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JAPAN AS AN ECONOMIC MODEL: IS IT STILL RELEVANT?

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Abstract

Japan's dominant position in world economy has currently been replaced by China. Yet, Indonesia which has close relationship with Japan could still learn from this country in its economic and business development. The study perceived from both macro-economic and micro-business perspectives is to affirm that it's still relevant for Japan to be an economic model due to its past contribution to the rise of Asian and world economy and its long experience in manufacturing and management, its reliance on quality and productivity, and its business ethics as well. The economic ties of the two countries are especially based on a number of economic agreements, particularly Japan-Indonesia Economic Partnership Agreement (the JIEPA).

Key words: Asian and world economy, competitive manufacturing, management system, cultural values, JIEPA

Abstrak

Saat ini posisi dominan Jepang pada ekonomi dunia telah digeser oleh Tiongkok. Namun, Indonesia yang memiliki hubungan erat dengan Jepang sebenarnya masih bisa belajar dari negara tersebut dalam pembangunan ekonomi dan bisnis. Studi yang ditinjau dari sudut pandang makro-ekonomi dan mikro-bisnis dimaksudkan untuk mempertegas bahwa masih relevan bagi Jepang untuk menjadi model ekonomi sehubungan dengan sumbangsih Jepang di masa lalu bagi bangkitnya ekonomi Asia dan dunia serta pengalaman Jepang dalam manufakturing dan manajemen, pengandalan Jepang atas mutu dan produktivitas, dan juga etika bisnis. Hubungan ekonomi kedua negara terlebih didasarkan atas sejumlah perjanjian ekonomi, terutama Perjanjian Kemitraan Jepang-Indonesia (JIEPA).

Kata kunci: Ekonomi Asia dan dunia, manufakturing yang berdaya saing, sistem manajemen, nilai-nilai budaya, JIEPA

1. Background

The world's amazement on China's economic growth today is mostly the same as that on Japan's economic progress in the 1970-80s. The *World Trade Organization* (WTO) in its report "World Trade Statistical Review 2017" showed that, in 1973, 1983 and 1993, Japan had already ranked the third largest merchandised exporting country. Yet, China, surpassing Japan, has currently reached the first ranking position among the exporting countries. Some other Asian countries have also emerged as prominent economies in the world.

One then may wonder whether it is still relevant for Japan to be an economic model as in the past. Some may argue that it's not, considering the decline of Japan's position as a major economic power. Others may argue that it is still relevant due to its historical contribution to the rise of Asian economy as well as world economy. Despite its declining economic position, Japan is still the third largest economy by nominal Gross Domestic Product (GDP).

2. Japan's Economic Development

It's long enough before China's modernisation, Japan had made progress in the post World War II bringing the nation to be a strong and modern economy. Kishore Mahbubani, the former Singapore's Ambassador to the United Nations, in his book *Beyond the Age of Innocence* (2005,100) stated: "It [Japan] developed a first-world economy and happily joined the powerful Western clubs, becoming the first Asian country to join groups like the OECD and G7." Japan had successfully developed its economy from an agricultural country to an industrialised country competing against the Western countries.

The success of Japan's economy could be seen from the macro-economic as well as micro-business perspectives. At macro-level, Japan had adopted its export-industrialisation policy in its economic development, shifting from an authoritarian to a liberal and democratic country. It had exported competitive cars, ships and electronic products which the country had less comparative advantages in their raw-material supplies. Yet, we may argue that Japanese industries had capitalized from Japan's well-educated blue and white collar workers, technologies and effective management systems as its comparative advantages. Secondly, Japan had from the very early stage of economic development prioritised the development of its infra-structures. This had certainly facilitated the transport of peoples and goods supporting its industries and manufacturing, particularly in the zero inventory manufacturing system.

The country's ambition to be a strong economy had been well supported by the close linkage of business and bureaucracy forming the so-called "Japan Inc." Strongly bonded by its cultural values, the teamwork spirit had been expressed in the close cooperation among *the Ministry of International Trade and Industry* (MITI), Japanese business firms, and academies/universities. As we know, MITI has been a close partner of the Japanese firms for the promotion and facilitation of export supplies worldwide. If I may borrow Peter Drucker's term of "knowledge economy," then Japan has been participating in the knowledge economy by having intensified its human development as well as research and development activities in support of Japan's industries and businesses. Many have quoted Drucker's views as reference, as he was well known as *guru* of management who could provide his sharp insights and big ideas on management and business issues (Oxford Reference 2008).

All the economic and business activities had uniquely been carried out for the benefit of the nation. I wish to assure that this national interest had been the foundation of the Japanese society whatever modern they were. Drucker, who had written much about the success of Japan, stated in his book *Toward the Next Economics* (2010,172): "And that, conversely, business management in Japan–or at least a substantial minority among business leaders–has for a hundred years subscribed to the rule that the national interest comes first..." Thus, admittedly, that everything is for the nation first was to be the source of Japan's strength.

3. Competitive Manufacturing

At micro-business level, the performance of Japanese firms had contributed to the strengthening of Japan's economy. They had also made their best business and management performances in competing against Western manufacturers. Heinz Weihrich and Harold Koonts in their book *Management: A Global Perspective* (2005, 549) indicated that Japan [car] manufacturers were more competitive than the Western manufacturers. They referred to the Massachusetts Institute of Technology's study, which compared American, Japan and European car manufacturers. It showed that

> "Japanese gained a competitive advantage from the use of fewer workers, a shorter development time, lower inventories, fewer suppliers, less production space, and less investment to produce more models. The Japanese also had much shorter delivery time and were more productive than Americans and Europeans."

Japan had benefitted the American scholars' business concepts. It was Japan that had made some revolutionary changes in marketing concept firstly finding the basic needs and wants of its customers. Japanese cars had been produced and sold under marketing concept that fundamentally changed the business paradigm from sellers' market to buyers' market, as we may see the sales of colored cars made in Japan. In previous time, the common color of cars produced in the West was black.

Then, Japanese manufacturing had proven to be competitive as being supported by effective management and advanced technology assuring output with excellent quality and productivity. Japan had been well known for having implemented the comprehensive manufacturing and management systems, such as total quality control and lean manufacturing by, among others, the use of just-in-time inventory method. Weihrich and Koontz (2005, 543) pointed out:

> "one reason for Japan's high manufacturing productivity is the cost reduction it achieves through its just-in-time inventory method. In this system, the supplier delivers the components and parts to the production line when needed and "just in time" to be assembled. Other names for this or very similar methods are zero inventory and stockless production."

They have been equipped with advanced technology tools and equipment and personnels with advanced technology skills. Weihrich and Koontz (2005, 262) also underlined the competitiveness of Japanese car manufacturers, such as Toyota, compared to German car makers. They stated: "Toyota's approach to achieving quality is different from relatively labor-intensive production processes. In contrast, Toyota's advanced manufacturing technology aims at high quality through automation requiring only a fraction of the work force used by German car makers."

The uniqueness of the Japanese manufacturing is the capitalization of the Japanese cultural values in producing goods and services with excellent quality. Cleanliness, punctuality, teamwork, personification of materials and tools/machines, work ethics, emphasis on process rather than output and so forth are important values in the manufacturing and production processes in Japan's industries and businesses. The interesting thing is that they are combined with modern values, such as economic liberalisation and demoracy. In some Japanese big organisations, the democratic values are well expressed in the company's decision-making process and industrial relations, as stated by Weichrich and Koontz (2005, 72): "It [decision making] is built on the concept that change and new ideas should come primarily from below. Thus lower-level employees prepare proposals for higher-level personnel... . Still, in major decisions, top management retains its power." Drucker had the same view, though indirectly, as he tended to say the different job authority between the Japanese Chief Executive Officers (CEOs) and their subordinates. Drucker (2010, 175) viewed that the CEOs had delegated the management to the lower levels, whilst the CEOs just sat and sat and sat and met their stakeholders.

4. The Rise of Asia

Japan's economic growth had contributed to the Asian and world economy. The Asian economic growth had consequently accelerated the integration of Asia to the world economy, especially in the area of free trade. Rapid movement of goods and people had been Asia's reality. Gabor Steingart in his book *The War of Wealth* (2008,131) showed the movement of those factors in today's global economy by stating:

> "Asia, America, and Europe *have* moved closer together and now form a global market for anything that can be traded. Financial experts pump capital through the economic cycle, business, peopleship their products around the world, and billions of ordinary people suddenly find themselves face to face on the global job market."

Else, Japan's economic success had triggered the other Asian countries to develop their economies and industries. Most of the so-called the newly industrialised countries previously in the state of poor countries before the 1960s had joined the race by improving a higher degree of openness and integration with world market (Krugman *et al* 2012, 636). By implementing its export industrialisation policy, South Korea had enhanced its export capacity. The other Southeast Asian economies had capitalized the industrialisation process through Japan's foreign direct investment in the region. The East Asian countries had reached their highest economic growth in the 1980-90s in the world. Steingart (2008, 162) stated:

> "Exports of high-tech products have been growing for years on practically every Asian country. Malaysia was an agricultural country in the 1970s. Nowadays one-half of its exports are electronic products. Thailand until recently the region's biggest food supplier, has lifted much of its export economy to the production of machine parts and other industrial products. Even the Philippines is now a major world supplier of a wide range of electronic products, which already make up two-thirds of the country's exports."

Admittedly, Japan had become an important factor behind the Asian economic growth especially in the 1970-80s. Despite its direct assistance to the Asian countries such as in the form of Official Development Assistance (ODA), the Japanese industrial and economic development had made Japan the economic model of development for the Asian countries. Hiroshi Nakaso, Deputy Governor of the Bank of Japan, in his Keynote Address at the Securities Analysts Association of Japan International Seminar, April 24, 2015, ensured that

> “a period of strong economic expansion known as the "Asian Miracle" ensued, characterized by a "flying geese" pattern of development began in the 1960s, with high growth in Japan followed by take-off of the "Four Tigers," Hong Kong, Korea, Singapore, and Taiwan; and in the early 1980s, Malaysia and Thailand joined these five to enjoy the high growth path”

Japan’s success had been considered an economic miracle shifting from an agricultural to a strong industrialized country. It had shown its prominent role in the international business. This country had become a prominent supplier of automotive and electronic products around the world. Then, Japan had passed through the so-called “international business life cycle” introduced by Raymond Vernon of Harvard University, as it had passed through the introductory phase of successfully exporting goods to international markets then to the second phase of foreign investment with its heavy investments firstly in Southeast Asia, then expanding to the United States and Europe. Its heavy investments in the Western countries were mostly driven by its willingness to get rid of the forthcoming protection policies in the process of full economic integration in Euro and America.

Then, the country had to face a fierce competition in the exporting market by the rise of other Newly Industrialised Countries entering the international markets. And by integrating its economy to the world economy, Japan has been in the face of foreign competition in its domestic market. Though the country had softly protected its economy through, among others, complicated channels of distribution, Japan had successfully set up its astute international business.

There were some factors behind Japan’s economic and business successes. From the illustration above, we may argue that they are, firstly, Japan’s industrialization policy effectively implemented, providing value-added much higher than that in agricultural economy; secondly, the capitalization of cultural values, being manifested in quality and productivity values to the advantage of its business and economy; thirdly, the modernisation of Japan through its cultural values and economic open policy. Japan had successfully strengthened its business by applying the modern managerial concepts, such as the total quality control, modern management and marketing, corporate culture approaches. The last one is the holistic economic approach integrating business, bureaucracy and stakeholders forming the so-called Japan Inc in strengthening the country’s economy. The priority of national interest has to be taken into account in making the Japanese economy be strengthened.

In spite of Japan’s withdrawal from Southeast Asia to shift towards the Western economies in the 1980s, the Asian countries, particularly China and India, had eventually risen as emerging economies taking the advantage of business globalisation. Nakaso (2015) viewed that China gained momentum in the 1980s, and started to record double-digit growth after joining the World Trade Organization in the early 2000s, which made China a driving force of the Asian economy. Most of the newly emerging countries had been driven to compete for their national interests. The globalisation had given any country the same [stake] opportunity to be a global player. The southeast Asian countries such as Indonesia, Thailand and the Philippines had benefitted the Japanese economic success as they had not only become the host countries of Japan's foreign investments, but also the target markets as well as the secured supplies of raw materials to Japan's industries.

5. China and India as the Newly Emerging Economies

As time is changing, so are the Asian and world economies. Japan as the previous dominant economic player has been replaced by China. Deng Hsiao Ping's modernization plans have resulted in China's economic reform through open economy and free trade systems, driving China's economic rapid growth. China has shifted its agricultural economy towards industrial economy.

Thus, China's economic progress is driven mostly by its modernisation and ambition to be the strongest economic power in the world. It has successfully developed its economy. Today China's economy measured by its share of (GDP) output. It has been in the second ranking world position and now the biggest exporter of merchandised goods in the world.

The high economic performance of China had contributed to Japan's economic recovery, as China had to increase her imports from Japan (Woodall 2006, 89-93). China had supplied its products in competitive price around the globe, as China had low labor cost. It had taken its low labor cost to gain from trade with other countries, including the Western countries. Steingart (2008, 176) pointed out that the Chinese aimed to link their low-wage dometic production to the distribution networks of the West so that they could add lucrative trade margins to their current production profits.

Yet, the competitiveness of China could have been reached driven by its open economic policies also welcoming the foreign direct investment; its industrial growth strategies; its relying on international business policies to become major exporting countries; and its national interests to be global business power, as indicated by Steingart (2008, 175) that the Chinese government had made its goal to bring 50 of the 500 largest corporation in the world into Chinese hands within the next ten years. He stated that Beijing planned to be the world leader in the microelectronics sector by 2015.

The process of deindustrialization taking place in the Western countries and Japan could also explain the China's rapid economic growth. Those countries-well known as developed countries-had been in the stage of transition from industrial-based economy to service-based economies, putting their manufacturing industries aside. As a consequence, Japan's manufacturing had been left behind and taken over by newly emerging economies, particularly China, focusing on the aggressive exportation of its products throughout the world. China has enjoyed surplus in their trade with developed countries like the United States and European countries.

Beside China, India had been cited as another Asian prominent country that had been making a rapid economic progress. India has taken the same path by opening up itself to the global economy. It especially started making progress especially under the leadership of Narasimha Rao who had adopted an open economic policy by reducing India's trade tariff. Steingart (2008, 115) argued that he reduced import and export duties to expand trade with other countries. He eliminated the licensing system, which had applied to almost every class of goods, triggering domestic competition on the basis of price and quality. He attracted foreign capital with tax rebates instead of scaring it away with duties.

If China is strong in manufacturing goods, then India in services, particularly the information technology (IT) industry. India's economics have been supported by a large number of workers who are well trained in the technological fields (Steingart 2008, 117). Its economic integration has been well facilitated by the India's human resource with their English language and IT competencies.

6. Japan and Indonesia

The progress of the newly-emerging Asian countries, such as India, China and South Korea, should have challenged the other developing countries, like Indonesia with her potential rich natural resources, to strive for the advancement of its economy. Indonesia needs to strengthen its business and economy in the face of the fierce competition in the Asian and world markets by the rise of those newly emerging economies. If not, then Indonesia could be left behind, just becoming the target market due to its densely populated markets and the source of raw material supply.

At this stage, Indonesia is seriously developing its infrastructures and enhancing its capacity building. By so doing, the country could produce goods with high-quality and low-price as required to compete in its exported markets and overcome its trade deficit. Indonesia could benefit from its close economic and business ties with Japan to cooperate for the development of the country's infrastructures and manufacturing. Especially, Japan could share its long experiences and expertise in those fields to Indonesia.

In today's Asian and world economy, Japan has been surpassed by China and hence people may lost interest as they may consider Japan not the right economic model for Asia anymore. However, it's quite obvious that the Asians cannot neglect that the rise of the Asian economy should have been driven by Japan's economic and technological advancement. Understandably, the withdrawal of Japan's foreign direct investment from Asia shifting to the United States and Europe in the 1980s had dismayed the Asian countries such as Indonesia. But couldn't this be considered an important factor behind the declining of Japan's role in the Asian economy? Such a withdrawal seemed to have allowed the non-Japanese firms to play a greater role in the region. Hadi Soesastro (Pasha, 2011, 207) argued: "If previously Asia had been the major target area of Japan, then it had been replaced by the United States. In 1988, for example, almost half (47.5%) of Japan's foreign direct investment was targeted to the United States."

Despite the downturn of Japan's economic position in Asia, Indonesia could learn from Japan. Japan is still considered a major economy in the world. Especially, the two countries' economic ties have been based on a number of economic agreements, particularly Japan-Indonesia Economic Partnership Agreement (the JIEPA), which came into force on July 1, 2008. The Agreement aims to enhance economic cooperation between the two countries by boosting bilateral trade, facilitating Japanese investment and conducting industrial capacity-building programmes whereby Indonesian firms benefit from the transfer of production and management techniques (Scott 2008).

At micro business level, Indonesian business people could learn the Japanese existing business values and ethics, working ethos, teambuilding in the fulfillment of their manufacturing capacity. Some economists, like Krugman (2008, 57) believed that, despite its declining economic position, Japan was still blessed with well-educated and willing workers, a modern capital stock, and impressive technological know-how. Under the EPA, Indonesia could benefit from Japan as its strategic partner to produce high quality products as being the demand of Japanese on its products.

High quality services and products as assured by professionalism may indicate the succesful development of infrastructures and manufacturing in Indonesia. So Indonesia needs to gain them by learning from the Japanese who are well educated to strive for the best quality as their way of life. In its industrial and infrastructure development throughout the country, Indonesia needs to overcome its backwardness in those field by the enhancement of professionalism and knowhow in those fields and, I think, Japan is its close partner to work with. More importantly, Japan also needs Indonesia for the security of its energy, oil and gas and other mineral supply and benefit Indonesia for being its huge market. By having a close economic cooperation, Indonesia could then strengthen its economy to share to the achievement of economic interdependence and integration in the region and the world.

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