

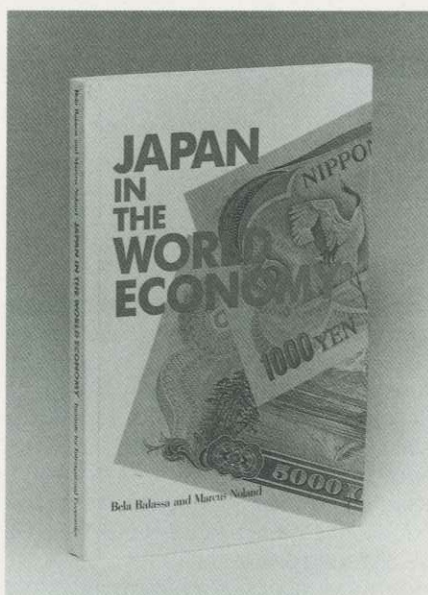
Japan in the World Economy

By Bela Balassa and Marcus Noland
Published by the Institute for International Economics
1988; Washington D.C.
290 pages; \$19.95

As Japan's presence in the world economy has increased during the last several years, research work done by non-Japanese seems to have multiplied many-fold. A number of excellent studies are now available which focus attention on specific aspects of Japan's economy and business. With respect to those who attempt wider coverage, however, only a few can be considered rich in quality. Most of the alleged comprehensive studies are either based on casual observations of illustrative episodes, personal experience or simplistic associations with similar events in history. Balassa and Noland's *Japan in the World Economy* is a rare and welcome exception to this, in a most positive sense.

They cover almost all the important aspects of Japan's economy. Macroeconomic analyses on saving and investment behavior, exchange rates and balance of payments comprise an important part of this book. In addition, semi-macroeconomic topics like industrial policy and import penetration are examined in detail. Also discussed are microeconomic issues such as regulations on and market practices in agriculture, housing, construction and distribution channels.

Their research is based on solid understanding of institutional arrangements, which is obvious from the book's extensive bibliography. A large part of the credit for this may go to members of a study group which discussed the draft chapters. Another notable feature of the research is rigorous economic analysis, well illustrated by the VAR (vector autoregression) in Chapter 6, which concludes that the exchange rate will eventually have substantial effects on external balances but with consider-



able—and from a political standpoint, unacceptably long—lags.

Their in-depth analysis leads to specific and precise policy recommendations, which distinguish this book from other research products filled with vague generalities about Japaneseness. The main thrust of the policy recommendations consists of the following four elements: macroeconomic policy conducive to domestic demand-led growth; policy reform in housing and working hours; further market opening to foreign products; and the active role assumed by Japan in international politics, in particular defense and financial aid to developing countries.

As the authors acknowledge, these recommendations draw heavily on the conclusions of the two Maekawa Reports. In fact, the principal idea of the Maekawa Reports, that such policies will not only contribute to an improvement of international problems, e.g. balance-of-payments imbalances and Third World debt, but also serve well Japan's own interests is shared or, to be precise, more strongly articulated.

For example, the authors argue that market opening, land reform and the other recommended reforms will enhance the quality of life in Japan and decrease both upward pressure on the yen and protectionist pressure in other coun-

tries, which harm the most efficient industries in Japan. They also argue that the long-term interests of the ruling Liberal Democratic Party lie increasingly with urban consumers, who are disadvantaged by the protection of agriculture.

While most of their analyses and policy recommendations will probably gain agreement among both Japanese and non-Japanese researchers, there is one controversial segment concerning Japan's defense policy. Despite all the careful statistical analysis on its defense efforts, the authors still maintain that Japan will continue to be a "free rider" in security affairs. Although the authors use the word "free rider" in a restrictive sense, meaning that Japan will continue to rely on the United States for nuclear protection and for the defense of its strategic interests beyond its own territory, such terminology might fuel the stereotyped misconception that Japan's defense policy is inappropriate.

I wonder if the authors would be happy if Japan no longer relied on the United States in these fields. Also, they mention Japan's low ratio of defense spending over GNP, which tends to give a similarly misleading impression. Would a significant increase in Japan's defense spending in relation to its GNP, which amounts to as much as 60% of U.S. GNP, serve Western security better?

In my opinion any argument concerning defense policy should be first and foremost couched in terms of the roles and missions of U.S. and Japanese defense forces against military threats, and in that connection defense burden-sharing should be discussed. It would be a great pity if a semantic issue as to whether or not Japan is a "free rider" or arithmetic without perspectives on international politics were allowed to hamper constructive discussion in both the United States and Japan.

Leaving aside defense issues, Balassa and Noland's book undoubtedly ranks among the best research products on Japan's economy. It provides a lot of insight into current and prospective developments in Japan's economy. Some parts of the book, however, should be viewed bearing in mind economic de-

velopments since August 1988, when it was published.

For example, based on their analysis of import penetration, the authors argue that Japan's imports were lower than their econometric estimate by 25–45% in 1983 and 1984. Japan's imports increased by 50% in dollar terms and 30% in volume terms in 1987 and 1988 alone, however, accompanied by drastic changes in its import patterns (see the Research and Statistics Department of the Bank of Japan's "Balance of Payments Adjustment Processes in Japan and the United States," Special Paper No. 162, March 1988). Their assessment that stable consumer prices give little indication of inflationary pressure should also be reviewed in light of the recent tight product and labor market conditions. The appreciation of the dollar in 1989 is an additional factor to be considered in regard to monetary policy.

Political circumstances in Japan are changing as quickly. For one thing, public opinion is taking on more of a domestic orientation. Recent polls clearly show that public support for market opening and increases in overseas aid is waning, which may, at least in part, reflect a growing frustration among the Japanese about the protectionist inclination of U.S. political circles.

More of an obstacle to implementation of policy reform at the moment is Japan's political instability, caused by a stock trading and bribery scandal centering on the information conglomerate Recruit Co., in which a number of top politicians are implicated. Prime Minister Noboru Takeshita has stepped down in favor of Souseike Uno in order to restore public trust in politics.

It is to be hoped that the political instability in Japan will only be temporary. A delay in implementing desirable policies would not only be against Japan's own interests but would also have adverse effects on the world economy.

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The Japanese Market Culture

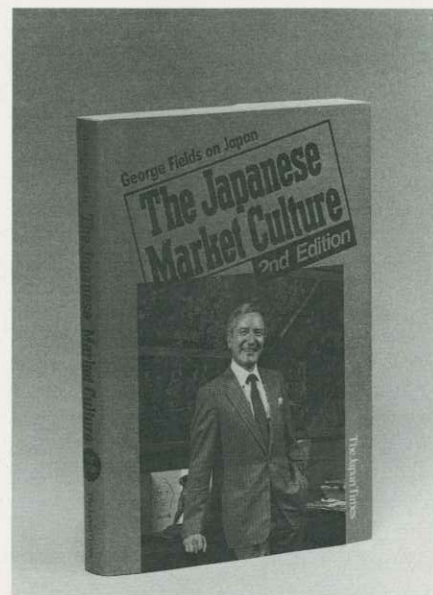
By George Fields
Published by the Japan Times, Ltd.
1989; Tokyo
267 pages; ¥1,600

George Fields is one of the best people there is to explain the Japanese market culture for foreign readers. Not only is he fluent in Japanese, he is able to go beyond the language and understand the culture as well. Having been born here and having lived in Japan for over 20 years, he brings direct personal knowledge to the issues. At the same time, his background and expertise enable him to look at the Japanese market in the global context and to compare developments in Japan with those in North America and Europe. And finally, he is not a casual observer but a professional market researcher determined to go beyond facile half-truths and to get to the underlying aspects that make the Japanese market culture different (or in some cases not so different). His strengths are clearly on display in this informative and highly readable work.

Looking first at the demographic picture, Fields explains how the three generations coexisting in modern Japan differ. "MacArthur's children," he sees as the older generation that came to maturity in the shadow of the Occupation. Solemnly determined to redress their situation, they succeeded at great personal sacrifice.

Their children, who Fields terms the "Tokyo Olympians," came of age as Japan was breaking out of poverty and was coming to be, grudgingly, respected in the world community. These are the optimistic people who experienced Japan's rapid growth and are confident that everything is possible. And then their children are today's "shin-jinru" (new breed) that takes affluence for granted. These generational differences are crucial to understanding the Japanese market, and Fields explains them well.

Part two deals with communicating in the marketplace. Here he reaches back



to historical antecedents to explain why there is so much *katakana* (the phonetic alphabet used, like italics, primarily for foreign words and emphasis) and even so many English words in the roman alphabet in Japanese advertising. Why, for example, does Nissan sell a Cedric but not a Yuzo. The answer, he suggests, is that the foreign name is both attractive in its own right and attractive in avoiding the specificity and associations that a name people understand would have.

Fields is equally informative and interesting on the "uniqueness" of the Japanese market. While many people claim that Japan is unique, Fields notes that Japan is not unique in being unique. Yet even as he rightly scoffs at the omnipresent excuse that "Japan is different," he also notes that the Japanese market—in a country where he says there is no good word for identity except the English word "identity"—is one that thrives on shadings and nuances.

Given this, he is quite correct to forecast the emergence of consumer power. Consumers are becoming an increasingly powerful force in the Japanese market, and are even starting to countervail many of the traditional market leaders. In product after product, consumers are comparing price with perceived value