

Lessons of Japanese Industrial Policy

Interviewers: Sota KATO & Atsuko NISHIGAKI

Industrial policy has drawn much attention today as a tool for strengthening competitiveness or industrial development. Though it was once considered so-called “targeting policy” and an unfair trade policy practice, many countries are today promoting a national project in which they try to either create a strategically important high-technology sector or raise the competitiveness of such a sector.

Japan’s MITI (the current METI) led such an industrial policy in the post-World War II era and was arguably successful in having achieved unprecedentedly high economic growth from the 1960s until the 1980s.

Japan SPOTLIGHT asked two researchers, Sota Kato, professor at the International University of Japan (IUJ), and Atsuko Nishigaki, senior fellow at the Research Institute of Economy, Trade and Industry (RIETI), who are studying the role and economic and political implications of Japanese industrial policy in the most prosperous period of Japan, to have an interview with Noboru Hatakeyama, our chairman and a former vice minister of MITI for international affairs, having been engaged in a wide range of industrial policy planning and practices in the abovementioned period. The interview aims at finding the lessons of Japanese industrial policy that can be reflected in current industrial policy and adopted by many countries interested in industrial policy as a tool for achieving their competitive edge in the increasingly serious competition among the large industries; whether they win the competition or not should now be considered a crucial national interest.

Below are the highlights of the interview.

Kato: Firstly, a fundamental and perhaps one of the most important questions is the definition of industrial policy. A well-known Japanese economist once defined “industrial policy” as “whatever MITI does.” But this is not such an elaborate description. Do you think there was any comprehensive definition of industrial policy on which everybody agreed in Japan?

Hatakeyama: No. There was no such unanimous definition, I believe. In my personal definition, regarding industrial activities, in the case where people have something to request of industries such as



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protecting consumers’ interests or job creation, if the industries have neither the will nor the competency to meet such a request, government, including MITI, fills in the gap between the people’s need and the industries’ performance. These activities on the part of government should be defined as industrial policy.

More specifically, in the case where the industries are not willing to meet the people’s request, MITI, for example, would lead them by administrative guidance or by making efforts to enact a law to meet the people’s need.

This can be defined as an industrial policy in the wider sense. In this

respect, environmental policy is an industrial policy, since the need to protect the environment should be considered a nation's request to the industries and government should respond to this request. Industrial policy defined as above makes the Fair Trade Commission's role, which addresses violations of the law defining fair business practices, also included in the definition of industrial policy.

In the case where the industries are incompetent to respond to the people's request, MITI would create a policy to enhance and raise their competency. This is the core of an industrial policy in the narrower sense.

Kato: Could the contents of the industrial policy be different from period to period, since the people's needs of industry differ from period to period?

Hatakeyama: Yes, of course. For example, in the 1950s, job creation was its most important mission in Japan and MITI was actively promoting a policy to raise industries like steel with the potential of high growth and job creation. In pursuing high growth, MITI was actively engaged in raising large enterprises symbolized by a policy encouraging mergers in the steel industry, which could be considered somewhat an excessive intervention in private business activities. In particular, since the 1960s, when Japanese industries reached maturity, the staple locomotive for economic growth has been private business activities and industrial policy has been considered a complement to this.

I believe that one of the most important contributions of MITI's during the high-growth era in Japan was to keep encouraging private business to take advantage of the benefits of competition by setting up a deadline for each protecting policy, such as in the case of the restriction policy on the inward FDI or import restriction policies in sectors like color TVs, automobiles, semiconductors, computers, etc. That is how MITI was successful in raising vitality through competition against imports in the manufacturing industry in Japan. I believe that the Ministry of Agriculture in Japan should have implemented the same policy.

Kato: Agriculture in Japan could not enjoy the benefits from a similar type of industrial policy as the manufacturing industry in Japan did, mainly because of pressure from politicians. Why do you think the manufacturing industry in Japan was immune to such political pressure?

Hatakeyama: The Japanese manufacturing industry did not like the political influence coming out of the closer interrelations between business and politics. They preferred to enjoy freedom of business

without being controlled by anybody, perhaps with the exception of the textile industry.

Nishigaki: Looking at the changes in industrial policy that occurred over time to meet each period's different needs, in your era, was the core of the industrial policy an industrial promotion policy or an industrial adjustment policy?

Hatakeyama: Industrial adjustment policy. The Designated Industries Structural Revision Extraordinary Measure, enacted in 1983, aimed at raising certain industries' competitiveness by revising their market structure or production process. MITI consulted with FTC, in charge of implementing the Anti-Trust Law, to formulate a system to mitigate anti-trust concerns with the appropriate formulation and practice of MITI's law.

MITI's industrial policy should have many other interactions with laws other than the Anti-Trust Law in pursuing its mission and goals. The basic rules for industrial business such as Commercial Law and Accounting Law are examples.

Nishigaki: Since the 1990s, METI has been actively engaged in coordination of interests with the Ministry of Justice on the question of modified application of Commercial Law or Bankruptcy Law in the light of promoting its industrial policy.

Kato: MITI seems to have been relatively successful in avoiding its industrial policy being used as rent-seeking practice for politicians in comparison to other nations' industrial policy. Do you think MITI's policies have been neutral and independent from politics?

Hatakeyama: Yes. I believe that MITI has been doing relatively well in planning an industrial policy independently from political influence although it was limited to within the range allowed by politics. In my personal working experience, there were only a few exceptions.

When I used to work for the Agency for Industrial Science and Technology at MITI in the 1960s, I was working on big industrial high-technology development projects such as the development of jet engines of airplanes, electric cars and pattern information processing.

In coordinating with the Ministry of Finance on the budget-spending allocation for these three projects, we were obliged to prioritize these three projects to meet a request for budget-saving and we had almost decided to decrease the budget allocation for the development of the jet engine. This invited strong objections from politics and we had to revise our budget-allocation plan.

However, this is one of the very few cases of political intervention in industrial policy and, compared with the other ministries, there

were much fewer interventions from the side of politicians with MITI. Needless to say, this is not because of MITI's power but because of the private sector's power.

Kato: There is a rather stereotypical argument among the media and scholars saying that MITI started using politicians' influence in the turf battles against the Ministry of Posts and Telecommunication starting in the 1980s. What do you think about this argument?

Hatakeyama: It is certainly true that MITI consulted with some influential politicians in the process of formulating an industrial policy for the telecommunications sector in coordinating with the Ministry of Posts and Telecommunications. MITI and MPT needed to mitigate their policy conflicts.

Kato: You said at the beginning that MITI took the people's request to the industries in formulating their industrial policy. How did you identify such people's requests?

Hatakeyama: We consulted very often with our advisory committees consisting of representatives of a wide range of groups such as business, labor unions, media, academia, etc. In particular, we occasionally had a consultation with the representatives of consumer unions. Those were the venues for finding the people's needs from industries.

Kato: Was there any consultation process or mechanism to identify the people's needs from the politicians representing the voters?

Hatakeyama: There was no specific channel to get politicians' views on industrial activities because they were given to us in the form of instructions from the MITI minister and two political vice ministers. Some of my old colleagues in MITI worked hard on formulating a voluntary export restraint on textile products early in the 1970s, which was then initiated by an audacious political decision made by the then MITI Minister, Kakuei Tanaka. In addition, if we tried to enact a law, then a bill had to go through review by the policy coordination committee of the LDP.

Nishigaki: Was there any other political influence on it apart from the MITI minister?

Hatakeyama: In 1986, when Japan accepted import liberalization of petroleum products, MITI formulated the Provisional Measures Law on Importation of Specific Kinds of Petroleum Products to mitigate the impact of liberalization on the oil industry by limiting the qualification of the importers based on their reported production and storage capacity of petroleum. Since this was provisional law, MITI, including its minister, decided to have its validity be for only five years. However, in the Diet the LDP prevailed and extended the period for 10 years, twice as long as we had originally planned.

Kato: I believe that political independence/neutrality of industrial policy formulation is very important in achieving a truly effective outcome in terms of economic efficiency. What kind of system or institution would you use to maintain the policy-planner or practitioner's neutrality?

Hatakeyama: I think there are three important elements that should be respected by government officials in order to win such a neutrality of policy: wisdom, bravery, and strong commitment. For example, there was a request from a political faction of the ruling party to use a tanker owned by a specific company. We were opposed to this request in the first place because of the political favoritism involved in the request, but finally told the requesting politicians that we would accept the request with a condition, which was to ask MOT to formally request us with a rational reason to do so. The answer from MOT has not come. Since then, whenever this issue comes up, we could avoid becoming a "bad boy," passing the buck to MOT. It is certainly difficult to achieve perfect independence from politics, but with such wisdom, we could achieve independence on a case-by-case basis.

Nishigaki: On the issue of the relationship between MITI and FTC, when Sadanori Yamanaka, a powerful LDP politician, was MITI minister early in the 1980s, I understand that his strong belief in the importance of a competition policy influenced MITI's decision, which did not introduce an exception to the Anti-Monopoly Law, but rather formulated a scheme to mitigate anti-trust concerns. Did you feel there was any influence from the minister at that time?

Hatakeyama: Certainly. Minister Yamanaka was said to be a politician who knows the Anti-Monopoly Law very well. At that time, when that law was going to be submitted, Mr Konaga was the director general in charge and he consulted with Minister Yamanaka, who we knew did not like exceptions to the Anti-Monopoly Law, and therefore we came up with an idea to dispense with exceptions.

Kato: How would you assess the effect of industrial policy? Also, while industrial policy has currently been attracting worldwide attention as a tool for enhancing industrial competitiveness, what do you think about the possibility of the transplantation of MITI's policies to developing nations?

Hatakeyama: I would like to stress that the world now faces change in the nature of capitalism. In particular, since the subprime loan crisis, national government intervention in the market has been authorized even in the US, the center of conventional capitalism, where the supreme excellence of the market mechanism was strongly supported by the nation. Among the emerging economies, countries like China and Russia are characterized as nations of state capitalism. In the industrial competition of semiconductors, Japanese companies lost to US and South Korean companies. One of the possible reasons why Japan lost to them is, according to an



A scene of the interview

expert, because the US and Korean semiconductor companies' competitiveness was strengthened by their nations' industrial policies, whilst Japan gave up its industrial policy in this sector due to US criticism against it. Such a story tells us that industrial policy is becoming a very important public policy with high expectations by the people, to be fully exploited.

Conceptually, there could be certain industries such as the green industry, medical industry, or health-promoting industry that may not necessarily be created solidly by the private sector. So we may need state capitalism in Japan as well in the future for the creation of these industries.

Kato: In the US as well, industrial policy has existed in various forms, most notably, defense procurement policy. What we call the "Green New Deal" of the Obama administration would be considered a sort of industrial policy as well.

Hatakeyama: I am now working on a formula for an effective global governance scheme, since the current global governance schemes such as the WTO, UN, and G20 do not sufficiently respond to the global need for an international rule-making process.

In global rule-making systems, a system in which too many countries are members would not work well, in the light of our experience. Therefore, I propose G10 and the formula for selecting

the 10 countries participating in the decision-making system is to rank the countries by the sums of the percentage of a country's population and GDP in the world population and GDP, respectively.

According to this formula, in terms of 2010 data, China is at the top of the countries' list. This can be considered a symbol of the dominance of state capitalism in the world today. We need to reflect upon this fact in considering the future of global capitalism.

Kato: Various countries other than Japan have adopted industrial policies. Many of them failed, inviting political interventions and economic inefficiencies. How do you think these failures could be avoided and industrial policy work well?

Hatakeyama: Though the final policy decision is obviously in the hands of politicians, there is no superior-subordinate relationship between the legislators and the administration. Therefore, administrators should educate themselves to convince legislators of the utility of a policy by using their wisdom. They should also be courageous in advocating their policy and fully committed to their mission.

More importantly, they should be polite in discussing any policy issue with whomever, and respect all interested parties' positions and the backgrounds to their opinions.

This is an important lesson of Japanese industrial policy to be applied to other countries.