

# CHAPTER 1

## INTRODUCTION

The nature of relations between business and government is a crucial contributing factor to economic performance. In Japan, the active involvement of government is obvious when Japanese government started to promote rapid industrialization after the 1973 oil crisis. In every country there will be a central guidance from government agencies. As for Japan the **Ministry of International Trade and Industry (MITI)** is regarded as the backbone of Japanese government. In other words, the miracle in the development of Japanese economy could not have been achieved without the intervention by MITI.

MITI emerged during the conflict between Japan and America in the Second World War. MITI was first created as the Ministry of Commerce and Industry (MCI) in 1925 before being transformed into the Ministry of Munitions (MM) in 1943, (Johnson, C., 1982). After the war, this ministry was no longer required and it was reformed to aid in the reconstruction of the Japanese industry, which was devastated during the war.

MITI was known as the most elite, influential, and autonomous bureaucratic agencies. In the effort to reconstruct the Japanese economy, MITI focused more on the development of heavy industries, mainly petrochemicals, steel, and shipbuilding. During the 1950s and early 1960s, MITI had various tools to ensure the implementation of its policies and the nurturance and growth of such

targeted industries. Among these were control over foreign exchange and formal protectionism, such as tariffs.

However, MITI's direct control over industrial policy started to decline, when Japan was forced to liberalize to accord with international agreements<sup>1</sup>. MITI lost most of the direct tools. Since then, MITI increasingly used 'administrative guidance'<sup>2</sup> to control the economy.

### **1.1 Objectives of the Study**

The purpose of this study is to identify the role of MITI in the process of bringing the development of Japanese economy. The Japanese have taken industrial policy seriously since the pre-war period. MITI implemented and executed several industrial policies in order to strengthen the growth of Japanese economy, especially after the post-war period. MITI played a very important role in the Japanese economy, compared to other government agencies. In other words, though there are several other important ministries, the performance of the Japanese economy would be less spectacular without the contribution of MITI.

In an attempt to analyze more realistically the role and efficacy of MITI's industrial policies, this study focuses on various policies that have been implemented in four selected industries, such as the machine tool, automobile, steel and computer industries. The use of data in every industry further helps to

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<sup>1</sup> General Agreement on Tariffs and Trade (GATT), International Monetary Fund (IMF) and Economic Cooperation and Development (OECD).

<sup>2</sup> See Chapter 3 on MITI's Main Policy Tool

examine the importance of industrial policies and MITI's effort in developing these four selected industries.

This study also identifies the inefficiency of MITI in implementing its policies. MITI faced several challenges and criticisms especially in the process of coordination between firms. This is more prominent in the automobile and computer industries.

The role of MITI in the development of Japanese economy cannot be analyzed without recognizing the new role of MITI. As such the final section of study surveys the aspect of the recent role in the new Ministry of Economy, Trade and Industry (METI)<sup>3</sup>.

## **1.2 Methodology of the Study**

The data provided in the study on the role of MITI in the development of the Japanese economy is mainly qualitative. It focuses on four different selected industries, namely machine tool, automobile, steel and computer industries. Firstly, the data given in the machine tools industry show the orders received during the period of 1976 to 1990, which reflect the role played by MITI throughout the period.

Secondly, in the automobile industry the data that has been provided identified the importance of foreign technology emphasized by MITI. The focus has been given in three different countries, namely, North America, Europe and Asia. The statistics of the automobile productions in three nations have been

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<sup>3</sup> MITI was renamed as METI in the year 2000.

presented in order to demonstrate the efficiency of Japanese producers in these three nations. Also in the case of the passenger car industry, the data provided shows the share of production of passenger cars in the overall production of four-wheel motorcars.

Thirdly, a line graph has been provided to differentiate the changes in the steel industry throughout the first, second and third rationalization plan implemented by MITI. Besides, data on export ratio of steel industry also been presented to show the implication of first, second and third rationalization plan. The recent trend of the steel industry can be seen from the statistics collected, which is based on employment and value of shipment.

Lastly, to consider the impact of MITI's policies in the computer industry this study observes the increasing funding method of MITI through the Japan Development Bank (JDB). The number of computers purchased by the Japan Electronic Computer Corporation (JECC) during the stated years also reflected the effort made by MITI in joint venture process.

The information obtained for analysis in this research is mainly secondary data from various sources, which include Statistical Handbook of Japan 2002, Industrial Bank of Japan Ltd., Monthly Report, The Japan Iron and Steel Federation, Japan Automobile Manufacturer Association, Inc. To gain reliable information from Internet, only selected articles written by well-known economist or published in recognized domestic and international organizations homepages have been referred to.

### 1.3 Limitations and Problems

Topics discussed in this research have yet to reach a conclusion and information gathered was not largely based on current situations, especially the role of MITI during the 21<sup>st</sup> century. Thus, analysis of the MITI's role will probably be incomplete at the time of writing. However, I expect that this research will be useful step for other researchers who wish to study more on a similar topic, but in a different time frame.