Japan at the Crossroads

I. The Developmental State and Postwar Growth
   A. Role of the State
   B. Business and Labor Organization
   C. Japanese Economic Culture
   D. International Context

II. Japan Inc. Falters
   A. The Economic Bubble
   B. The Political Bubble

II. Japan into the 21st Century – Reform or Stagnation?
I. The Japanese Developmental State and Postwar Growth

(A) Role of the State

- Mercantilist Trade and Industrial Policies (Strategic/Export Sectors)
- Ministry of International Trade and Industry (MITI)/Ministry of Economy, Trade and Industry (METI)
- Insulated Bureaucracy

Sayonara Detroit
I. The Japanese Developmental State and Postwar Growth

- (B) Business and Labor Organization
  - Keiretsu
  - Market Share and Just-in-Time Production (JIT)
  - Company Unions and Lifetime Employment

- (C) Japanese Economic Culture
  - Work Ethic
  - Collectivist Values

- (D) International Context
Japanese *Keiretsu*

![Diagram of the Sumitomo Group and related companies](image)

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Fig. 3.4: Old zaibatsu-type *keiretsu*. Source: Dodwell & Co., *Industrial Groupings in Japan*, rev. ed. (1986/87)

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Intra-group joint ventures:
- *Sumitomo Ocean Dev. & Engg.*
- *Sumitomo Petroleum Dev.*
- *Sumitomo Atomic Energy Inds.*
- *Japan Information Service*
- *S.B. General Leasing*
- *Sumitomo Business Consulting*

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**Parent Co.**
- Subsidiaries or affiliates
- Hakusui-Kai members
- Top 3 leaders
- Unlisted company
Japanese Economic Performance

**GDP Growth: Japan v. US, 1970-2006**

- **Source:** IMF

<table>
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<tr>
<th>Period</th>
<th>Japan</th>
<th>United States</th>
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<tr>
<td>1970-74</td>
<td>6.00</td>
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<td>1975-79</td>
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Japanese Economic Performance

Japan v. US -- per capita GDP at PPP

- 75% in 2006
- 87% in 1991
- 75% in 1980

Japanese GDP as % of US GDP was...

75% in 2006
87% in 1991
75% in 1980

Source: IMF
Japanese Economic Performance

Ratio of Public Debt to GDP

Source: OECD (2007-08 – estimated)
II. Japan Inc. Falters

- The Economic Bubble
  - Real Estate and the Stock Market
  - Banks, Keirestu, and Debt
  - Consumption and Deflation
  - Japan’s ‘Dual Economy’

- The Political Bubble
  - The LDP and Bureaucracy
  - Preference for the status quo

Koizumi couldn’t smash through Japan’s problems...
Japan’s Dual Economy

Exhibit 3
JAPAN’S DUAL ECONOMY

Labor productivity index

Export driven manufacturing

Domestic manufacturing

Domestic services

Share of Japanese employment

Average Japanese productivity = 69

* Index: United States = 100 in 1999
Source: OECD, O’Mahoney, Britain’s Productivity Performance 1950-1996; an international perspective; McKinsey analysis.
III. Japan into the 21st Century – Reform or Stagnation?

- Junichero Koizumi’s *attempts* at reform
  - Postal Savings Bank privatization
- Return to status quo in LDP
  - Shinzo Abe’s failed premiership
  - Yasuo Fukuda as PM
- ‘Iron Triangles’ intact
  - Lack of consensus for change
- History of adaptation and change

Yasuo Fukuda... old school.