

Japan's Model of Economic Development: Relevant and Non-relevant Elements for Developing Economies

EE 482: Public Policy and Industrialization
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Faculty of Economics, Thammasat University

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Working Paper

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Japan's Model of Economic Development

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.

Japan's Model of Economic Development (cont'd)

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

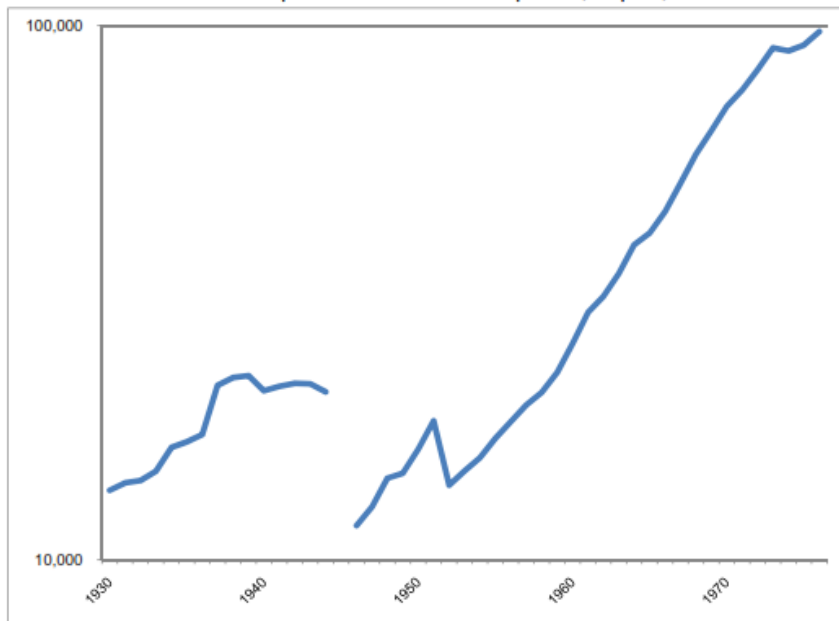
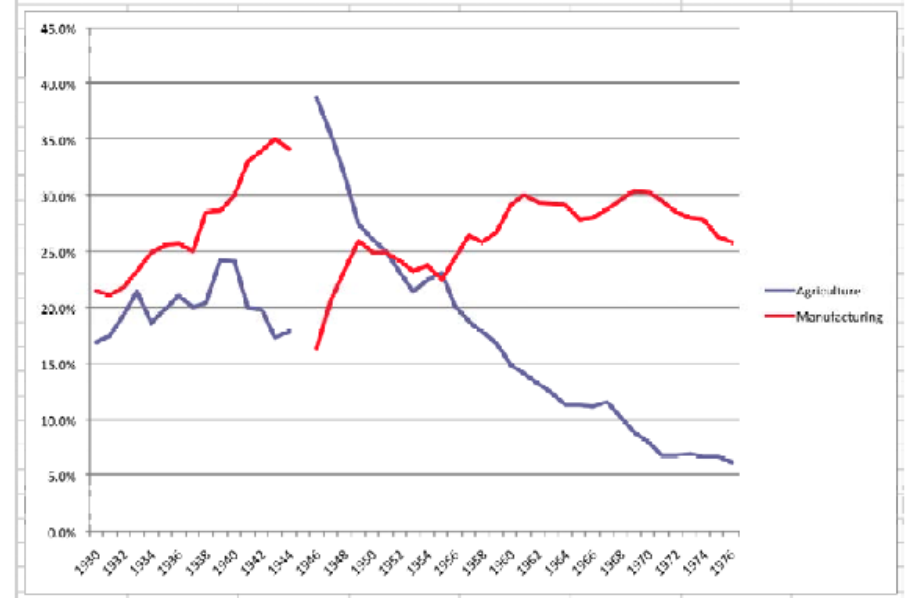


Figure 2
Shares of agriculture and manufacturing value added to net domestic product, Japan, 1930-76



Source: Fukunari (2009) : Japan's model of economic development: Relevant and nonrelevant elements for developing economies, WIDER Research Paper, No. 2009/22, ISBN 978-92-9230-191-0, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

Japan's Model of Economic Development (cont'd)

Figure 3

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

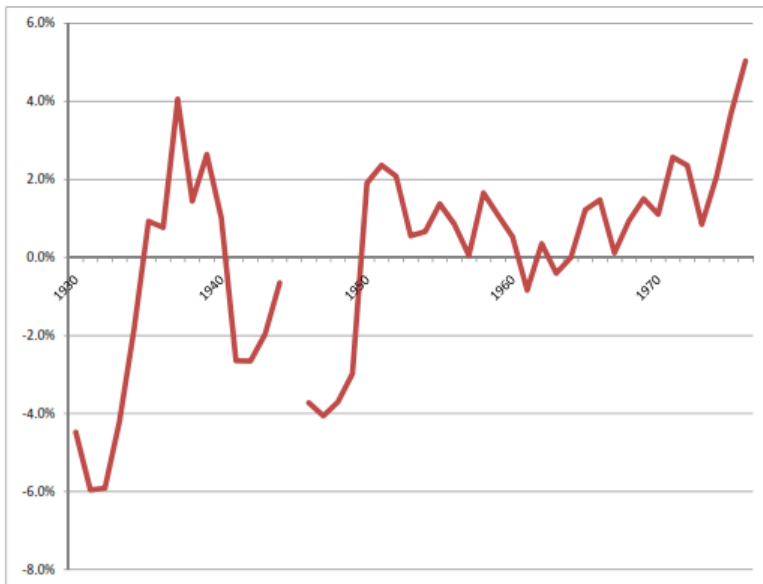
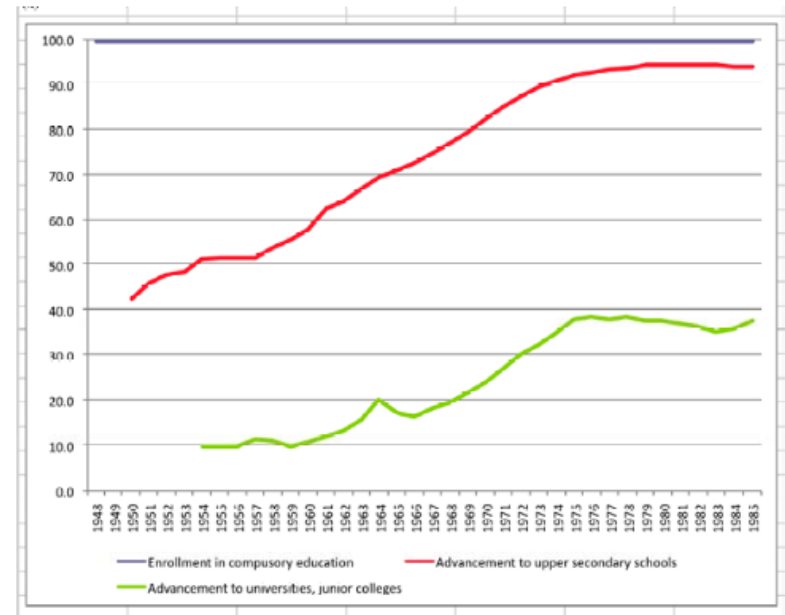


Figure 4

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



Source: Fukunari (2009) : Japan's model of economic development: Relevant and nonrelevant elements for developing economies, WIDER Research Paper, No. 2009/22, ISBN 978-92-9230-191-0, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

Japan's Model of Economic Development (cont'd)

Figure 5

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

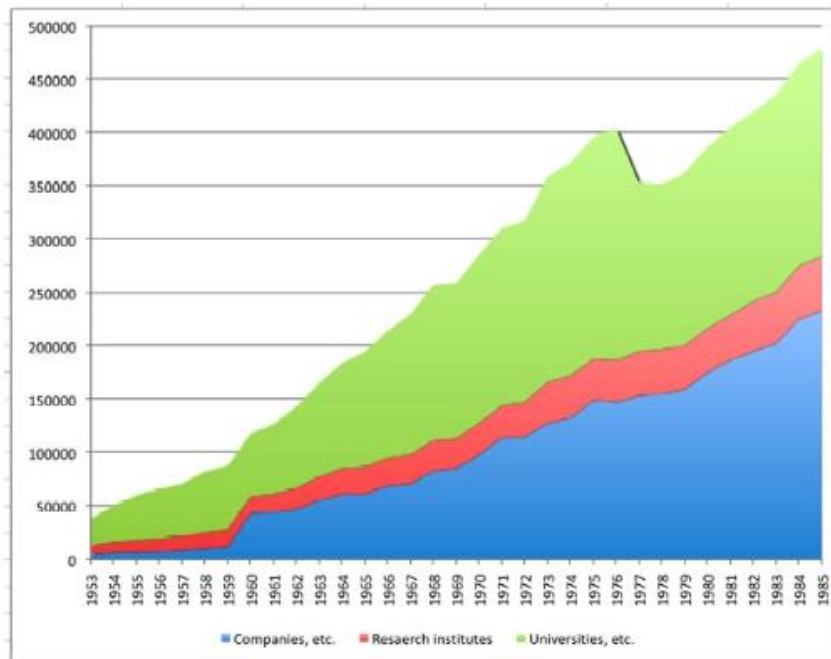
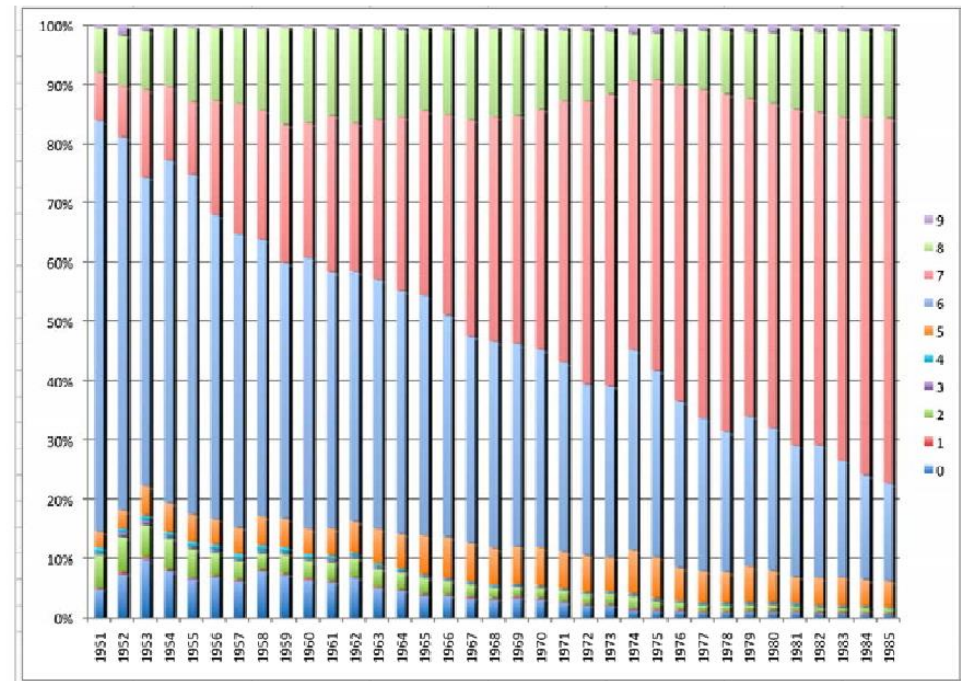


Figure 10

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



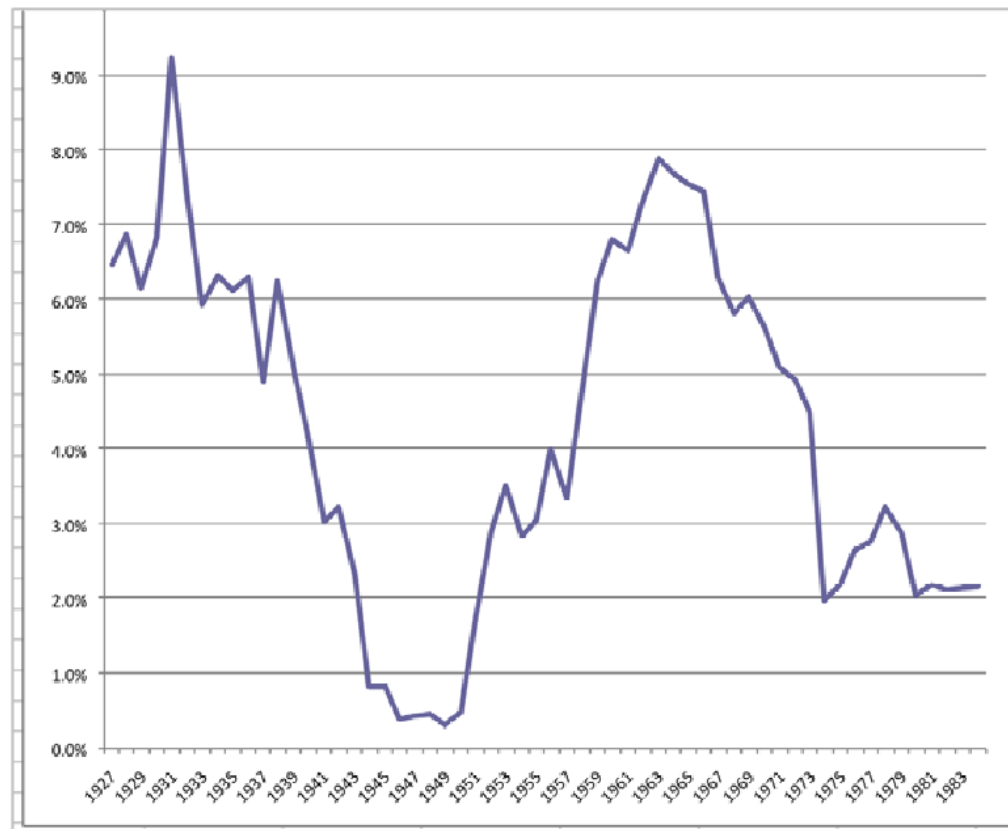
Note: SITC 0 Foodstuffs and animals
 1 Beverages and tobacco
 2 Nonfood raw material (excl. mineral fuel)
 3 Mineral fuels, lubricating oils, etc.
 4 Animal, vegetable oils and fats
 5 Chemical products
 6 Manufactured goods by material
 7 Machinery, transport equipment
 8 Miscellaneous
 9 Special goods

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

Source: Fukunari (2009) : Japan's model of economic development: Relevant and nonrelevant elements for developing economies, WIDER Research Paper, No. 2009/22, ISBN 978-92-9230-191-0, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

Japan's Model of Economic Development (cont'd)

Figure 12
The ratio of customs duties to imports, Japan, 1927-84



Source: Fukunari (2009) : Japan's model of economic development: Relevant and nonrelevant elements for developing economies, WIDER Research Paper, No. 2009/22, ISBN 978-92-9230-191-0, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

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.