UNITED STATES-JAPAN ECONOMIC RELATIONSHIP IN THE 1980s

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Japanese Competitive Development in the 1980s
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My presentation has to do with Japanese competitive developments in the 1980s but since those competitive developments are basically an extension of other developments in the postwar period, I would just like to go back and look at Japan’s evolution over the last thirty years.

At the end of the war Japan faced a crisis in terms of being able to pay for imported raw materials, food, and energy. The only possibility of offering both employment and being able to pay for these obvious imported necessities was to make a major thrust into manufacturing. This Japan did. Traditional economics implies that given an excessive labor force and low wages, Japan should have continued to produce textiles and handicrafts because of comparative advantage. But what distinguished Japanese economic policy was (and is) an understanding of competitive dynamics as an evolutionary process. Not only does the Japanese government accept change as inevitable, but it feels that change is basically positive and is something that should be promoted.

In contrast to Japan, the United States does not accept change as being inevitable and does not look positively upon economic change. This is really the source of our conflict. As Professor Thurow posed it, if we are going to increase investment, and if we are going to increase savings, we must lower someone’s consumption. But in fact, this approach fails to grasp that what we are talking about is a process. This increase does have to occur overnight, though Americans do not tend to be very patient.

The Japanese in the late 1940s and early 1950s faced the same problem that the United States does now; they did not have any capital but they had to industrialize. The only way to industrialize is through capital formation and savings. As a result the government undertook not necessarily to raise the savings rate by taking from someone, but to provide positive incentives for individuals and business to increase savings and investment. Over time the savings rate and the investment rate increased naturally and dynamically, becoming a part of the process of the economy. Japanese savings rates doubled from about 20 percent of GNP in the early 1950s to a high of 43 percent in 1973. This was a doubling of the savings rate over a period of roughly 20 years; it did no happen instantaneously and there was no sense of deprivation on the part of anyone in the economy.

Japanese industrial development in the 1980s is an extension of the evolution that has already occurred. Japan has been constantly moving into higher technology, more capital-intensive industries. This has been the so-called inter-industry pattern of development. In addition there is something called intra-industry patterns of development, meaning that pursuit of more sophisticated, more capital-intensive development also takes place within industries. The steel industry, for example, moves into alloy steel and tool steel from carbon steel. Japan has developed in this way. Sales usually start in the domestic market, then move into exports.

The limits on this kind of development began to become quite apparent in the early 1970s. Expansion of steel, automobiles, color television, or other exports were limited to how much people would buy. Not only were there political limits on how much the United States was willing to take, but also the less developed countries were moving into these product areas. Korean and Taiwanese imports now occupy 26 percent of the heavy and medium plate steel business in Japan. But the reaction of the Japanese industry and the reaction of the government has been substantially different than that of the United States. Japanese industry is accepting the change as inevitable and is responding to it creatively. Not only do Japanese companies continue to upgrade their own domestic products through investment and rationalization of the industry, but they are also helping to develop these industries in other
countries. The chairman and president of Nippon Steel in a recent interview for American Metal Markets announced that last year Nippon Steel’s earnings or sales from engineering services sold basically overseas exceeded a billion dollars. At the same time, Japanese companies are beginning to respond to protectionist pressure from the United States by investing here, in products such as color television, ball bearings, and zippers.

In the early 1970s Japanese statistics had no category of exports called plant and equipment. The particular category was added in the early 1970s and now exceeds 10 percent of total Japanese exports. When I worked for the Boston Consulting Group in the early 1970s, we presented a position paper to the International Economic Council for the President (since abandoned). We predicted that by the late 1970s Japan would replace the United States as a major supplier of capital and capital equipment to the less developed countries. That in fact has taken place.

Japan will continue to rationalize, develop, and modernize in the 1980s. Japanese competition in the 1980s will become multilateral and not be focused merely in Japan. Some of the key industries where competition will take place include automobiles, steel, pollution control (where the Japanese are already developing very sophisticated technology), and related areas supporting those industries. Computer and micro-processor technology will be associated with foreign investment, engineering, machine tools, and other areas. In addition, major developments are likely in the energy area in Japan. The Japanese will begin to substitute capital for oil imports and move into nuclear and coal usage in order to reduce their dependence on the Middle East.

The competitive implications for the United States are quite severe. Japan will not only catch up with the United States as a major competitive force, but also as a supplier of capital of the world economy. The United States must begin to make the kinds of responses discussed at this conference. We have got to understand economic change and momentum, and realize that these processes tend to continue. Japan is challenging us to help to improve ourselves, not just to compete with them.