

Japanese Tour Former Communist Bloc, Talking Up Their Version of Capitalism

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TOKYO — Communism's collapse has made capitalism the economic system of choice. But what sort of capitalism?

A group of Japanese bureaucrats is touring the world's Marxist ruins these days, trying to persuade survivors to build economies based on Japan's blend of free markets and government intervention. These Japanese are urging Russia and others to avoid lunging from one extreme, total government control, to the other extreme, laissez-faire, an approach attributed to the U.S. and the International Monetary Fund.

"The IMF first seeks macroeconomic stability. After that, they think the market will decide," says Hiroya Tanikawa, a senior research fellow at the Ministry of International Trade and Industry's research institute. "From our thinking, this is not enough. Some kind of industrial policy is needed to supplement."

Mr. Tanikawa's group has drafted two white papers: "Japan's Postwar Experience: Its Meaning and Implication for the Economic Transformation of the Former Soviet Republics," and "Russia's Economic Reform and Japan's Industrial Policy." The group made the pitch to dozens of Russian bureaucrats during two trips to Moscow this spring.

Lukewarm Russian Response

The Russian response has been lukewarm. But the MITI institute is also promoting the Japanese model to other nations that hope to industrialize. One researcher made a similar presentation in Hungary last year. The center recently completed a 17-volume history of Japanese industrial policy after World War II and is translating the full set into Chinese — but only one volume into English.

Many economists — and many Japanese worried about international isolation — argue that Japan's economy isn't so different from other capitalist economies. In any case, some say, Japan's experience can't be transferred to others.

Still, the MITI missionaries are preaching an increasingly popular sermon. Japan's Finance Ministry has begun attacking the World Bank's development strategies, instead advocating policies nurturing infant industries, the Far Eastern Economic Review reported recently.

While the world's other six leading industrialized democracies have stagnant economies and high unemployment, Japan's "recession" involves 2% growth and a 2% jobless rate. Japan is the only nation among them with a trade surplus and dominates many crucial manufacturing sectors. U.S. advocates of a stronger industrial policy often cite Japan.

"The Cold War is over, and Japan won," Chalmers Johnson, a University of California professor and scholar of Japanese industrial policy, frequently says.

The MITI group thinks Japan is a good model for Russia, because Japan 47 years ago had to rapidly "democratize and demilitarize" its economy. The IMF program adopted by Russia in February is "vital for stabilizing the macroeconomy, but it is doubtful" it will be "enough to revitalize production," one of the reports says. "Market mechanisms cannot be almighty," it continues. "Japan provides a useful example."

Post World War II Approach

The reports say Russia should adopt some wage and price controls, target such strategic industries as oil and provide such development incentives as low-interest loans. Japan took that approach after World War II in coal and steel. Moscow should ensure adequate domestic oil use, they say, by imposing export quotas and taxes, and should promote competition by breaking up state monopolies.

Of course, there are limits to transplanting Japan's system. Japan had a successful capitalist system before the war, while the former Soviet countries have little such experience. Japan later was heavily supported — and its restrictive trade and investment policies long tolerated — by a U.S. government hoping to keep Japan an ally against communist expansion. Many advisers fear that any government intervention in the former communist states could quickly slide into the old "command" approach.

Others say Japan's high level of education, work ethic and "group consciousness" are cultural traits difficult to duplicate. France and other European countries, which have had considerably less success with industrial policies, may be more relevant case studies for Russia.

Nor has Russia embraced the MITI overtures. Moscow would rather appease the IMF than take Japanese advice, especially as Japan and Russia still haven't signed a World War II peace treaty. Japan refuses such a pact, as well as full-scale economic aid, until Russia returns four islands seized late in the war.

But MITI's Mr. Tanikawa says Russia's cabinet has moved toward some policies that Japan advocates. "It's difficult for many countries to follow the American style of development," he says.

DISCUSSION PAPER SERIES

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Russia's Economic Reform and
Japan's Industrial Policy

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ABSTRACT

In 1991, the Russian economy plunged into a major crisis as it underwent dwindling output, widening fiscal deficits, excessive liquidity, and growing external debts. In order to resolve these problems, the Russian government is implementing a macro-economic stabilization policy which attaches importance to tight monetary policy, and prices are gradually stabilizing as a result. However, dwindling output continues and many people remain pessimistic about economic prospects.

In this paper, we will make a few proposals which we believe to be useful for ending the output decline in Russia and triggering its expansion, all while presenting Japan's postwar experience of economic reconstruction.

Firstly, we believe a macroeconomic policy alone is not enough to revitalize production in Russia. The Russian government needs to take emergency measures during the transformation period to macro-economic stabilization in order to halt the output decline. For production to pick up in the short term, the government needs to study problems of the economy more thoroughly and needs to take the necessary strategic policies, or what we call here industrial policy-oriented approaches, for removing the bottlenecks for output and which would help boost production ability. In this way, the government needs to supplement market mechanism.

Secondly, we can see a vicious circle of output decline between resource industries, material industries and machinery industries in the Russian economy. In order to break this vicious circle, it is necessary for the Russian government to implement an intensive allocation of resources to the most important industries. The Russian approach should be similar to Japan's postwar priority production program. We believe that resource industries are most important because they could have influences on other industries, and could be the major earning

source of foreign currency. ABSTRACT

In this intensive allocation of resources, or what we call here a Russian-style priority production program, it is important to reduce any damaging influences on domestic industries by giving an incentive to them through taxes on oil exports. The oil industry should also be given incentive to increase production through price liberalization. It would be effective in the intensive allocation of material and money to introduce a system that could promote the flow of material and money into promising specific projects. And in order to keep workers an effective policy should be created which develops the social infrastructure such as housing and which provides wage stabilization.

Finally, the root cause of the output decline is because there is not much competition among companies. Consequently, the government needs to establish the foundation for competition through product diversification, new market entry, and the dividing-up of business concerns, all while going forward with the privatization of state enterprises.

We believe it is very effective for Russian government to promote product diversification through political support to increase the efficiency of production of out-of-line products as well as to promote new entry through the conversion of the military industries into commercial concerns and growing small and medium companies. In this case, the transformation of companies from a mere organization that produces according to the orders of the central government to a real business concern is a precondition.

In dividing-up of business concerns, securing the independence and the competitiveness of the companies is important for promoting competition by further boosting imports and direct investments from overseas.