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The Integration of Japan into the World Economy and its Meaning for Germany

by Siegfried Böttcher, Bonn*

Japan is currently still characterized by a low degree of import integration in the field of finished products. What are the reasons behind this? What can be done to remove the existing trade imbalances vis-à-vis Western industrialized countries? What, on the other hand, can be learned from the Japanese?

Japan's trade relations are primarily vertical¹ in character, whilst those of the other Western industrialized countries are primarily horizontal. The term "intra-industrial" (trade between economies at different stages of development) can be used instead of "vertical", whilst "horizontal" can be replaced by "inter-industrial" (trade between economies at the same or similar stages of development). As a highly industrialized country, Japan – like other industrialized countries – exports finished products, whereas it imports primarily raw materials and energy, but relatively few finished products. In 1981, finished products only accounted for 24.3 % of total Japanese imports, whereas the share of such products in imports of other Western industrialized countries amounted to well over 50 % (Federal Republic of Germany: 56.9 %; USA: 57.4 %; United Kingdom: 67.2 %; France: 55.9 %).² Above all, product differentiations proved to be the determining factor for a horizontal exchange of finished products between these countries, an exchange which has contributed considerably toward increased prosperity. The same types of products are thus not only exported, but also imported. There are no "export-led industries", but rather an extremely high degree of economic integration and interdependence. Purchasing decisions of both producers and consumers are based on the differences in the technologies used, the prices asked, the designs, customer services provided, independent of whether the product was manufactured at home or abroad.

This major difference between Japanese imports and those of the other Western industrialized countries was also confirmed by a joint German-Japanese study³ of the import structures of both countries in the period between 1970 and 1978. Inter alia, this study showed that Japan takes second to last place in front of Turkey in the comparison of OECD countries' per capita imports of finished products.

Further information on this disparity is provided by a comparison of cover ratios⁴ commissioned by the Federal Ministry of Economics and implemented by the Federal Statistical Office in Wiesbaden, which compares the cover ratios of the Federal Republic of Germany, Japan, France and Great Britain for five-digit tariff headings in the manufacturing sector. In this context, the cover ratio is the ratio between exports and imports of finished products. The unweighted mean of the cover ratios in manufacturing industry in 1980 was 238.1 % in the Federal Republic of Germany, 147.5 % in France, 112.4 % in Great Britain and 76.4 % in the USA. In Japan the ratio was 2,565.9 %, thus nowhere near those of the other countries included in the comparison.⁵

It is thus clear that the import integration of Japan into the global economy is different from that of other Western industrialized countries. There are primarily five determining factors to be considered here:

- ☐ high Japanese imports of raw materials and energy commodities,
- ☐ late industrial development in the neighbouring East and South East Asian regions,

¹ Elke Thiel: Zur Rolle Japans in der wirtschaftlichen Zusammenarbeit der westlichen Industrieländer. Internationale Strukturpolitik als Aufgabe, in: Supplement to "Parlament", B 47/48, 25. 11. 1978.

² This discrepancy also arises if the imports of finished products of both Japan and other Western industrialized countries are considered in terms of the Gross National Product. The respective ratio for Japan, the EEC and the USA were 2.4 %, 3.3 % and 2.0 % in 1960, and 2.5 %, 5.7 % and 5.0 % in 1981. Moreover, the share of finished products in Japan's imports decreased drastically after 1973, whereas it remained the same or even increased in other Western industrialized countries despite the burden of oil prices.

³ An unpublished statistical study of the differences in the import structures of both countries (conducted by the Federal Ministry of Economics and the Economic Planning Agency).

⁴ An unpublished statistical survey comparing international cover ratios (export/import ratios with regard to finished products).

⁵ In order to simplify the work involved, the comparative survey only includes those finished products which fall under the five-digit tariff headings and for which the Japanese export/import ratio is higher than 900 %.

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- Japanese protectionism right up to the late 1960s,
- structural factors (a homogeneous market, a low propensity to import), and
- a phase of weakness and restructuring in Western industrialized countries as well as inadequate efforts on the Japanese market.

However, the argument that Japan is more dependent on raw material and energy imports than other countries is not as valid as it initially seems to be. With the exception of coal, European industrialized countries are just as dependent on imports of raw materials and crude oil. Per capita imports of raw materials and energy in the Federal Republic of Germany, for instance, are more or less equal to those of Japan; the same applies if such imports are calculated as a percentage of the Gross National Product. With regard to crude oil, Japan even has a certain advantage, as oil consumption in households there is far lower than in the Federal Republic. The major share of oil consumption is accounted for by industry which is better able to rationalize and conserve energy, as has been the case in Japan in recent years.⁶

Furthermore, the late industrial development of Japan's East and South East Asian neighbours certainly did not encourage a horizontal exchange of finished products – as compared to the situation in Western Europe. Today, however, there are a number of newly industrialized countries in this region, countries such as South Korea, Hong Kong, Taiwan, Singapore, etc. who also complain about the lack of access to the Japanese market as do the EC countries and the USA. In this context, the fact must be borne in mind that these countries have the advantage of being Asian so that the problems arising from a different mentality should be less marked. In future, this determining factor should become progressively less important, especially as Japan is striving for close cooperation with countries in East and South East Asia within the framework of a "Pacific Basin Area"⁷ and as these countries are endeavouring to increase their sales of finished products in Japan.

Many observers are of the opinion that Japan pursued a protectionist policy⁸ up to the end of the 1960s, which means a considerable time-lag as compared to the

other industrialized countries. At least up to that time, Japan, a country in the midst of a process of industrialization, imported primarily those finished products or basic licences which it could not yet manufacture itself, on account of its state of development, or which it needed for product innovation. Liberalization was initiated within the framework of the so-called "Master Plan for the Liberalization of Foreign Trade and Exchange"⁹ which led to more liberal trade after 1969; this went hand in hand with the implementation of measures long due, if not overdue, to facilitate imports.

In the Tokyo Round in 1979 the level of Japanese tariffs as well as the extent of quotas were reduced so as to make them comparable to those of other Western industrialized countries. Important individual requests by the EC countries and the USA with regard to e.g. tariffs and quotas for copper, footwear and leather goods, etc. have, however, to date not been taken into consideration.

Subsequent to the welcome dismantling of tariffs and quotas throughout the world, such "protectionism of the first dimension" is, however, no longer a real impediment to the further expansion of international trade. So-called "protectionism of the second dimension"¹⁰ has now become more important, not least on account of the global economic slump. The process of identification and notification in this field of non-tariff barriers to trade is, however, extremely difficult.¹¹

Above all, Japan has often been accused of having a wide range of – intentional and/or unintentional – non-tariff barriers to trade which prevent a de facto opening of its market. On account of rising pressure from both the USA and the European Community and in the face of a dangerous global economic situation with growing tendencies toward protectionism, Japan adopted three packages of measures in 1982 and in January 1983 to increase access to the Japanese market; it did so in spite of a slump in the domestic economy! Apart from tariff reductions, these sets of instruments include, above all, measures in the field of non-tariff barriers. These packages constitute important and

⁶ OECD Country Report on Japan, Standing Group on Long-Term Cooperation, 28. 1. 1983.

⁷ Okita, Saburo: The Future of Pacific Basin Cooperation, in: Asien, No. 1, October 1981.

⁸ H. Schmiegelow: Japans Außenwirtschaftspolitik – merkantilistisch, liberal oder funktionell, Institut für Asienkunde, Hamburg, No. 118, 1981.

⁹ Alfred Foerschle: Handelsprotektionismus und Liberalisierung in Japan, Bochum 1981, pp. 86 ff.

¹⁰ This is followed by a so-called "protectionism of the third dimension" if direct and indirect government assistance for research and development projects is taken into consideration, assistance that has a market effect on foreign trade.

¹¹ This is shown by an erroneous comparison, "The European Community in a Glasshouse", in: INTERECONOMICS, No. 1/1983. The picture painted in this leading article is based on an extremely incomplete GATT list of non-tariff barriers to trade in the EC and is therefore in need of correction. The reason for this is simply the difficulty of identifying and notifying non-tariff barriers to trade.

commendable steps in the right direction. They must now be put into practice; only then will it be possible to assess whether and to what extent a real breakthrough has been achieved.

Structural factors such as the homogeneous market and – except where luxury goods are concerned – the high degree of self-sufficiency with a low propensity to import are closely related to the third determinant which has just been discussed. In this context, the above-mentioned delay in the change from a protectionist policy to a conscious opening of the market must be taken into consideration. Such a change cannot be achieved overnight; it needs time and patience. All that matters is that the change is in the right direction.

With regard to this problem, an American once said, "Japan is not a closed market, but an almost closed society"; this is now changing, if only slowly. It is not easy, for instance, for foreign exporters in Japan to be integrated into the complicated and, for them, expensive distribution network; it is also practically impossible for them to purchase a Japanese enterprise, etc.^{12,13}

When taking this into consideration, we should, however, not forget that the Federal Republic of Germany's high propensity to import and marked degree of integration also required many years to develop.

Japan's dynamic economic development since the 1970s and its overwhelming export successes in certain product fields (not yet a really widely ranging export structure) go hand in hand with phases of economic weakness and restructuring in other Western industrialized countries; in some economic sectors, this has led to a decline in competitiveness and in some cases to a considerable reduction in output. This is exacerbated by economic stagnation throughout the world. However, even prior to this cyclical and structural crisis, Western industrialized countries failed to take sufficient interest in the Japanese market; they were satisfied with their own markets. This omission is still having an effect, although there have recently been some changes. German industry is to an increasing extent recognizing the importance of the Japanese market, the Western market which takes second place behind the USA in terms of purchasing power.¹⁴

¹² Alfred Foerschle, loc. cit., stresses the preponderance of structural factors, but also the existence of exporters' marked "frustration tolerance".

¹³ Geschäftspartner Japan, Bundesstelle für Außenhandelsinformation, Köln 1982.

¹⁴ "Das braucht Zeit und starke Nerven", in: Der Spiegel, 3. 1. 1983.

¹⁵ Japan – ein schwieriger und vernachlässigter Partner des Westens, in: Neue Zürcher Zeitung, 21. 12. 1982.

Thus we can summarize as follows: the current low degree of import integration in the field of finished products is to a major extent due to (still) persistent protectionist tendencies including structural factors and to inadequate efforts on the Japanese market on the part of Western industrialized countries. Recently, the departing correspondent of the *Neue Zürcher Zeitung* described this interrelationship in his letter of farewell under the heading "Japan – A Difficult and Neglected Partner of the West".¹⁵

Tasks for the Future

We must therefore move closer together. This is particularly essential today in the face of global economic difficulties and the dangers of protectionism. Western industrialized countries should not dramatize their deficits in trade with Japan, especially as these balance of trade deficits have for various reasons already decreased in 1982. Moreover, a trade system designed along multilateral lines actually provides only few arguments in favour of balanced bilateral trade relations. In the face of the difficulties encountered by European and American businesses in Japan, these deficits are, however, often regarded as a sign that market conditions there are still unequitable. The motto "Go East my son" should therefore be supplemented by "Let him enter too".

Japan's three packages¹⁶ in the field of non-tariff barriers to trade are certainly encouraging. We must jointly continue along this path, the objective of which should be to make the general conditions for competition more equitable and thereby to aim at solving – primarily through expansion – the imbalance in trade relations by opening up the Japanese market further. With regard to import conditions, the EC Steering Committee included the following in its statement before the Manufactured Imports Promotion Committee on 24 November 1982: "... Most of us run successful businesses in Japan – we could not be here otherwise. However, there remains much that could and should be done to provide us with the conditions to be found (and from which your own (Japanese) industrialists have benefitted) in Europe."

¹⁶ An outline of the three packages: the first, dated Dec. 81/Jan. 82, provides for tariff reductions (brought forward as a result of the Tokyo Round) for 1,650 tariff headings on 1. 4. 1982 (this corresponds to an average reduction of tariffs amounting to 0.5 %) and for action with regard to 67 (hitherto not admitted) non-tariff barriers (improvement of import procedures, recognition of test results, harmonization of standards and norms); the second, dated May 1982, provides for the bringing forward of 215 tariff headings to 1. 4. 1983 and is therefore not unremarkable, although its other parts (non-tariff barriers, changes in the distribution system, etc.) are rather vague; the third primarily provides for measures in the field of non-tariff barriers to trade, in addition to the reduction or elimination of tariffs for 58 agricultural and 28 industrial products on 1. 4. 1983.

The across-the-board review of the system of standards and approvals by the end of March 1983 announced in the third package and underlined in Prime Minister Nakasone's important declaration on 13 January 1983 is of particular importance in this context and should be welcomed. This across-the-board review is a *joint* task requiring supreme efforts. The fact that on the occasion of the consultations between the European Communities and Japan at the beginning of February 1983 the Japanese side expressly asked for a European input, i.e. for concrete and specific proposals in this direction, is encouraging.

A corresponding list was presented to the Japanese Government on March 10, 1983. According to a decision of the Japanese Cabinet from March 26, 1983 significant technical simplifications or harmonizations as to international standards etc. will be implemented after having changed corresponding laws and regulations. This step fulfilling a number of EC-requests is to be welcomed.

It is, however, not to be overlooked that even if still existing technical difficulties, which in part are closely linked to structural factors, are eliminated to an ever increasing extent, the Japanese market will, on account of the high competitiveness of Japanese industry and on account of a great number of remaining Japanese peculiarities, continue to pose a great challenge and thus remain a difficult sales area.

It is of course obvious that increased access to the Japanese market must also be used by our industry. Fortunately, German industry is to an increasing extent recognizing the importance of the Japanese market. Since 1981, there have been signs that the high deficit in the balance of trade with Japan, which has been increasing since the mid-1970s, is decreasing. In 1982, for instance, German exports rose by 8.6 %, whereas imports from Japan dropped by 2.0 % in the same

period. At DM 7,481 billion in 1982, the German trade balance deficit was DM 670 million lower than in 1981.

The priority task, the further de facto opening of the Japanese market, should be accompanied by Japanese export restraint in certain sensitive product fields so as not to prevent the required restructuring measures here by flooding markets with products from Japan. For various reasons, there has already been a decrease in exports of some sensitive products to the European Communities in 1982.

The German Competitive Situation

The Japanese challenge must initially be regarded in economic terms, but this is only the tip of the iceberg. Apart from this, the Japanese challenge also has a social, a cultural, in short an immaterial dimension. In order to assess this properly, we must find out how such a successful partner sees us. This does not mean that we should try to adopt the Japanese way of thinking. This is not necessary and would be doomed to fail right from the start as we must live in our own world. It is not possible for us to think like Japanese, nor is it possible for the Japanese to think like Europeans or Americans – although the West for a long time assumed this to be the case and today perhaps in part still (un)consciously believes this to be possible.

However, it is very much easier to recognize one's weaknesses or strengths by way of a comparison with one's opposite number – and the Far East really does constitute an antipole to Europe and America – than by way of introverted, self-pitying contemplation. And, independent of our respective systems or cultures, there are a number of elements which we could adopt or reactivate. Here, too, the Japanese have shown us what to do. They have and are today still studying the "West", they have adopted a great deal from us and have nevertheless (and how could it be different?) remained Japanese. With its vision of "Japanese thinking and Western technology" (Wakon Yosai), Japan has entered into a period of renewal after the Meiji period and has – although on the basis of a different mentality¹⁷ – proved capable of combining these two poles.

At least in large-scale enterprises (approximately 1/3 of all enterprises), the level of Japanese wages is more or less comparable to wage levels in the other Western industrialized countries (such international comparisons of wage levels are of course always difficult and cause problems, but they are quite useful as a basis).

Productivity and Labour Costs in Manufacturing Industry in DM per hour

	Germany	Japan	USA
Output ^a	30.30	27.60	27.30
Wages per hour	13.36	9.82	13.16
Fringe benefits	10.04	2.53	5.07
Total labour costs	23.40	12.35	18.23
Output minus labour costs	8.90	15.25	9.07

^a Contribution of manufacturing industry to gross domestic product per paid hour of work.
Source: 1980/1981 Annual Report of the Industriekreditbank.

¹⁷ Siegfried Böttcher: Die Japaner denken und handeln anders, in: Supplement to "Parlament", B 19/81, 9. 5. 1981.

The high German fringe benefits are the actual disadvantage as compared to Japan. In addition to every DM 1.00 in wages, roughly DM 0.70 must be earned for this purpose in the Federal Republic of Germany, whereas fringe benefits in Japan only amount to an additional 25 %.

Moreover, the high burden of wages and fringe benefits in the Federal Republic of Germany is no longer compensated for by productivity although this continues to be higher than in Japan. This shows that we have reached the limit of what industry can bear, a fact that has, *inter alia*, also led to the decline in investment and in research and development efforts.¹⁸ In this context, the fact must also be taken into consideration that in Japan so-called bonus payments (roughly three to four months additional wages) are linked to cyclical activity and insofar allow a flexible reaction to economic processes.

Finally, the lower level of wages in the great number of small and medium-sized enterprises in Japan, enterprises which serve as suppliers to large-sized companies within the framework of the dual-tier economy, provides a buffer during cyclical downturns. All this makes it necessary for us to show restraint in wage demands and to manufacture technologically better products at lower costs.

The Japanese observe very high quality standards (tending towards a zero defect rate) and they are very thorough in their marketing, after-sales service etc. All these are factors that once were at the basis of our "Made in Germany" reputation and still are its mainstays today. We are able, however, to regain lost ground wherever necessary. It depends entirely on us, on our positive inner attitude.

The Japanese are masters of so-called small innovation, i.e. process innovation, as well as product innovation. We have become weaker in both these fields.¹⁹ At one point, we were the world leaders in both areas: I shall only mention the Otto engine, the Diesel engine, the Wankel engine and other fundamental inventions e.g. for videorecorders.

Again, there is nothing to stop us shortening the annoying timelag between actual invention and product innovation, i.e. the introduction of mass-produced new products. Cooperation between universities, research institutes and industry need not be as bad and slow as it is. This is our own responsibility.

The Federal Ministry of Economics and the Federal Ministry of Research and Technology have commissioned comparative studies on investment policy and innovation processes in Japan, which have

been published in the spring of 1983. With the aid of these analyses it should then be considered if, and to what extent, the German research and development sector should draw conclusions from Japanese practices.

In this context it must also be considered – and this question is being asked very seriously in Japan – whether, and to what extent, Japan will itself be able to make new basic inventions when Japanese product innovations on the basis of previous basic inventions in the US and Europe come to an end, as expected, in a few years.²⁰ In Japan the forces of large enterprises are now being combined in joint future-oriented research projects in order to achieve this objective of a society based on modern technology.

Positive Examples

I feel that German industry and society are becoming increasingly aware that our position must be improved. I should like to quote only a few examples to illustrate this:

□ The Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA, German Machinery Manufacturers and Plantmakers Association) had an extensive study conducted on the competitive situation of this very important sector of industry as compared with Japan, containing comments on issues related to process and product innovation, and on this basis organized a very impressive Japan Day in Frankfurt in November 1981.

□ The German car industry, which came under serious threat from the Japanese car industry in 1980 and 1981, has carried out extensive investments. Product innovations, such as Mercedes 190, Audi 100 and Ford Sierra, are unmistakably impressive. This shows that we do not have a lack of innovative potential and willingness to invest. Imports of Japanese passenger cars in the Federal Republic of Germany dropped substantially in 1982. It is characteristic that in January 1983 journalists from 25 countries invited to Japan by "Japan's Motor Magazine" selected the Audi 100 for the

¹⁸ With regard to the general overtaxing of our economy, see: Konjunkturpolitik – neu betrachtet, Gutachten des wissenschaftlichen Beirats beim Bundesministerium für Wirtschaft (Trade Cycle Policy – Reconsidered, Expertise by Economic Advisory Council, Ministry of Economics), Studien-Reihe 38, 1983.

¹⁹ Wolfgang Gerstenberger: Die westdeutsche Wirtschaft in der Zange: Die Herausforderung durch Japan, die USA und die Schwellenländer, Speech held at the 45th General Meeting of the Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute on 13./14. 5. 1982 in Bonn; Willy Kraus: Die japanische Herausforderung, Berlin 1982.

²⁰ Guntram Rahn: Die Bedeutung des gewerblichen Rechtsschutzes für die wirtschaftliche Entwicklung: Die japanischen Erfahrungen, in: GRUR (Gewerblicher Rechtsschutz und Urheberrecht), Internationaler Teil, Weinheim 1982.

Car of the Year award. In 1981 it was the Ford Ascona, but this car is not sold in Japan.

□ SKF-Kugellagerfabriken, Schweinfurt (German subsidiary of the worldwide Swedish SKF group) organized a seminar for top managers in early 1982 aimed at developing a strategy enabling the enterprise to help defend and strengthen the group's leading position on the market against international competition. This seminar is just one of a variety of symposiums on Japan held in the Federal Republic of Germany.

It should be stressed that we in the Federal Republic of Germany have learnt the "Japanese lesson" best, at least compared with the other Western European countries. It can be assumed that the economy continues to be basically healthy.

Japanese Advantages

In the human and intellectual field, the Japanese have, in my opinion, done many things better and more purposefully than we have in recent years. We must recognize this without envy and without wanting to mystify the Japanese achievements. Even in Japan there is no infallible master plan.

There is no pessimism about culture and technology in Japan; it is truer to say there is an obsession with technology. This is a good basis for the interest in and use of advanced technologies. The family has been kept largely intact; remaining single is not glorified. Instead of self-fulfilment, self-commitment in the family, in the group and in the company comes to the fore. Hard work is not scorned, work and leisure time flow into one another, and for this very reason lead to greater self-fulfilment; this is shown by the numerous suggestions for improvements in production that are drawn up by so-called quality circles. Although the educational system is formally egalitarian, the formation of élites has not been prevented; on the contrary.²¹ Moreover, the Japanese have preserved their sense of belonging together as they are aware that in the long run no people can live and survive without historical ties. It is the company identity or company culture that gives the Japanese invaluable support and releases strong motivating forces. Management experts²² feel that the main reason for the superiority of the Japanese lies in their managing abilities. In his memoirs Henry Kissinger²³ notes: "High office in Japan does not entitle the holder to issue orders; it gives the privilege of taking the lead in persuasion."

In view of Japan's strength (it has a number of weaknesses too) we should not give way to self-pitying feelings of inferiority and, as a result of their success, the

Japanese should not give in to the temptation of feeling superior. Both would be wrong and dangerous as realities and opportunities would no longer be recognized or seen only in a distorted way.

Again, there is no one to stop us putting an end to permanent questioning and problematizing, or at least reducing it to responsible proportions. Usually it is no more than an intellectual and at the same time dangerous game because it seldom produces new positive insights and frequently only weakens our awareness. This extreme overreaction in one direction is no doubt German. But this basic characteristic of ours at the same time offers us a chance to steer in the other direction just as energetically. Discussing the question whether a person or a society is predetermined or not, Fromm²⁴ mentions so-called real possibilities: "A real possibility is a possibility that may arise when one takes account of the overall pattern of forces active in an individual or a society. . . . A genetically shy person can either become exaggeratedly shy, introverted, passive and discouraged or a very sensitive person, e.g. a talented poet, psychologist or doctor. But he does not possess a "real possibility" of becoming an insensitive unconcerned go-getter."

Applied to our German society, this means that we cannot get rid of our perfectionist trait. But we can give either a positive or a negative turn to this trait. Again, there is no one to stop us programming ourselves positively and, by doing so, generating antibodies against self-pity and resignation.

That is what we need in view of the continuing Japanese challenge and the coming challenges from the emerging newly industrializing countries. The "West German disease" that is regularly mentioned in the Japanese press is not our fate. It is entirely up to us to make sure that it does not arise! "Faustian aspirations" should give us the impetus towards new actions. There is a good saying in Japan, "Me ga takai desu", which means literally: the eyes are turned up to an objective. We should take this to heart – and the Japanese expect this strength from us Germans, who used to be one of their "older brothers" in Europe and from whom they have taken over a great deal. Weakness is something they despise.

²¹ Michael Klopfer: Die Spitze der Bildungspyramide, in: Frankfurter Allgemeine Zeitung, 11. 1. 1983.

²² R. T. Pascale, Anthony Athos: The Art of Japanese Management, 1982; "Konsens statt Konflikt", in: Management, No. 8/1981.

²³ Henry Kissinger: Years of Upheaval, pp. 735 ff.

²⁴ Erich Fromm: Die Seele des Menschen – Ihre Fähigkeit zum Guten und zum Bösen, 1981, p. 147.