-management tense relations. This situation led to the creation of strong industry wide unions rather than enterprise or company unions as in Japan, The result was a high wage and cost structure which effected the competing ability of U.S. industry.

We must not forget to mention the role of the individual in U.S. social structure. In contrast to the group oriented Japanese society, the concept of individuality is deeply rooted in the American spirit. "A concept most completely embodied in the myth of the lone cowboy standing tall, who succeeds without help against long odds by dint if ingenuity, zeal, and determination.[64]

In discussing the role of managers in American and Japanese companies, the authors, Richard Tanner and Anthony Athos in their book "The Art of Japanese Management" reveal the characteristics of Matsushita Electric Company and ITT managers as follows: "One characteristic of American organizations in general is that the personalities of our CEO's stand out. They leave a personal imprint, while in the Japanese organization even the strongest managers such as Mr. Matsushita tend to blend in the institution. Thus, when we examine Matsushita Electric Company we are drawn

[64] Prestowitz, P.14.

inevitably to the features of the organization, whereas in examining ITT we are drawn just inevitably to discuss Harold Geneen."[65]

4: High Standards of Living and Consumption.

It is worth to mention that although to the decline of U.S. economy and large trade deficit with Japan, American consumers maintain a higher level of consumption and utility compared to that of Japan. Because of their social characteristics and the facilities provided by the state, American citizens have a better standard and a higher taste of life.

On the other hand, despite Japanese large trade surplus and its ranking above the United States in per capita GNP, citizens in Japan do not have the facilities enjoyed by those of other wealthy nations. The fact is that while Japan is rich, the Japanese are not. They live in small houses and can't own land because it is so expensive. "In its pursuit of economic growth, Japan has neglected social and civic details. Such unmet social needs as overcrowding, inadequate leisure facilities, and a Third World level of drains, parks, and roads leave most Japanese feelings distinctly unrich."[66] They pay up to three times as much as Americans do for food and nearly twice as much for other

[65] Anthony G. Athos and Richard Tanner Pascale, The Art of Japanese Management (New York: Warner Books, 1981), P.90.

[66] Selimuddin, P.53.

goods. Rice costs ten times the world market price.

Protection of the world's highest-cost agricultural system has resulted to reserve half of Japan's scarce land for rice growing, While the 94% of Japanese people who are not farmers live and work on the other half. The result is both the world's highest food prices and land prices. [67]

[67] Prestowitz, P.312.

Chapter IV.

Major U.S. Markets Penetrated by the Japanese.

The purpose of this chapter is to discuss briefly some of the major American markets that were penetrated by the Japanese. The emphasis will be on the consumer electronics, auto, and semiconductor industries.

A: Consumer Electronics Industry.

The consumer electronics industry is one of the major examples that demonstrates the successful Japanese penetration of U.S. markets and the retreat of the Americans from an industry where they were the innovators and only producers after the end of World War II.

The beginning of this story was in 1957 when the Japanese policy makers identified the electronics industry as a priority sector for development, passing into law what was called Extraordinary Measures for the Promotion of the Electronics Industry.

Realizing the need to keep up with the superior technology of foreign producers, especially the U.S. firms, the Japanese began to search for the necessary technology, mostly from U.S. producers. In the early 1950s the Japanese Government provided grants and long term interest loans to stimulate acquisition of foreign technology and underwrite R&D in order to encourage the development of an internationally competitive consumer electronics sector. Once their products became highly competitive, the Japanese began to enter overseas markets with carefully planned strategies.

The first steps in approaching U.S. markets started in late 1950s, when the Japanese began to study these markets carefully, analyze their products and distribution systems in order to detect the major openings and points of weaknesses. They focused on a small number of high volume potential products with high quality, used aggressive pricing and marketed them through traditional and non traditional outlets.

After capturing each target segment, they put heavy emphasis on product innovation by offering to the market new, high quality products at lower prices. After attaining leadership in a certain market the Japanese would move into another related product market. Their first success took place in the radio market. After dominating this market they moved successfully into tape recorders, TVs, and videos.

The Japanese started their mass production of radios in 1952 and began to export them to the United States by the end of 1950s. As their radios gained market share, they began marketing new models with much lower prices than U.S. competitors. They controlled the radio market by mid 1960s and after it took steps to move into the tape recorder market. By late 1960s they dominated this market too and moved into the TV market. The penetration of the TV market was done in a similar way as radios and recorders. Their next target was the videotape and more recently the videodisc market. Like this "within three decades the Japanese became the dominant producers of consumer electronics in the U.S. and the World." [68]

-Japan's Dominance of U.S. TV Market.

For 15 years after the end of World War II American companies in TV production had a technological lead as well as a cost advantage over foreign producers. Because the Japanese markets were closed to them, the only way for U.S. companies to gain any financial return in Japan on their technological lead was to license the technology. In early 1950s many U.S. firms licensed TV technology to the Japanese producers, which facilitated for closing the technological gap between the two producers.

The year 1966 was critical for U.S. TV industry. Motorola announced the world's first solid state color TV set, and at the same time MITI launched one of its promotional programs to develop color television technology in Japan. At that period the Japanese exports of black and white sets to the U.S. became a flood which caused the U.S. firms to abandon the monochrome production and emphasize on color sets only.

Between 1970 and 1976 the Japanese share of the U.S. market

[68] Somkid Jatusripitak, Liam Fahey, and Philip Kotler, "Strategic Global Marketing: Lessons From the Japanese," Columbia Journal of World Business, Spring 1985, P.47.

grew from 10% to 50%. The number of producers shrank to three, GE, RCA, and Zenith. Employment in the industry halved between 1960 and 1970, fell another 34% by 1975. In 1986 GE bought RCA and few months later sold the combined GE-RCA television business to the French firm Thompson. That left Zenith the only U.S. owned television maker.[69]

The major reasons beyond this successful penetration of the Japanese to the U.S. consumer electronics market were due to the policies adopted by U.S. mass merchandisers, distributors, and government, in addition to the Japanese collusion in trading activities. This can be explained by the wide open system of distribution in the United States. U.S. manufacturers had spent many years and much money in developing distribution networks and training the sales and service people. When the Japanese came they relied on these networks to distribute and promote their products, freeing them from the burden of establishing their own networks. This made them save time and money. At the same time U.S. antitrust laws prevented manufacturers from controlling merchandisers and distributors from holding and selling competitors' products.

Another factor was the collusion by many of the Japanese companies in controlling prices and distribution. Documents at Japan's Fair Trade Commission confirm that collusive activity occurred from 1955 until at least 1974. Between 1962 and 1981, twenty unfair trade cases were filed with the U.S. government,

[69] Prestowitz, P.201.

which conducted thirty seven investigations of the television industry. The three cases of greatest importance involved dumping, fraud, and antitrust issues.[70]

The role of the U.S. government in protecting its industry was insignificant. Although there existed some protective laws and measures, but the implementation was not effective. Tariffs and quotas assigned for consumer electronics products were not sufficient and the antitrust laws prevented American producers from collaborating against the outside competitors.

B: Automobile Industry.

Similar to the consumer electronics industry, the American auto industry was the first in the world which developed and grew up to be the largest industry in the United States. However, in late 1960s with the start of Japanese competition, this industry began to lose its leadership in production and exports, and became a major importer.

Now days, some 30 auto makers, including nine Japanese and nineteen Europeans, sell 600 different models to American buyers. Figures show that Detroit's share of the U.S. market is deteriorating year after year. In fact this share has fallen from 84% in 1978 to 68% in 1990. The Japanese who also have pushed European car makers back, command 25% of sales in the U.S.

[70] Prestowitz, P.203.

market.[71]

The Japanese were not satisfied by only exporting cars to the U.S., but by using the facilities of the open U.S. market and economy, established assembly lines in the United States. Mazdas are made in Michigan, Hondas in Ohio, Toyotas in Kentucky and Nissan in Tennessee. Mitsubishi is in a joint venture with Chrysler in illinois, while Subaru and Isuzu are in Indiana. If facilities in Canada are included, Japan's auto makers will be able to turn out 2.6 million cars and light trucks a year in North America by the year 1993.

Productivity of labor and quality of products play a big role in the Japanese success. Although there is an effort in Detroit to increase productivity and quality but the Japanese still operate the worlds most efficient plants. The average plant in Japan produces a car with 20.3 hours of labor vs. 24.4 hours for the average facility in North America which means a 20% difference. European car makers are away behind with 32.8 hour average.

For quality, the Japanese have maintained their lead since 1987. J.D. Powers & Associates, the California automotive consulting firm, measures the number of problems reported by buyers after 90 days of ownership. Over the past two years the number of defects in American cars were 177 per 100 vehicles while the owners of imported Japanese cars identified only 119

[71] Alex Taylor, "Why U.S. Carmakers Are Losing Grownd," Fortune, 23 October, 1989, P.57.

defects. Among the ten brands with the fewest problems, six were Japanese two Americans(Buik and Mercury) and two German(Porche and Mercedes).[72]

Japanese auto makers enjoy a number of advantages. In a capital intensive industry, they can borrow money more cheaply. for example, Toyota has raised $6.2 billion since 1986 at rates of only 1.2% to 4% while GM , Ford and Chrysler have to pay higher rates.

Labor also costs less. Wages and fringe benefits at the Big Three cost up to $30 an hour vs. $24 at Toyota's Japanese plants. On the other hand the Japanese transplants, which are nearly all non-union, have a $3 an hour wage advantage. Walter Maher, Chrysler's human resource officer, says that health care alone costs Chrysler $300 to $500 more per car than Japanese manufacturers.

For the next few years, it is expected that the cost structure of American car industry could get worse. There is a tendency to raise the standards of fuel economy, exhaust emissions, and safety which may cost additional billions of dollars.

Finally U.S. markets are wide open and easy to enter. There are few formal barriers and quotas to limit Japanese imports. When Japanese cars come into the U.S. they are not inspected. The U.S. allows self certification and most importantly, distribution in the U.S. is easy. It takes years and a lot of money to build a

[72] Taylor, P.33.

nation wide dealer network in a country the size of the U.S. But Japanese auto manufacturer's didn't have to do that. They went to the American dealers and asked them to sell Japanese cars too. GM, Chrysler, and Ford were not able to stop their dealers of selling their competitors cars. On the other hand treatment in Japan is completely different. They do not grant self certification, which means that every car must be inspected. Moreover, no Japanese auto manufacturer allows his dealers to carry foreign cars. like this Detroit's market share in Japan is only 0.3% compared to the 25% Japanese share in the United States.

C: The Semiconductor Industry.

Semiconductors are the fundamental building blocks of modern electronics. These small rectangular "chips" are capable of storing and processing enormous amounts of information and at the same time operate products ranging from digital watches and videocassette recorders, to super computers and telephone networks. In addition they are essential to advanced weapons systems. On the list of strategic industries,the semiconductor industry is near the top.

The founder of semiconductor industry was Robert Noyce, a bright young Physicist, who established the first company in Silicon Valley in 1956. Later on many other individuals and companies invested heavily in this field, among them Motorola in Chicago, Texas Instruments in Texas in addition to General

Electric, RCA, and IBM. The result was that in 1960 more than 100 companies were competing in the American market.

Innovations in this industry started by the integrated circuit in 1959 and followed by generations of Dynamic Random Access Memories, Known as DRAM. After the 1K RAM in 1971, the 4K RAM was introduced in 1973 and 16K in 1975.

During this period the Americans were the leaders of this industry. The Europeans maintained a small presence and the Japanese, who were way behind, moved to protect their markets from the U.S. Products. In 1957 MITI issued its famous law called Extraordinary Measures Law for Promotion of the Electronics Industry. "This law signaled to the nation that the electronics industry was to be the object of a national effort to catch up to the United States."[73] Obsessed by the fear of foreign domination Japan's top priority became to build a strong domestic electronics industry.

While forbidding the foreigners to enter its markets, the Japanese government encouraged and backed selected companies for the race. Hitachi, Toshiba, Fujitsu, Nippon Electric Company, Mitsubishi Electric and Oki Electric were the best.

In 1975 the target was the semiconductor industry. Realizing that RAM chips were the key to computer superiority, MITI moved to strengthen this industry and decided to beat the Americans in building the 64K RAM by 1980. Between 1981 and 1982, Japanese capacity for production of 64K RAMs increased from nine million

[73] Prestowitz, P.33.

devices per year to sixty-six million and took 65% share of the world market. At the same time, Japanese companies NTT and NEC, were able to introduce the new 256K RAMs to the market much before than the Americans and hence taking the lead in the semiconductor race. Table 4-1 reveals the increasing market share of the Japanese semiconductors in the world markets.

Table 4-1

Worldwide Market Share of Semiconductors

(By Monetary Value)

Year	Japan	United States
1980	26%	57%
1982	34	51
1984	40	48
1986	44	41
1988	51	38
1989	51	35

Source: U.S. Department of Commerce, 1990.

Between 1980 and 1989 the world market serviced by the U.S. semiconductor producers declined from 57% to 31% while the share of the Japanese increased from 26% to 51% .[74]

Another study done by the U.S. Commerce Department reveals

[74] Andrew S. Grove, "The Future of the Computer Industry," California Management Review, Fall 1990, P. 148.

the decline of the U.S. share of various segments of the worldwide electronics market between the years 1984 and 1987.

Table 4-2

U.S. Share of Worldwide Electronics Market.

(By Monetary Value)

	1984	1987
Silicon Wafer	85%	22%
DRAM	20	8
Laptop Computers	85	57
Displays	11	8
Floppy Drives	35	2

Source: U.S. Department of Commerce, 1990.

Three major factors lay behind the success of Japanese semiconductor producers despite their late arrival in the market.

First: The high market demand in late 1970s for semiconductors, where the U.S. producers had difficulty in satisfying it. The Japanese came into the open market and filled this gap.

Second: The high quality of Japanese products which was a strong marketing tool. In 1979 many tests showed that the failure rate of Japanese chips was one fifth that of U.S. made chips.

Third: Dumping, which is the practice of selling bellow cost or bellow the price at home in foreign markets. The American market was the largest, and it was essential that Japanese obtain a large share of it to have sufficient production volume to become cost competitive. Because they were latecomers, Japanese production costs were higher than those of the Americans. Nevertheless, the Japanese came into the U.S. market with prices well below the prevailing price. This enabled them to generate the necessary volume to get their costs down. the only problem was that dumping is illegal under U.S. Trade Law and under the international rules of GATT. This was one from one of the classic cases of trade dispute for many years between the United States and Japan.

To conclude we can add that the semiconductor industry which was an American innovation, and a symbol of its dynamism, lost the leadership to the Japanese. "Besides loosing their large market share the Americans are getting dependent on the Japanese suppliers for certain chips in their high technology industry."[75] In 1988 twenty-one critical U.S. military systems contained chips available only from foreign mainly Japanese sources. Of twenty-five key semiconductor technologies the Japanese were leading in twelve, equal with the United States in eight, and were closing the gap in five.

[75] Prestowitz, P. 27.

Chapter V

Causes Behind the Japanese Penetration and Recommendations For American Recovery.

The purpose of this chapter is to identify the major reasons beyond the successful Japanese penetration of some of the U.S. markets, and to derive recommendations to balance this penetration which has its negative effect on the U.S. trade figures. It has to be noted that some of these reasons are related to the nature of U.S. economy and its performance associated with the role of the U.S. government and its policies. Other reasons have to do with the Japanese side, specially to their export oriented economy and supportive role played by the government and ministries. We have to add some unfair trade practices such as dumping, which facilitated the quick gain of market share in the United States.

A: Causes Related to the American performance.

1: The U.S. Open Economy.

The U.S. adoption of free trade as the base of its national economy, and its open society made it an easy market for foreigners. Japan took advantage of this openness and gained share in it by entering U.S. markets freely and by competing with the domestic firms.

Another way of approaching this issue is the American understanding of the concept of economy. For them the purpose of economics is to maximize consumer welfare, and the best way of achieving this goal is in a system of perfect competition which ensures maximum opportunity and maximum consumer welfare. Thus the only role of the government is in establishing rules and regulations that ensure a competitive system and then controlling to assure that everyone is acting within this system.

Most important however, the United States does not view its economic performance as part of national security. Power and hegemony is understood in military and political fields, and failed to note that it can have economic dimensions as well.

On the contrary, in Japan economics is a matter of national security. From time of Perry it has been struggling to catch up to the technological and industrial level of the west, to provide and maintain its national independence and autonomy. The legitimate and necessary role of the government is seen in that of leading this effort.

2: Limited Role of U.S. Government.

Another reason for Japanese penetration, as discussed in previous chapters, is the absence of effective government regulations and business policies in preventing foreign competition. As a result of American perception of free trade and competition, the government hesitated to interfere and protect critical industries from outside hostile competitors. On the other side, while the Japanese government was reducing risk and seeking a comparative advantage, the U.S. Government ignored its industry. It assumed that the free play of the market would allow the best man to win. U.S. law even handicapped American industry by hampering its ability to stop patent infringement.[76]

3: **Decline of Productivity and Quality.**

It was already discussed in previous chapters the decline of U.S. productivity and quality. "U.S. spending for new plant and equipment and for R&D is lagging with disastrous consequences for productivity growth." Many of American industrial products have lost the reputation for high quality that once commanded premium prices in world markets. This resulted into a favorable atmosphere for the Japanese to introduce their high quality products to American consumers.[77] We may add to this the high wage structure of white collar employees, relative to the total wage bill in American firms. This creates high overheads and consequently makes U.S. products less competitive.

[76] Prestowitz, P.134.

[77] Rachel McCulloch, "Trade Deficits, Industrial Competitiveness, and the Japanese," California Management Review, Winter 1985, P.140.

4: **Facilities in the Distribution System.**

Easy distribution of Japanese products in some U.S. markets was another cause for their quick penetration. Japanese auto manufacturers were able to build substantial dealer networks in the United States by selling through existing GM, Ford, and Chrysler dealers, not because U.S. auto companies welcomed Japanese competition, but because American law protected the independence of the dealers. Manufacturers were not allowed to put pressure on their dealers to stop selling Japanese products. The same situation was true for the consumer electronics and other industries.

On the other hand Japanese manufacturers never permitted their dealers to carry foreign products. Newcomers in Japan were obliged to create their own distribution networks which was a major barrier of entry.

5: **Neglect of Human Resources Development.**

There is a major difference in the attitudes of management towards the people working for them in American and Japanese organizations. The cultural and social characteristics of Japan and the great emphasis on the group concept, makes the employee in Japanese firms as a member of family who has rights and obligations. His obligations are to devote his time, talent, and ability for the well being of the company, while his rights are the emotional, financial, and material support of the company.

In the United States there is no such relationship. Workers can be fired at any moment, creating an unfriendly feeling between labor and management. moreover, management views its labor as a cost not as an asset, hence it diminishes the investments on labor such as training and education. The result of this is less productive and efficient work force compared to the highly trained and educated Japanese workers.

Another effect of this neglect is the creation of industry wide labor unions, that have greater power in negotiating for higher wages and more benefits. This is reflected in the high costs of some American products and hence their inability in competing with cheaper Japanese products.

6: Short Term Profit vs. Long Term Growth.

Another reason for the American inability to face the Japanese penetration is the financial discipline under which they work. Many commentators interprete the heavy financial losses of U.S. firms due to their short sighted planning system and preference of short term profits for long term growth. The explanation of this is the environment in which U.S. firms operate, and the performance expected of them.

In most Japanese companies the major shareholders are other related companies, and investment is made in terms of the long term strategic survival of the group. Hence, the necessary capital is relatively inexpensive and the risk of investment is reduced by the nature of the group structure. In the United States, even for a large company the source of capital is Wall

Street, and Wall Street demands performance. If profits decrease bellow expectations, the share prices drop, thus increasing the cost of their capital and their vulnerability to financial raids. A low savings rate means there is a lack of capital in the United States, which causes investors to demand high return and all this produces a tremendous pressure for short term profits.[78]

B: Causes Related to the Japanese Performance.

1: Export Oriented Japanese Economy.

As mentioned in previous chapters, Japan had always an export oriented economy which accounted to its huge economic growth specially after the end of Second World War. To export the large volumes of manufactured goods, the Japanese developed global marketing expansion strategies that facilitated in acquiring market share in world markets.

The first strategy of global expansion was the move from Japan to Developing Countries, where they could gain economies of scale and marketing capabilities, and then to Developed Countries such as the United States and Europe. This occurred in steel, auto, consumer electronics, and petrochemical industries.[79]

Another marketing expansion strategy was used for high technology industries such as computers and semiconductors. After securing their home markets for these products, their next target

[78] Prestowitz, p.208.

[79] Jatusripitak, Fahey, and Kotler, P.47.

was the Developed Countries, because there was no demand for such products in Developing Countries. Later, when demand started to grow in these countries, they did not hesitate to make strong inroads into these markets as well.[80]

The third and final expansion strategy was an exception compared to the previous two. In mid 1960s Japan produced some products to sell in the markets of Developed Countries before its own home market. These were products for which local demand was still not developed or too small to serve. Examples are, video tape recorders, color television sets, and sewing machines.

VTR's, for example, represented a technological breakthrough. They were exported to the U.S. and to other developed countries instead of being sold in Japan because of the huge size of the foreign market. The same was true for color TV sets when in 1966 were produced for the American markets only. After five years from this date the domestic demand increased to create a certain level of attention for Japanese manufacturers.[81]

With all these market expansion strategies, the Japanese were able to reap the results of their effort by acquiring large volumes of market share in the United States and other countries as well.

[80] Jatusripitak, Fahey, and Kotler, P.47.

[81] Jatusripitak, Fahey, and Kotler, P.48.

2: **Efficient Manufacturing System and High Quality.**

By treating organizations as whole families and by exploiting the dedication and talent of their workers, the Japanese revolutionized the manufacturing process. The famous "just in time" delivery system was a new system of inventory control method, which reduced inventory costs and increased productivity and quality. The whole system depended on coordination and close links between suppliers, producers, and distributors.[82]

In every area of manufacturing, the Japanese concentrated on achieving large scale production. They Knew that scale is critical for capital intensive industries, because the fixed costs of the company can be amortizes over a large volume of production. Thus, larger the production, the lower the costs and greater the ability to invest in the newest, most efficient equipment. An early example of this was the Japanese steel industry. From 1951 to 1971 they built twelve integrated steelworks, which was considered the largest or second largest of its kind in the world. the result was very high productivity that made it the world's most efficient steel industry. Another example was NEC and the semiconductor industry, which between 1981 and 1987 tripled capacity and invested into large scale automated operations.

The Japanese also gave great importance to the quality of their products. They poured great effort into education to raise

[82] Prestowitz, P. 171.

the skill level of their work force. Like this they were able to move the basis of competition from the cost of labor to the skill of labor. Their emphasis on quality became legendary, and its result was experienced by American consumers, who willingly paid higher prices for Japanese high quality cars and other goods.

3: Unfair Market Practices.

A major American criticism of Japan is the use of unfair market practices, which facilitated the quick gain of large market share in some U.S. markets. We can mention patent infringement, industrial espionage, and dumping that were practiced frequently by Japanese manufacturers.

Copying and improving American products and then reintroducing them in the U.S. markets was a major strategy adopted by the Japanese. Many products that were pure American innovations, such as radios, TVs, and VCRs, were marketed in the U.S. in large quantities, high quality and competitive prices.

Dumping was a major problem for American manufacturers, who suffered the consequences of underpriced Japanese goods. It became an important issue on the agenda of U.S.-Japanese trade negotiations in the 1980s, and specially for the case of semiconductors, where prices were reduced by 80% in 1981 as a result of Japanese dumping activity.

Although there were hundreds of meetings and discussions between U.S. and Japanese negotiators, and large number of groups formed for the purpose of finding solutions for trade disputes and unfair practices, the results remained far from the desired level of mutual understanding and cooperation.

The toughest response from the Americans for the dumping practices came in March 1987, when President Reagan, under the "section 301", announced sanctions in form of tariffs of 300% on various Japanese products. This was followed by another measure in 1989, when the U.S. government named Japan as an unfair trading nation.

C: Policy Recommendations.

After identifying the weaknesses of American economy and discussing the causes behind the Japanese penetration of some U.S. markets, the aim of this part is to present recommendations and ideas to strengthen the position of U.S. economy and balance the trade deficit between the two countries.

The review of Japan's success reveals the important role played by its government in directing, encouraging, assisting and controlling the development of certain critical industries. this fact leads us to suggest a new role for the U.S. government far from the traditional indifference and mutual suspicion and hostility with industry. The U.S. cannot win if such relationship dominate between these two poles. Laws must be developed to facilitate the task of cooperation and support. The government should review its trade and economic policies with the long term view of maintaining the leadership position in the world economy. There has to be some modifications in the antitrust law to permit cooperation and joint ventures between different American industries. Grants and financial support must be provided by the government to newly established or critical industries.

Another point is the commercialization of high technology, developed in military research programs. In the U.S. enormous resources are spent on high technology research programs. NASA spends billions of dollars a year on new technological innovations. National laboratories at Livermore, California, Los Alamos, New Mexico, and Sandia are unique in their effort. But all these have little orientation to direct the new technology for improving American civil industry's competitive ability.

The United States also cannot win if its labor-management relationship remains tense and far from cooperation. Steps to create a closer identification on interests between labor and management must be taken. The emphasis should be on job security, fair wages and work rule flexibility. This has proven to be very effective in Japan. Management also should diminish layoffs in order to create a safe working atmosphere. Compensation should be tied significantly to the productivity and success of the company. Constant training and retraining should be encouraged to raise the skill level of the employees.

It is worth to mention that some American firms have already felt the importance of human resource management and applied Japanese style management techniques in their organizations. One of them is Delta Airlines, which was considered from the most profitable airline industries in the world despite to the high competition and crisis in this industry. Among the strategies it used was consensus decision making, open and often informal communication system between management and labor which created a spirit of cooperation between them. They considered their employees as the most valuable asset of the company and treated them as family members by providing fair wages and job security. This of course led to the absence of unions and consequently low labor costs and additional competing capability.

Americans also should change their view about the purpose of business. American firms, which aim at maximizing the shareholder's value, have developed a short-term profit achievement strategy. But the required is to achieve a long term growth and creation of wealth by improving productivity and technology. It is recommended to join the efforts of management and labor with the expectations of the shareholders, to maximize the overall growth of the firm. "This can be done by organizations that focus on something other than the price of their shares."[83]

To face Japan, U.S. business must try harder. It must hire people knowledgeable about Japan. It must train its best people in the Japanese language. Top U.S. executives must spend time in Japan and establish relationships with their Japanese counterparts. They have to know the Japanese system of life and business as well as the Japanese know about the Americans.[84]

[83] prestowitz, p.307.

[84] Prestowitz, P.307.

Finally, the concept of protection must be applied widely and more frequently to secure the strength of U.S. economy. Although it contradicts with the concept of free trade, but in cases when it leads to the retreat and disappearance of important U.S. industries, the government should interfere and apply protective measures to maintain the competing ability of its industries. An initial condition for this suggestion is that the government should view the well being of industry as a part of its overall national security. Measures that can be taken may range from applying quotas, high tariff rates, and even political pressure and persuasion of trade partners to impose voluntary restraints on their own exports. Consumers may suffer from such protectionist measures because it reduces competition and pushes prices up, but in similar cases the choice of a healthy economy and powerful industry must be preferred on the satisfaction of the consumers.

Clyde Prestowitz, in the conclusion of his book "Trading Places" writes: "In instances in which realistic analysis leads us to conclude that truly free trade is unlikely, we should try to create structures that retain large elements of competition but at the same time do not make our industries hostage to the national sovereignty policies of other countries."[85]

The study of recent trade dispute between U.S. and Japan reveals that there were some protective measures imposed by the U.S. government in late 1980s, by the implementation of "Super

[85] Prestowitz, P.309.

Section 301" law under the trade act of 1988 which imposed tariffs and quotas on the Japanese exports. In previous years the U.S. Treasury has also interfered to protect the banking sector from foreign competition.

Chapter VI

Conclusion

The purpose of this research was to study the economic relationship between the United States and Japan, and analyze the causes beyond the retreat of U.S. economy in front of Japanese growth.

This study was performed by carrying a detailed historical review of the Japanese economic rise starting since 1850s, and later by its resurrection after World War II. This was followed by an analysis of the economies of Japan and United States. The aim was to reveal their major characteristics and identify their points of strengths and weaknesses. The emphasis was on the growth of Japanese economy which was explained by its unique social and cultural structure, and leading role played by the government and its ministries in establishing adequate trade and industrial policies.

The next part of this study was a detailed view of three major American industries that became the target of Japanese trade expansion policy and suffered the consequences of increasing competition. This part also covered the main strategies that were adopted by the Japanese while penetrating the U.S. markets, and the structural weaknesses in the American system that facilitated this task.

The main causes that explain the success of the Japanese in the U.S. markets can be summarized as follows.

- The nature of U.S. economy which adopted free trade and open market policies, that in turn facilitated the job of foreigners in entering its markets without facing any barriers and difficulties.

- The insignificant role played by the U.S. Government in protecting the markets, and its indifference toward the performance of the industry.

- The decline of productivity and quality levels within American firms due to low moral, lack of training and skilled labor. Also the high wages of white collar employees in U.S. firms which increases the costs of the products and reduces their competitiveness.

- Facilities in the U.S. markets by providing easy distribution and selling networks for Japanese producers.

- The neglect and mistreatment of human resources as a major asset of the company, which led to the creation of tense labor-management relationship and hence effected negatively on productivity, quality and cost structure of U.S. firms and products.

-Finally, the American orientation of achieving short term financial profits instead of long term growth objectives, explained by their financial market's structure.

Other reasons related to the Japanese performance can be listed as follows.

- The export oriented Japanese economy, which was promoted and backed by the government, to insure the survival of a nation that is very poor in natural resources and depends heavily on importing raw materials and exporting manufactured goods.

- Efficient manufacturing system characterized by highly automated and organized production lines, in addition to well trained and well managed work force.

- Finally, some unfair market practices such as dumping, that gave the Japanese advantage in gaining large market shares.

It is believed that American industry can gain its competitiveness, and repel foreign penetrations if the government changes its attitude towards the industry, and recognizes it as an essential part of the overall national security. This requires the development of new rules and policies that reflect this attitude and increases the cooperation between them.

Another recommendation is the transfer of some technological innovations developed in military researches to commercial fields. We have to add a closer relationship between management and labor as a basis of insuring better working conditions for employees, which may reflect by higher productivity, quality and labor costs.

Finally, the last recommendation is the adoption of protectionist measures by the U.S. government in cases when the free market structure leads to the retreat of critical U.S.

economies. "What's wrong with protecting yourself if you are getting the stuffing beat out of you?" asks Lee Iacocca. In boxing you protect your chin, in football you protect the middle, in basketball you protect the lane. What's wrong with protecting the industry?"[06]

[06] Flint, P.45.

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