

ECONOMICS 170.10

Introduction to the Economy of Japan

Spring 2003

Funger 222 6:10 PM-7:25 PM.

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This course provides an overview of Japan's economy. It begins by examining the course of Japan's economic development, continues with an extensive survey of contemporary economic institutions, policies and problems, and ends with consideration of Japan's foreign economic relations. I assume you have taken a course in macroeconomics and microeconomics. If your previous exposure to Japan has been limited, I suggest you buy and read Edwin O. Reischauer and M.B. Jansen, *The Japanese Today*.

Requirements

1. **Regular class attendance** and appropriate participation are required. This class includes both lectures and discussions. You are expected to have read the assigned readings before class and to be ready to discuss them. Class participation counts for 20 percent of the final grade. Short take-home essays may be assigned; these will count as part of your class participation.
2. There will be a **midterm exam** (20 percent of the final grade) on **March 5**.
3. A **term paper** on a specific Japanese industry, or if strongly desired either a specific sector or a single firm (20 percent of final grade). The paper should be typewritten, double-spaced, about 10-15 pages (maximum 3500 words), plus tables/exhibits (with yours sources indicated), footnotes, and bibliography of sources used. The paper might cover a range of topics such as the industry's recent historical evolution, current importance, industrial organization, major players, market competitiveness, role of specific government policies, current problems, and future prospects. Among the industries that might be covered are those currently in the process of deregulation: advanced telecommunications, physical distribution, finance, land and housing.

Due date: **March 26 at 6:10 P.M.** (before class). Late papers will receive a grade penalty.

4. A comprehensive **final exam** will count 40 percent of the grade.

## References and Resources

The required texts are David Flath, *The Japanese Economy* and Edward J. Lincoln, *Arthritic Japan*.

The remaining readings listed generally are on library reserve or on Prometheus under this course or both. Please note that the amount of reading varies considerably from one class session to the next, so plan ahead.

In addition to the required readings, I suggest that you do some general reading early in the semester to broaden your perspective on Japan's economy. You will get more out of the course if you keep up with current trends and issues in the Japanese economy. Some articles, mainly from newspapers, will probably be added to Prometheus outline to the day for which they are relevant.

One of the best Washington area resources for materials on the Japanese economy has been the Japan Economic Institute, whose library is now in the Slavic, East European, and Asian Reading Room at Gelman. Holdings include all of JEI's publications. Please call (202) 994-7105 to learn how to access the collection. Information also is available at: <http://www.gwu.edu/gelman/seearr>. Materials published by JEI itself are available at <http://www.jei.org>.

Also useful are the OECD survey of Japan's economy, the current white papers from METI and other ministries, Japanese press and business publications (e.g. *Nikkei Weekly*), as well as journals such as *Japanese Economic Studies* and *The Journal of the Japanese and International Economies*. Internet sites relating to the Japanese economy also are abundant, although their quality varies dramatically.

## COURSE OUTLINE AND READING LIST

### Introduction: Japan's Resource Endowment and Institutions

- January 13 Edwin O. Reischauer and M.B. Jansen, *The Japanese Today*, pp. 15-30 (Agriculture and Natural Resources) and pp. 128-139 (The Group).
- January 15 Flath, Introduction; Ryoshin Minami, *The Economic Development of Japan: A Quantitative Study*, 2nd edition, chapter 1.

### Japan's Economy in Historical Perspective

- January 22 &  
27 The Tokugawa and Meiji Heritage and Prewar Economic Growth  
  
Minami, Chapters 2 and 3; Flath, Chapters 2, 3.
- January 29 The Occupation and Postwar High Growth Period  
  
Flath, chapter 4; Hugh Patrick and Henry Rosovsky, "Japan's Economic Performance: An Overview," in Patrick and Rosovsky, *Asia's New Giant*, pp. 1-61.

### Contemporary Japanese Economic Issues and Organization

- February 3 The Contemporary Economic Environment  
& 5  
  
Minami, chapter 4; Flath, chapter 1; International Monetary Fund *Country Staff Report* No. 02/175, August 2002, pp. 3-14. Available at <http://www.imf.org/external/pubs/ft/scr/2002/cr02175.pdf>
- February 10 Investment, Technology and Capital Formation  
& 12  
  
Flath, chapters 5, 16; Minami, chapters 5; Paul Krugman, "The Myth of Asia's Miracle," *Foreign Affairs*, November/December 1994.
- February 17 No class.

February 19 Japanese Labor Markets

Flath, chapter 15.

February 24 The Japanese Firm

Lincoln, pp. 38-55, 186-200; M. Aoki, "The Japanese Firm in Transition," in K. Yamamura and Y. Yasuba, *The Political Economy of Japan*, pp. 263-288; Douglas Ostrom, "Corporate Japan's Restructuring Efforts: A Progress Report," *JEI Report* No. 20A, May 19, 2000.

February 26 Industrial Structure and Organization

March 3

Flath, Chapter 12, pp. 299-307; Lincoln, chapter 2 (pp. 16-38); Dick Nanto, *Japan's Keiretsu: Industrial Groups as Trade Barriers*, CRS Report No. 94-82 E, Washington, D.C., 1994.

March 5 Midterm Exam.

March 10 Financial Institutions and Markets

Flath, chapter 13; Edward J. Lincoln, "Japan's Financial Mess," *Foreign Affairs*, Vol. 77, No. 3, May/June 1998, pp. 57-66; Yoshihiro Sakai, "The Deeper Implications of Postponement," *CSIS Japan Watch*, September 2002.

### The Government and the Economy

March 12 Industrial Policy

Flath, chapter 9; Chalmers Johnson, *MITI and the Japanese Miracle*, chapter 2; D.I. Okimoto, *Between MITI and the Market*, Stanford University Press, 1989, pp. 112-120; Masahiro Okuno-Fujiwara, "Industrial Policy in Japan: A Political Economy View," in Paul Krugman, ed., *Trade with Japan: Has the Door Opened Wider?* University of Chicago Press, 1991.

March 17

& 19

Spring Break

March 24 Deregulation

Richard Katz, "What Japan Teaches Us Now," *The American Prospect*, No. 40, September/October 1998, pp. 54-58, available at <http://www.prospect.org/archives/40/40katznf.html>; Lincoln, Chapter 6, pp.153-180, Organization for Economic Cooperation and Development, *The Economy-Wide Effects of Regulatory Reform - Country Notes*, Paris, OECD, 1997, Chapter 1, pp. 26-36.

March 26 Fiscal and Monetary Policy

Flath, chapter 6; International Monetary Fund *Country Staff Report* No. 02/175, August, 2002, pp. 23-30. Available at <http://www.imf.org/external/pubs/ft/scr/2002/cr02175.pdf>

Japan Economic Planning Agency, *Economic Survey of Japan, 1996-97* (Economic White Paper), 1998, pp. 134-48.

### The Foreign Sector

March 31 An Overview

Flath, Chapter 8

April 2 Trade Policy and Institutions

Gary Saxonhouse, "What Does Japanese Trade Structure Tell Us About Japanese Trade Policy?" *Journal of Economic Perspectives*, Vol. 7, September 1993, pp. 21-43; Douglas Ostrom, "Japan's Imports in the 1990's: The Impact of Recession and the Asian Crisis," *JEI Report*, No. 37A, October 2, 1998 .

April 7 Macroeconomic Questions

E.J. Lincoln, *Japan: Facing Economic Maturity*, Brookings Institution, 1988, chapter 5, pp. 211-266; Adam S. Posen, *Restoring Japan's Economic Growth*, Washington, D.C., Institute for International Economics, 1998, Introduction and Chapter 1.

April 9 International Finance and the Yen

Arthur Alexander, "The Long-Run Behavior of the Yen and the Dollar," *JEI Report*, No. 31A, August 18, 1995; Flath, Chapter 7.

April 14  
& 16

Economic Relations with the U.S.: Key Issues

C.F. Bergsten and Marcus Noland, *Reconcilable Differences? U.S.-Japanese Economic Conflict*, Institute for International Economics, 1993, chapters 3, 4, 5; Gary Saxonhouse, "Comparative Advantage, Structural Adaptation, and Japanese Performance," in Takashi Inoguchi and Daniel I. Okimoto, ed., *The Changing International Context*, Volume 2 of *The Political Economy of Japan*, Stanford University Press, 1987.

Recent Issues

April 21

Japanese Multinationals and Foreign Direct Investment

Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace* (Cambridge University Press, 1996), Chapter 1, pp. 3-19; Edward M. Graham and Naoko T. Anzai, "The Myth of a De Facto Asian Economic Bloc: Japan's Foreign Direct Investment in East Asia," *The Columbia Journal of World Business*, Fall 1994; Susan MacKnight, "Japanese Investment in the American Manufacturing Sector, The Second Phase," *JEI Report*, No. 1A, January 12, 1996.

April 23 &  
28

Changing Economic Relations with East Asia

Douglas Ostrom, "Japan and the Asian Economic Crisis: Part of the Solution or Part of the Problem?" *JEI Report*, No. 8A, February 27, 1998; Douglas Ostrom, "Asia's Locomotive: Japan's Potential and Limitations," *JEI Report*, No. 20A, May 22, 1998; Shigeyuki Abe and Chung H. Lee, "Economic Development in China and its Implications for Japan," in Magnus Blomstrom, *et.al.*, ed., *Japan's New Economy*, Oxford University Press, 2000.

April 30

Prospects and Problems

Hugh Patrick, "Crumbling or Transforming? Japan's Economic Success and Its Postwar Economic Institutions," Columbia Graduate School of Business, Center on Japanese Economy and Business, Working Paper No. 98, September 1995; Lincoln, Chapter 7, David Weinstein, "Historical, Structural, and Macroeconomic Perspectives on the Japanese Economic Crisis," in Blomstrom, pp. 29-47.

Additional readings may be assigned.