DOCUMENT RESUME

ED 365 563 SO 022 517

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TITLE	Japanese-U.S. Economic Relations. Japan Digest.
INSTITUTION	National Clearinghouse for United States-Japan Studies, Bloomington, IN.
PUB DATE	[92]
NOTE	4p.; For related digests, see SO 022 516 and SO 022 641.
PUB TYPE	Information Analyses (070) -- Reports - Descriptive (141)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Area Studies; Developed Nations; *Economic Factors; Economics Education; Elementary Secondary Education; Foreign Countries; *Foreign Policy; Global Approach; *International Relations; *International Trade; Political Influences; Social Studies
IDENTIFIERS	Global Education; *Japan

ABSTRACT

World War II was the last time when overall U.S.-Japan relations, and the economic relationship in particular, were as bad as appears to be the case in the 1990s. The United States and Japan are, respectively, the two largest economies in the world. The Japanese have the second leading market for U.S. products trailing only Canada. Japan buys more U.S. goods than France, Germany, and Italy combined. The United States is the leading foreign investor in Japan. Japan is the second leading foreign investor behind the British in this country. Given the high level of economic interaction between the two nations, it behooves educators to separate the rhetoric about U.S.-Japan economic relations from the reality. This digest examines (1) general perceptions on both sides of the Pacific; (2) mistaken beliefs on the part of U.S. citizens and Japanese about the other's economic activities; and (3) the behaviors in each nation's economy that scholars identify as factors that inhibit successful Japan-U.S. economic relations. A list of 10 references is included. This Japan digest is written by an educator for use by teachers to instruct students about Japan and its economy. The digest is designed to support the upper elementary and secondary school social studies curriculum. (DB)

Japanese - U.S. Economic Relations

JAPAN DIGEST

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General Perceptions of the Relationship. There is substantial public opinion poll evidence that as of the early 1990's, many Americans look upon Japan as an economic threat to America's economic well being. There is also considerable contrasting evidence from some of the same opinion surveys that Americans have admiration for the Japanese and think our nation's current economic woes are largely our own fault and not that of another nation. In general, Americans have mixed feelings about Japan. However, recently, some opinion molders and policy makers in this country recognize a market for "Japan Bashing". Consequently the number of American allegations about unethical and sinister Japanese economic actions have steadily increased. These have served to make the Japan-U.S. relationship even more stormy. The Japanese public, while still by and large expressing admiration for Americans, also express negative opinions about the abilities of U. S. workers.

Public Beliefs about the Economic Relationship. Japanese investments in the United States is certainly something many Americans fear. In one recent New York Times/CBS News poll 62 percent of Americans surveyed believed Japanese investment in the United States threatened U.S. economic independence. Is the range of Japanese investment and the level so great that we should fear such economic action? Almost all economists clearly answer "no!" to such fears. First of all —Japanese investment— indeed all foreign investment account for only a small fraction of the total value of the American economy. Virtually all economists welcome foreign investment because it adds to the wealth of the host country and creates new jobs and products. A recent U.S. Department of Commerce study in which the total number of Americans who work in manufacturing firms in which the Japanese have 20 percent or more interest found that Japanese firms accounted for only two percent of U.S. manufacturing employment. "Buy American" proponents ignore other important U.S. government economic statistics. Beginning in 1989, Japan's annual rate of investment in the U.S. began to contract relative to earlier years and still continue to do so. For example, in 1990, 134 new firms in the United States were bought wholly or in part by Japanese investors. In 1988 and 1989 the figures were, respectively, 225 and 215. Another American public misperception is that it is virtually impossible for our businesses to succeed in Japan. While the United States does have a large trade deficit with Japan, numerous U.S. companies such as Coca-Cola, IBM, Shick, Kentucky Fried Chicken, and McDonald's have enjoyed large market shares in Japan for years. In 1991, the average Japanese purchased $394.00 worth of U.S. goods while his or her American counterpart bought $360.00 worth of Japanese goods. While the Japanese hold fewer mistaken beliefs about American economic behaviors than their counterparts in the United States, many Japanese do think that Americans do not make good products any more and that our citizens are lazy. These stereotypes are erroneous. The United States is the world's most productive country and with the exception of the auto industry, American manufacturing firms have enjoyed impressive export successes since the mid 1980's. Also recent studies indicate that Americans only rank behind the Japanese in number of hours worked each year.

Negative Economic Behaviors: Japan. While many Americans think the Japanese are responsible for our trade deficit, policies of our own government and companies are the primary cause for the deficit. However, even though Japan has lower formal tariffs than the United States, extensive trade barriers constitute Japan's most counterproductive economic policies. Examples of informal barriers include product standards set differently from international standards so as to deliberately exclude foreign products, excessive testing of foreign products, and collusive actions of industry to inhibit imports. Although the informal trade barriers are not a result of a coordinated effort by Japanese government and industry, they exist because many special interest groups have successfully pressured and serve to inhibit or prevent many foreign exporters from cultivating the Japanese market. Largely because of the existence of informal trade barriers, Japan ranked next to last among 22 industrial and developing countries from 1970-87 in manufactured imports as a percentage of gross national product. This unofficial but deep-seated resistance to foreign products is rooted in a long-held Japanese belief that their country is a poor, resourceless island nation that must import raw materials and export manufactured products to survive. However, Japan has an extremely well-educated work force and is quite rich in human and financial resources. The Japanese are changing their behaviors, however, and many markets that were closed to American and other foreign manufacturers in the 1980's are open today. In 1982 manufactured goods only accounted for 20% of all imports in Japan, while today they constitute over 50% of all goods the Japanese purchase from abroad. Japan must continue to abolish informal trade barriers or they will be perceived by other countries as unfair players in the international trading game.

Negative Economic Behaviors: The United States. Declining international competitiveness is the major U.S. economic problem that contributes to both stormy relations with Japan and to diminishing living standards for many here. Although "declining competitiveness" is now a catch-all phrase for a number of related issues, the primary "competitiveness" problem is that of long-term low U.S. productivity growth, as measured by annual increases, relative to Japan and, to a lesser extent, several other industrialized nations. The United States is still the world's most productive country; Japanese productivity averages only two-thirds as much. If the U.S. productivity problem continues, however, the nation faces a bleak economic future. Productivity growth is the increased efficiency by which an economy produces goods and services over time. Despite some recent exceptions in manufacturing productivity, the United States has experienced low to negative manufacturing and services productivity growth since the early 1970's. If this trend continues for two more decades, our standard of living will almost certainly decline. Although U.S. productivity problems are the result of several factors, the life-blood of the productive process is capital, both financial and human. Chronic lack of financial capital for investment in new industrial and office equipment, product research, and marketing damages productivity and competitiveness of U.S. businesses. Japanese firms, in striking contrast, are awash in surplus funds for investment. Recent studies show that U.S. firms in the 1980's incurred the highest after-tax costs for capital among all leading industrialized nations, while Japanese firms incurred some of the lowest costs for capital. Industries obtain financial capital both from their own savings and from the savings of millions of citizens, which are funneled by financial intermediaries to companies. In the United States, both net corporate and personal savings declined in the 1980's to historic lows. Since savings are the major source of funds for business investment, an examination of Japanese and U.S. savings rates provides an understanding of why the U.S. productivity growth rate stagnates compared to Japan. The average Japanese household saves twice as much money as the average U.S. family. Recent U.S. investment and productivity problems result from low savings by individual citizens, by excessive corporate financial speculation in purchasing existing firms rather than capital investment, and by a preoccupation of corporate executives with short-term economic objectives. Although more difficult to measure, human capital development, or education and training, is also a vital key to national productivity. Not only do international comparisons show that U.S. students in every grade lag behind their Japanese counterparts in mathematics and science, the illiteracy rate in the United States (13 percent) is higher than in Japan (approximately 1-4 percent). Without significant improvements in human capital development of the non-university-bound segment of the population, even if the U.S. financial capital stock improves tremendously, we will continue to suffer from ills of stagnating productivity in an increasingly sophisticated and technological world economy. The trade deficit, extremely high dependence upon foreign capital for both private and public sector debt, and, to a certain extent, massive government deficit, are all related to the problem of U.S. "competitiveness", or, more specifically, lagging U.S. productivity. The danger to the U.S. economy and standards of living caused by low U.S. productivity are obvious to economic analysts. If individuals, businesses, and government in the United States do not address the complex problems of declining competitiveness and productivity and, therefore, decline economically, increased scapegoating of the Japanese and, quite likely, negative repercussions for both the U.S.-Japanese relationship and for the international community in general will result.

Social studies teachers can play an extremely important role in this critical time in Japan-U.S. relations. While the Japanese deserve criticism for their resistance through informal barriers to foreign imports, the situation in Japan is changing for the better. Students need to understand that Japanese-U.S. trade and direct investment by each country in the other nation's economy are largely positive rather than negative. Students should also learn that our economic problems are not Japan's fault but largely our own. While the Japanese are mistaken in their belief that Americans are lazy, we have a financial and human capital problem that only Americans can solve.

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