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Working Paper

Japan's model of economic development: Relevant and nonrelevant elements for developing economies

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According to Komiya (1988: 3), **industrial policy** can be defined as follows:

(1) policies that affect the **allocation of resources** to industry, including:

- (a) items that affect the **infrastructure of industry** in general, such as the provision of industrial **sites, roads and ports**, industrial **water** supplies, and **electric power.**
- (b) items that affect **inter-industry resource allocation.**

(2) policies that affect **industrial organization**, including:

- (a) items aimed at regulating the **internal organization of particular industries**, such as industrial restructuring, consolidation of firms, output restrictions, and the adjustment of output and investment.
- (b) items affecting **cross-industry organization**, such as small and medium enterprise measures.

Figure 1
Gross national expenditure at constant prices, Japan, 1930-76

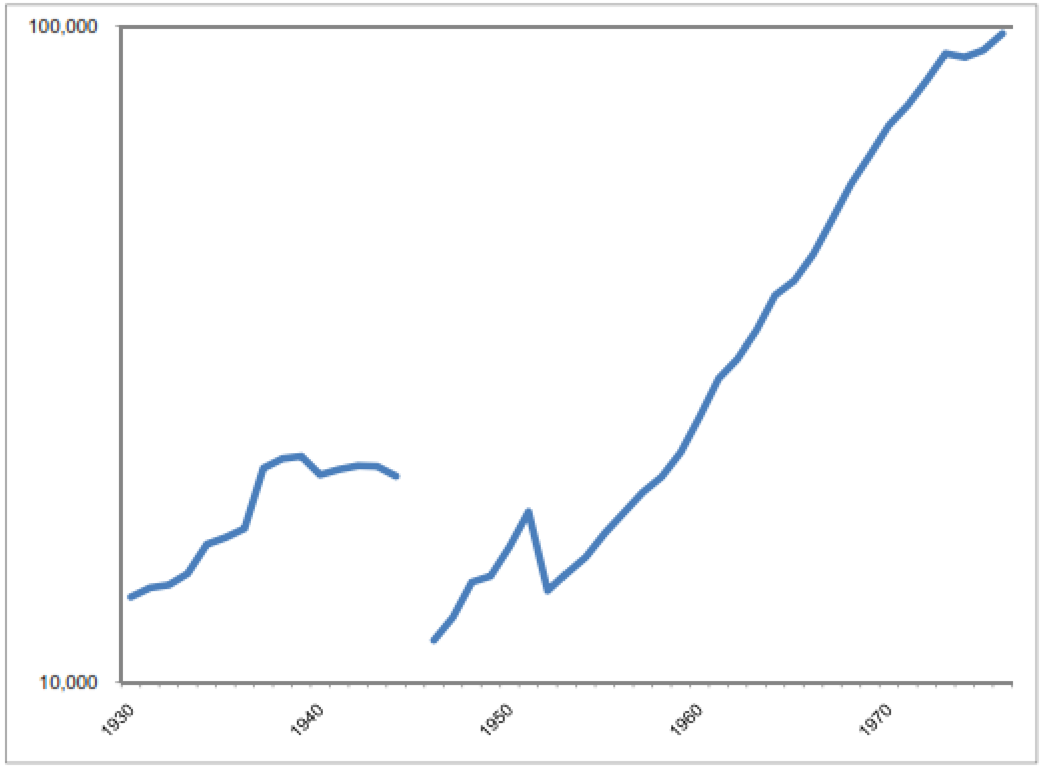


Figure 2
Shares of agriculture and manufacturing value added to net domestic product, Japan, 1930-76

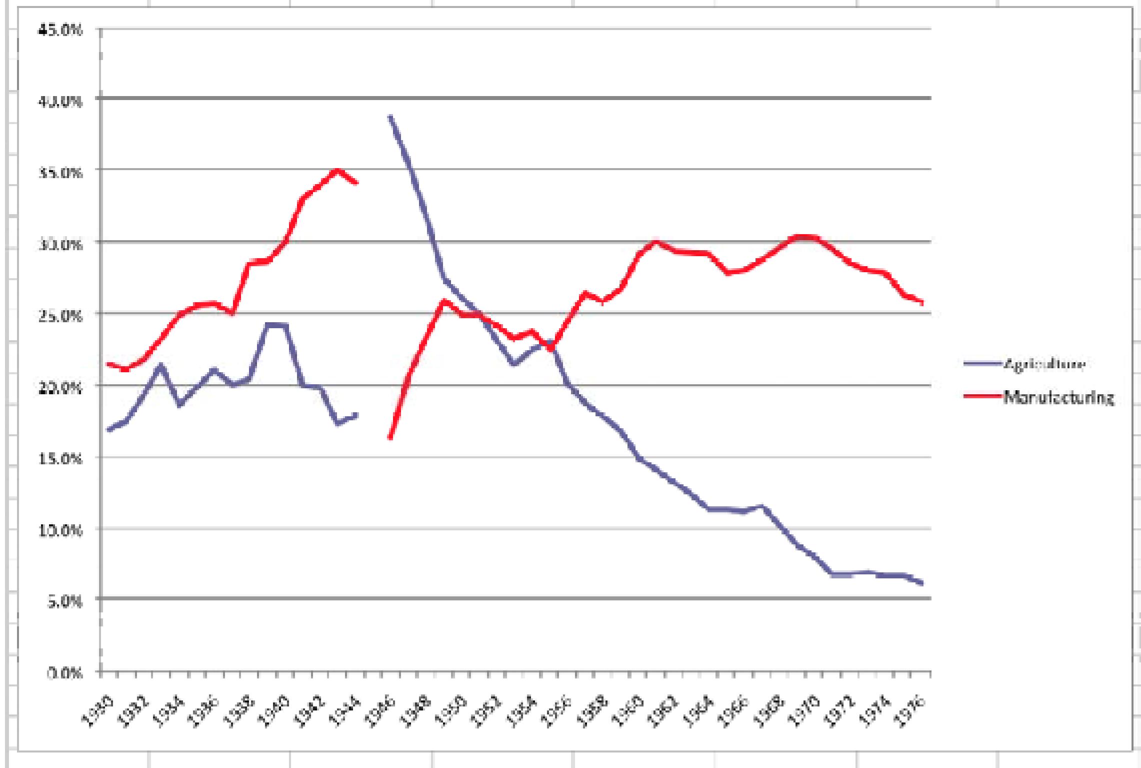


Figure 3
Ratios of current account surplus to gross national expenditure, Japan, 1930-76

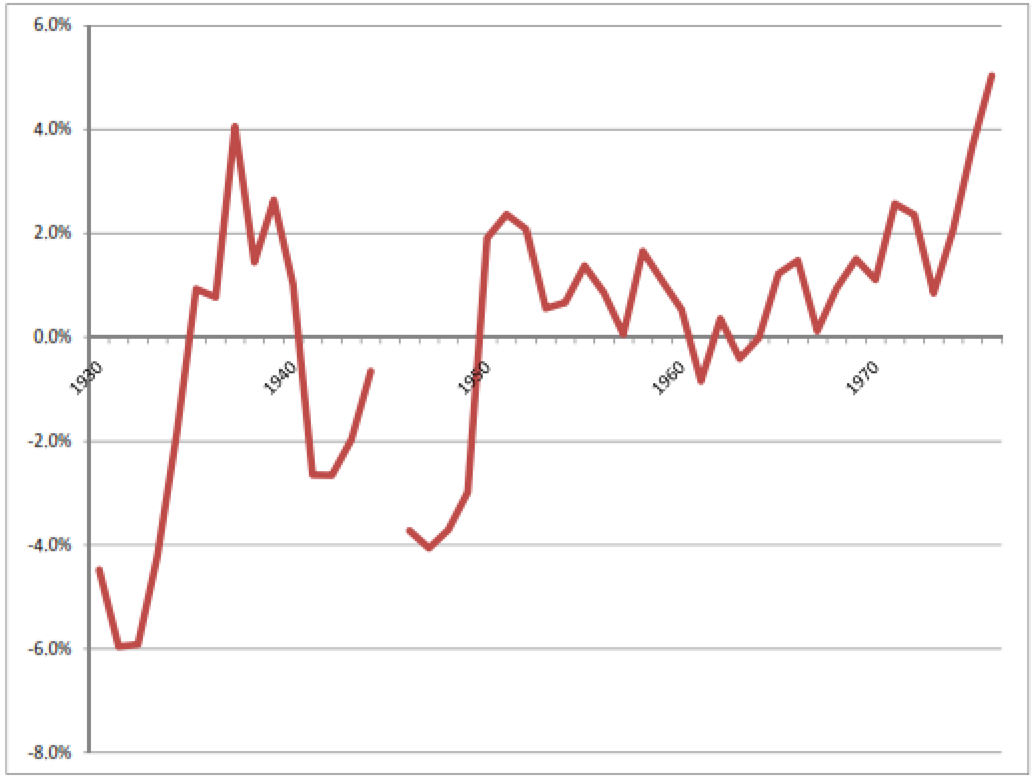


Figure 4
Development of enrolment rates and advancement rates (%) in education, Japan, 1948-85

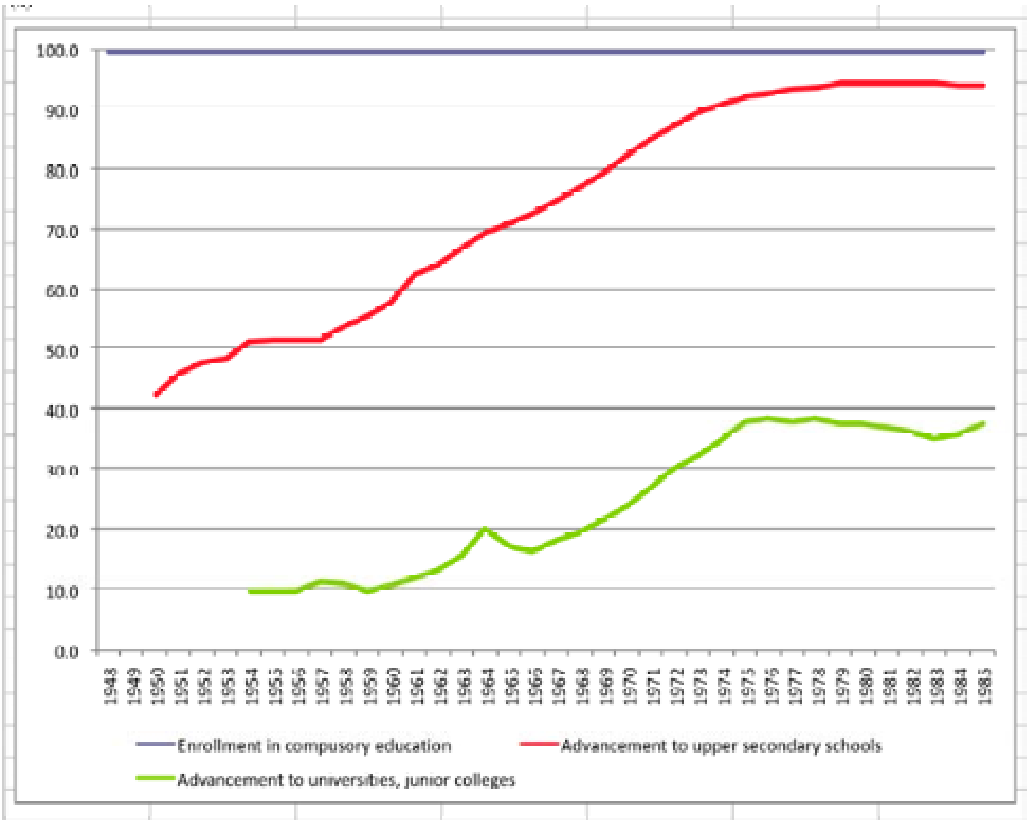


Figure 5
Number of researchers, by research organizations, Japan, 1953-85

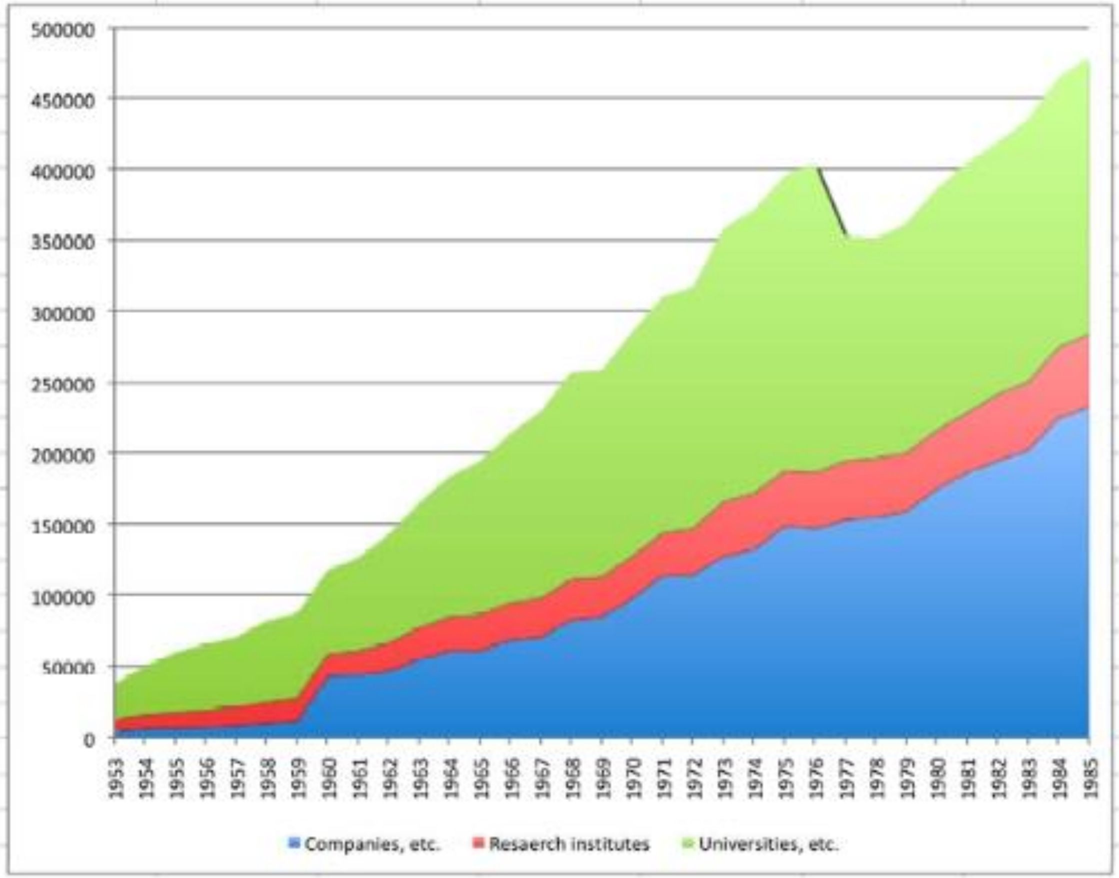
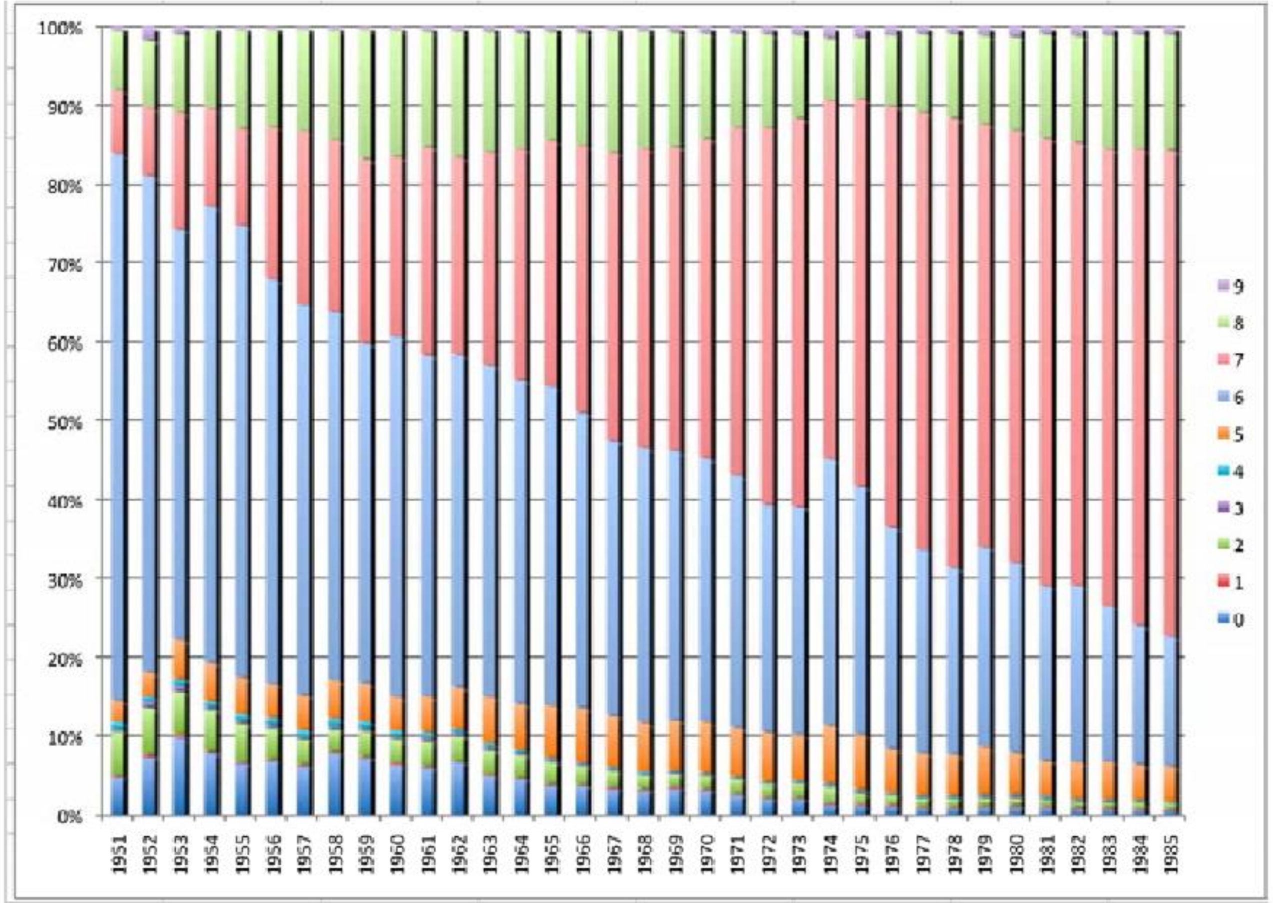


Figure 10
Composition of Japan's exports (in millions of yen), 1951-85

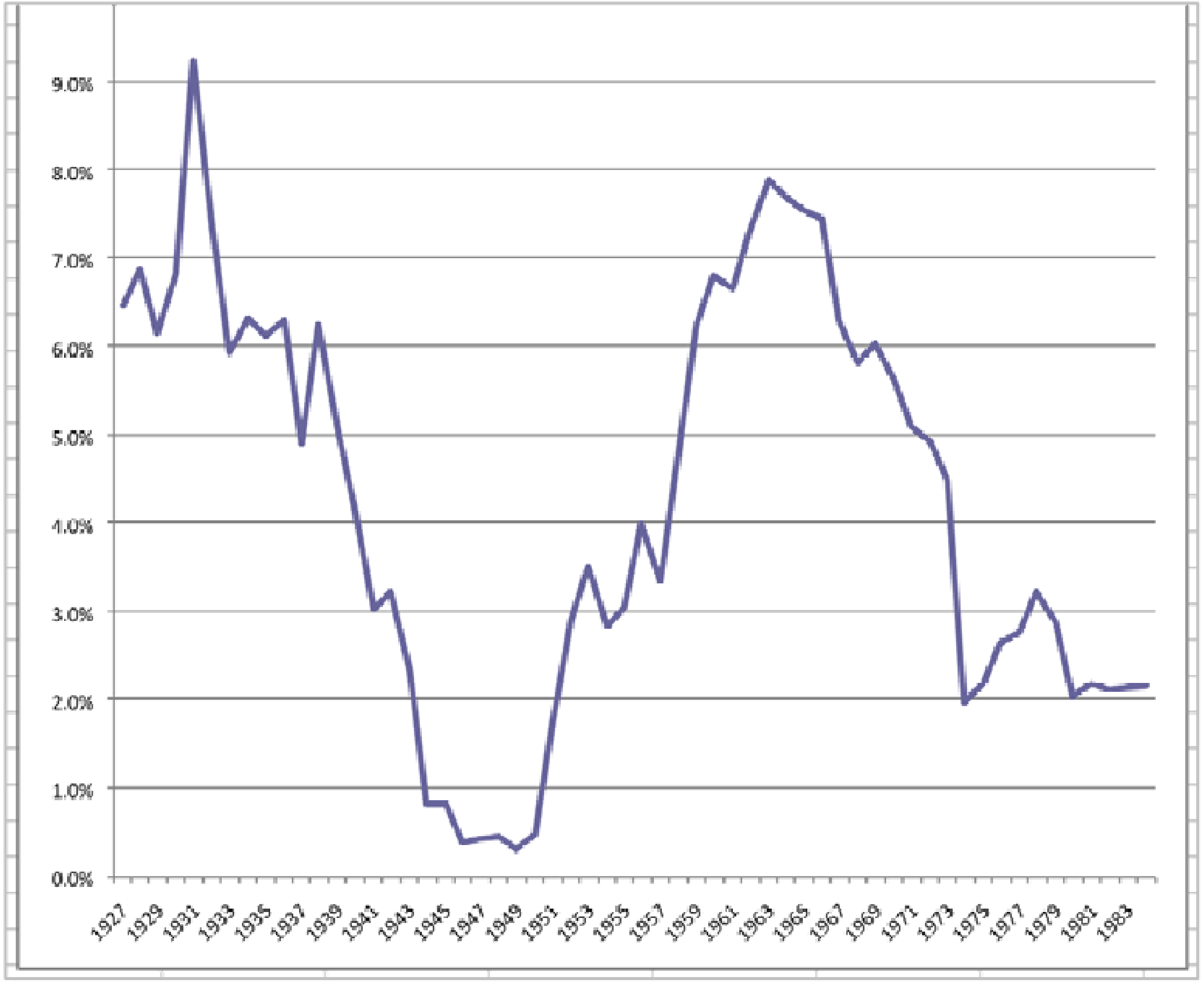


Note: SITC	0	Foordstuffs and animals	1	Beverages and tobacco
	2	Nonfood raw material (excl. mineral fuel)	3	Mineral fuels, lubricating oils, etc.
	4	Animal, vegetable oils and fats	5	Chemical products
	6	Manufactured goods by material	7	Machinery, transport equipment
	8	Miscellaneous	9	Special goods

Source: MCA-SB (1988, vol. 3: 18-21,10-2-d).

Figure 12

The ratio of customs duties to imports, Japan, 1927-84



Broad consensuses on Japan’s industrial policy

(1) While infant industry protection or import-substitution strategies may not be impossible theoretically, in most cases, they are very difficult to plan and implement properly.

(2) Industrial policy itself was not always logically consistent, and a degree of mercantilism was occasionally evident. Preventing ‘excessive competition’ by limiting the number of firms and encouraging collusion was neither logically consistent nor effective. Instead, such policies became obstacles to achieving international competitiveness. In the cases of successful industrialization in Japan, private dynamism overrode the government’s intentions.

(3) Whether trade protection was not always an essential element for fostering indigenous firms but can at least conclude that the time limits imposed on private firms in preparing for harsh global competition constituted an effective trigger.

(4) Japan did not utilize incoming FDI in the postwar development period. However, introducing foreign technologies through technology purchases and importing advanced production machines were crucial steps in the process of gaining international competitiveness.

Vital lessons from the Japanese experience

(1) Macroeconomic stability is essential for economic development

(2) Solving bottlenecks is important for economic development

(3) Effective utilization of the globalizing forces is important