

Section 4

The Economy of Japan



Setting a Purpose

As you read, look for

- ▶ the type of economic system in Japan;
- ▶ how the work ethic in Japan affects the economy;
- ▶ how Japan made up for its lack of natural resources;
- ▶ how Japan's government uses tariffs, quotas, and subsidies;
- ▶ why Japan is considered to be the land of entrepreneurs;
- ▶ terms: **work ethic**, **Ministry of International Trade and Industry (MITI)**, **tariff**, **subsidy**, **yen**, **robotics**.

Type of Economy

Japan has one of the most technologically advanced economies in the world. Only the United States and China have economies that are more productive. China is ahead of Japan in large part because of the country's relatively large population. The Japanese government has a close and cooperative relationship with major industries in Japan, and the Japanese people traditionally have a strong **work ethic** (the belief that doing work is valuable). Workers can be counted on to work hard

and for long hours if needed. Japan has a market economy. In addition, Japan spends very little on maintaining a military, a restriction that has been in place since the end of World War II. Japan is able to invest more money in industry and technology because it does not need it for the military.



Above: Kobe is one of Japan's busiest seaports. The Great Hanshin Earthquake in 1995 caused an estimated \$102 billion in damage here and killed over 6,000 people. **Right:** Tokyo is the economic powerhouse of the country and is the source for a majority of Japan's GDP.



The Japanese government has a hand in industrial planning. The **Ministry of International Trade and Industry (MITI)** helps companies decide what products will sell best on the global market. The government also protects Japanese industries by setting tariffs on imported goods that might compete with products made in Japan. These **tariffs** are taxes placed on imports that make them more expensive than the Japanese products. The Japanese government also cooperates with the Japanese business community to be sure companies are tuned into the demands of the world market and are producing those products that will have the best chance of selling well and earning profits. The MITI brings government leaders and business leaders together so they can keep track of how the Japanese economy is responding to changes in the world market.

Trade in Japan

Trade is very important to Japan's economy. Japan must rely on imports to have enough fuel to power its industries. In fact, Japan is the second-largest importer of oil and the leading importer of natural gas in the world. The countries that Japan imports these and other goods from include China, the United States, Australia, and South Korea. Despite its lack of natural resources, Japan is also a major exporter of goods such as cars, electronics, iron and steel products, car parts, and power plant machinery. The top countries that Japan exports goods to include the United States, China, South Korea, and Thailand.

While Japan imports food, it also uses subsidies to protect its farmers. A **subsidy** is when the government pays a business or industry to make up the difference between the sales price for a good and the cost to produce it. This means that, in Japan, the government pays farmers so they can compete with imports from other countries and still make a profit.

Japan and other countries must use exchange rates in order to trade fairly. Japan's currency is called the Japanese **yen**. Businesses in Japan that trade with other countries must exchange their yen for the currency of that country. On the other hand, foreign businesses must exchange their currency for yen to trade in Japan. In 2017, 1 US dollar could be exchanged for 110 yen.

Below: Japanese automobile companies, like Honda, try out developing technologies in the annual MotorSport Japan competition, where they can get valuable information about performance. **Bottom:** Japanese farmers have limited arable land for growing crops.



Figure 15.3
Economic Systems in Southern and Eastern Asia

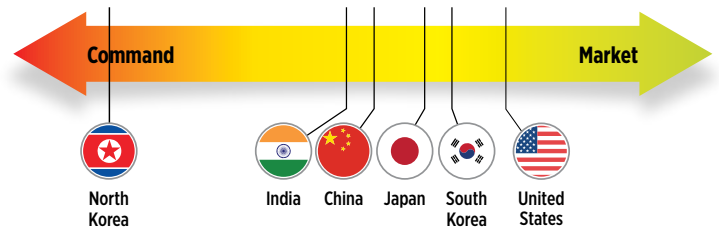
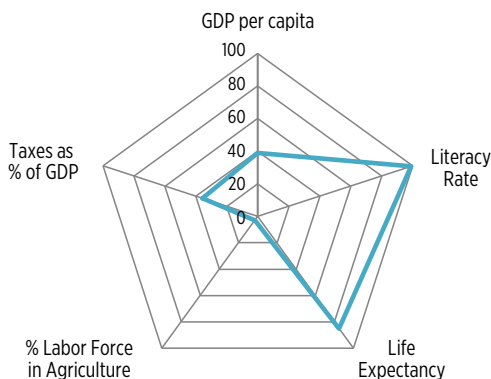




Figure 15.4
Japan Spider Graph



Top: Japan has only one offshore oil-drilling platform, meaning nearly all the oil in the country is imported.

Above: Whaling, a rather old practice, is now outlawed by many countries. Despite this, Japan is one of a very few countries to continue this practice.

In August 2013, Georgia Governor Nathan Deal led a business, trade, and tourism mission to Asia, ending in Tokyo to celebrate the 40th anniversary of Georgia's economic development office in Japan. This office works to expand economic opportunities for Georgia businesses in Japan and across Asia. Japan is an important market for Georgia products. In 2014, Georgia exports to Japan totaled \$1.37 billion. Japan is the 7th-largest export market for Georgia. Top exports from Georgia to Japan include wood pulp, kaolinic clays, kaolinic composed paper and paperboard, and carpets and other textile floor coverings.

Natural Resources in Japan

Japan has very little farmland and few natural resources. For that reason, the country must import raw materials and food. Japan must also import all of its oil. One alternative energy source the Japanese developed was nuclear power. Before the Fukushima nuclear accident that resulted from the tsunami, one-third of all of Japan's energy was supplied by nuclear power plants. Today, none of its power comes from nuclear reactors.

One of Japan's largest industries is the fishing industry. Because so much food must be imported, the sea is a valuable resource for the Japanese.

There is some farming in Japan, but because there is so little land suitable for farming, crops are often planted on terraces carved out of hillsides. The government often buys up farm goods to keep the prices high enough for farmers to make a profit. It also does not let foreign countries sell certain farm products in Japan if those products will compete with Japanese farm goods. The United States, for example, produces a higher quality of rice cheaper than Japanese farmers. The Japanese government, however, imposes both quotas and tariffs to protect the Japanese rice farmers. Very little US rice is allowed into the country, and what is imported is more expensive than rice grown in Japan.

Human Capital in Japan

Since World War II, Japan has rapidly industrialized and become one of the most powerful industrial nations in the world. One of the greatest resources Japan has is its population. The Japanese are among the most highly educated people in the world. The literacy rate in Japan is consistently 99 percent, with most Japanese people completing high school and at least one-third going on to college. Competition for places in high school and college is stiff, and Japanese students must be able to pass very difficult exams to earn a chance to go on to a higher level. This investment in human capital through education is among the highest in the world.

The Japanese also have a solid work ethic as a part of their culture—a dedication to whatever job is put before them. Japanese workers are known to work longer hours than many workers in other parts of the world. Most Japanese workers stay with the companies they work for their entire careers, and many describe their co-workers as part of their extended family. Japanese companies also go to a great deal of effort to provide benefits for their workers, like health insurance, recreational

programs, and financial planning help. This corporate investment in human capital pays off in dedicated workers who give their best efforts to their employers.

Japan is one of the world leaders in the production of motor vehicles and electronic equipment, two types of products that require constant updates in production methods and use of new technologies. An educated workforce is essential to remain successful and keep up with world demand. Industrial production and work in providing services account for most of Japan's Gross Domestic Product (GDP).

Capital Goods in Japan

Few countries in the world have made the investments in capital goods that Japan has made. Japan is a country with few natural resources; therefore, nearly all of Japan's GDP comes from industry and services. Technology and up-to-date training in the uses of that technology are essential for the Japanese economy to continue to grow. Japanese industry leads most countries in the world in the use of **robotics** (assembling goods using mechanical techniques like robots). Many electronics and software products are put together with robotics in Japanese factories. Japanese businessmen are always looking for more efficient technology to keep their production levels high. Japanese workers are encouraged by their employers to make suggestions for ways products can be made and businesses can be run more efficiently. Continuing investment in capital goods makes Japan a world leader in industrial production and in providing the wide range of services demanded by the world market.

Entrepreneurship in Japan

Japan is a land of entrepreneurs. The need for business development, the availability of good education, and the Japanese work ethic have combined to make Japan an ideal place for someone who has a good idea and the energy to see if it can work.

Reviewing the Section

1. What type of economy does Japan have?
2. What is a work ethic? How does Japan's work ethic affect its economy?
3. How has Japan made up for its lack of natural resources?
4. Describe Japan's investment in human capital.
5. Describe how Japan's government uses tariffs, quotas, and subsidies.
6. Why is Japan considered to be the land of entrepreneurs?



Top: Robotics has become so advanced in the country that some private companies are creating combat robots, challenging other private companies of the United States to do the same in a friendly competition. **Above:** Nintendo, a Japanese business, started as a handmade playing card company in 1889 and has since developed into one of the most influential video game companies in history.