

IT IS TIME WE LEARNED FROM JAPAN - OUR MAJOR COMPETITOR

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At Hamaguchi Research Institute, a large glass building in an industrial park in Glendale, California, a police officer was waiting to consult with Dr. Jim Donaldson. The officer had some very important tapes that he wanted copied. These tapes were copies of security tapes that had picked up a murder that had occurred the night before at the "grand opening" of a newly constructed building. This building, built with Japanese money, 100% owned by the Japanese, was their largest investment to date in real estate. U.S. officials, as well as hundreds of well known Americans had attended the grand opening to honor this major new investment by the Japanese in the United States of America.

While the police officer waited he saw a large picture being displayed and inspected by two men in the waiting room. The picture was of wild flowers with snow capped mountains in the background.

One man said, "This is real America, trust me, that's what sells them! And it's a hell of a parcel."

"How big did you say it was?" asked the other fellow.

"One hundred and thirty thousand acres, the biggest remaining piece of Montana that's still available. It's the size of a National Park. It's got grandeur, very high quality! Perfect for a Japanese consortium".

Have they talked price? Not yet, but we know the ranchers are in a tough situation. It's legal for foreigners to export beef to Tokyo, and beef in Japan sells for something like twenty-two dollars a kilo. But nobody in Japan will buy American beef; it will rot on the docks. If the ranches are sold to the Japanese, the beef can be exported to Japan. The ranchers are not stupid, they are willing to sell. They will teach the Japanese how to raise the beef; and don't forget, the United States government will pay the new owners a subsidy just like they pay the present owners!

Most of you are aware of the source of the above scene. If you didn't read the book, possibly you enjoyed the movie. Michael Crichton's book, Rising Sun, did an outstanding job of telling a good story, but also giving us some insight into our current relation to Japan. This is the Japan that was in 1944 defeated by the United States, and has been put back on its feet to become our biggest competitor in the world economy.

In discussing the trade deficit and the debt the U.S. government owes, someone observed that our government owns a

lot of land, which some might say serves no purpose, and the land requires a lot of money to maintain. The suggestion was made to sell the land to the Japanese and pay off the U.S. deficit. After all they have the money and are looking for a way to invest it!

Selling our country to Japan does not seem a good solution to our deficit problem. Perhaps a better idea is to observe what makes the Japanese system work. It could be to our advantage to adopt some of their economic ideas and methods into our system.

Following the surrender of Japan on September 1, 1945, General Douglas MacArthur became the sole administrator of the military government in Japan. In this capacity, he helped to launch a defeated country on a new beginning. Japan had not been behind in technology as it had sophisticated military equipment and an advanced industrial system; however, Japan was not in the consumer product manufacturing business. It had only its own people as consumers and they had little money to spend. When the United States withdrew from Japan in 1947, Japan had a new democratic government but was not permitted to rebuild its military force.

The United States government did everything it could to help Japan get into an industrial economy. We sent our best management experts over to teach them and they were great students! We also were free in sharing our technology with

them, and they were quick to take advantage of it. It was only a few years until the Japanese were using our technology to produce better products than we were.

Japan has a lot working for it:

1. The United States opened our country to Japan's exports, even as Japan put on protective import laws to protect their economy.
2. The Japanese government became very much involved in industrial growth as well as a company's operations. The government's purpose was to keep the labor force working; to do that they became involved in helping to finance business and the research needed to keep up with technology.
3. The Japanese labor force is considered the most important asset in the economy. Training for the employees is considered very necessary. Lifetime employment with the same company is almost fully accepted, and pay is determined mostly on longevity.
4. There are employee organizations that could be called unions; however, such organizations are organized as in-house associations which work with management and participate in decision making. This cooperation with management is considered a good business practice.
5. The Japanese companies are more interested in getting control of the market than producing a profit in the early years of operations. They have fewer

stockholders and they are more interested in the value of their stock increasing than receiving large dividends. A large percent of the capital needed is provided by loans from banks or the government. Borrowing capital up to 70 to 80% is not unusual for the Japanese company. The companies are empire builders, not dedicated to making large profits.

6. The Japanese consumers have a real interest in using their own manufactured products. Only 16% say that they would buy good imported products at a lower price. Consumer loyalty means that the Japanese companies can depend on their consumers buying Japanese even when the quality may be poorer and the price higher.

The Japanese people save about 23% of their earnings compared to less than 3% saved by the American worker. This results in a very large supply of money for investment purposes. In 1970, nineteen of the fifty largest banks were in North America, sixteen were European and eleven were Japanese. In 1988 only five were North American banks. In 1990 no North American banks were rated within the largest twenty banks, and nine of the top ten were Japanese!

There are basically four fundamental differences between the Japanese and we here in the USA - and these differences do make a difference!

The Japanese have no space! They live in one of the most densely populated countries in the world. Their

population is the sixth largest in the world and it is growing at a rate of one million a year. Their population is roughly one-half the size of the United States, jammed into a space about the size of California! Only about 10% of their space can be lived in, the rest is mountainous, rocky and rugged - unsuitable either for farming or cities.

The results of this limited space creates a lot of problems and requires the Japanese to learn to live with each other. Their society requires them to learn to live with their neighbors, but also they have to compete with each other. It is a way of life, and their competitive nature helps them compete with the United States and the world. There is little real estate in Japan available for industry and almost none that can be used to build homes.

The Japanese have a very closely related culture. Ninety-nine and four tenths (99.4) of the population is of Japanese descent. When we remember that for one hundred years they did not relate to other countries and allowed no one to come into their country, we can understand how they became a homogeneous people. Since World War II, they have put forth some real effort learning a great deal about the rest of the world. The Japanese International Cooperation Agency accepts approximately five thousand trainees every year from over one hundred countries. They have made learning about the world outside their island a major part of their educational system. We in the USA expend only a small

effort in our educational system educating our people about other countries and their cultures.

The Japanese faced their real problem soon after World War II, and realized that they were dependent on the "Outsiders". They had to look to the outside for fuel, building materials, metals and many other essentials. This sense of vulnerability is one of the reasons why they are, and always have been, extremely competitive people. They must be competitive in order to survive. It is born and bred into them. Even as they are becoming the largest economic power in the world, they still have needs that their own country cannot supply, and they are very dependent upon the United States and the rest of the world to continue their status.

Some of us can remember when everything made in Japanese was shoddy and cheap. Most of their exports could be purchased at Woolworths - paper umbrellas, paper toys, cheap combs, cheap but gaudy slippers. "Made in Japan" did not appeal to the rest of the world! Their destruction by World War II left them completely broke - in the fifty years since they have become the second major industrial economy in the world, if not number one.

The USA industrial economy could learn a lot from Japan. Our economy has the same components as the Japanese economy: government, labor, management and the investor; however, there is a completely different relationship between these

elements. In the Japanese economy they all work together to produce the best results. These results are to produce a super product, to get control of the market, and to see that labor and management work together for the common good. The government has its input in helping research and development, financing new products and insuring that the labor force will have a job.

It would appear that this isn't the way our economy works. The labor force, the management, the government and the investors seem to be interested only in their own success. They do not have a common goal that unites them in a cooperative effort to benefit all of them as well as the United States economy. Big dividends to the investor, high wages and less work for the labor force, complete control by the management and high executive salaries seem to characterize the way its done in the good old USA, and the government wants more taxes! While these independent desires are being served, the market can be taken over by the Japanese. That is exactly what has happened in some of our largest markets. These lost markets include radios, stereos, color television, automobiles and many others.

The methods Japan uses to capture markets have not always been considered to be fair under the principles of our international trade policies. When they decide to take over a market, they make products for their own consumers and sell them at a profit; and they export to the international

market at a lower price. This price was established with only one objective in mind - to insure that they would be able to take over the market. This "dumping" was done in most of the countries to which they exported, but the country most affected was the United States. This approach was in line with their accepted method of operating - to put off making a profit until they could control the market, then they could control the prices.

When Japan moves its factories to the United States there are some factors that help our economy. There are more jobs for our people! This has caused our state governments to give large subsidies to most of the factories coming here from Japan. Our State of Kentucky put up millions of dollars to bring the Toyota plant to Georgetown. Forty states have offices in Tokyo to woo investors. Kentucky had big competition but won. The cost? 112,000,000 dollars in new roads, low-cost loans, employee training and 1,500 acres of free land.

Politicians are still debating proposals to regulate foreign investment, or at least to register it. A Washington firm made a survey and found that 40% of the American people favored a ban on foreign investment. Japan's investments in the United States have created approximately one million jobs. Our country needs these jobs that result only as a result of Japan's investment.

We are dependent upon the Japanese for products they

export to us or on products which they manufacture within our country. This dependency has resulted from American companies deciding they could not make a profit from the manufacturing of a number of products and have let the Japanese take over. The increased exchange rate of the yen has made it difficult for the Japanese to produce a product and export it at a competitive price. Competition from countries with lower labor costs has affected Japan's exports. It seems that many Japanese companies face a stark choice: Invest overseas or perish. This really translates into - Invest in America or perish.

The United States has been aware for over twenty-five years that our letting Japan export their products to us was a real advantage to them, and a problem for us. Japan has never opened its market to our exports. There has been some effort to correct this imbalance, and the Japanese have listened, smiled and ignored our problem. One reason could be that we have over a sixty billion trade deficit with them and they have financed a large portion of our debts. They are our largest creditor. Is it possible that they might want us to issue our bonds in their yen?

President Clinton has taken a firm stand in an attempt to correct our trade deficit. On February 6, 1994, there was a meeting between Clinton and Morihiro Hosokawa, the Prime Minister of Japan. The main topic of discussion was reducing the trade barriers. Clinton insisted that the market be

opened and a record retained of the actual changes resulting. The Prime Minister listened, smiled and refused to agree.

The Clinton administration has for sometime been pressuring Japan to buy more American products. The breakdown of the trade talks could bring about a real trade war; however, Japan has announced that it is putting together a new package of market opening measures in the hope of averting a trade war with the United States.

The Winter Olympics will be in Japan in 1998. We can be confident they will put on a excellent show, even bigger than Norway. Let's hope Japan and America will have worked out their problems and we can win a dozen gold medals! It could be that Japan might insist on our paying off our debts; if so, we will need to find another creditor.

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