Japan is back ... with China; [Chicago Final Edition]

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Abstract (Document Summary)

Corporate leaders like Toyota's [Hiroshi Okuda] and Fujio Mitarai of Canon Inc. refuse to accept the claim that there is one best way--the American way--of running a company. Most large Japanese companies continue to staff corporate boards with insiders, pay executives modestly and bend over backward to minimize layoffs. Insulation from financial markets allows companies like Toyota to rack up market share even though cutting prices to achieve that means a short-term hit to profits.

Full Text (715 words)

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Toyota is on track to overtake General Motors as the world's largest automotive producer. Along with other Japanese auto firms, it has steadily gained market share in the United States and abroad. GM and Ford are in a quagmire, their credit ratings at junk-bond levels. While you might think the Japanese are celebrating, in fact they are worried about a protectionist backlash. Toyota Chairman Hiroshi Okuda told reporters last month, "We need to give some time for American companies to take a breath."

In the late 1970s and 1980s, Japan was big news in the United States. Then, as now, its manufacturers took market share from American producers, who whined that the Japanese were not playing fair. Despite these complaints, American executives made regular trips to Japan to learn about quality production, just-in-time delivery and a host of other management practices. Harvard professor Ezra Vogel captured the mood with his best-selling book, "Japan as Number One."

In the 1990s, however, Japan disappeared from the American radar screen as it plunged into recession. The United States regained confidence as its productivity and stock markets boomed. American investors and politicians visiting Japan reverted to the tutorial role they had played for most of the postwar era. They told the Japanese that if they wanted growth, they would have to become more like us. In the 1990s that meant less government, more entrepreneurship and greater attention to shareholders.

Now the tide is turning, again. For the last three years, the Japanese economy has been growing faster than at any time since the "bubble" of the late 1980s. Recovery started in 2002, slowed last year, and is on track again this year. Consumer spending is strong; employment conditions are improving throughout the economy. Toyota recently announced a plan to hire more than 3,000 people, the first time in 14 years that it has hired that many new employees.

Trade with China is one reason that the news out of Japan these days is positive. Last year China displaced the United States as Japan's major trading partner. Japan has the advantage over U.S. and European manufacturers of proximity to the booming Chinese market. Another reason is that Japan has finally found the right set of policies to clean up its banking mess.

Japan today is not the same "Japan Inc." of the 1980s. Its economy is less regulated than before. Yet its core economic institutions--in business and in government--have changed only modestly.

Corporate leaders like Toyota's Okuda and Fujio Mitarai of Canon Inc. refuse to accept the claim that there is one best way--the American way--of running a company. Most large Japanese companies continue to staff corporate boards with insiders, pay executives modestly and bend over backward to minimize layoffs. Insulation from financial markets allows companies like Toyota to rack up market share even though cutting prices to achieve that means a short-term hit to profits.

So Japan is back, this time with China, another country whose institutions are different from ours. Despite recent anti-Japanese riots, the future will bring China and Japan closer: Japan has technology; China has resources and skilled labor. As its Asian ties keep spreading (most recently to India), Japan has less incentive to placate American interests, whether in Washington or on Wall Street.

China and Japan share features that are an irritant to the United States: huge trade surpluses and undervalued currencies. In January, Sen. Joseph Lieberman (D-Conn.) proposed the Fair Currency Enforcement Act that targets currency manipulation, chiefly by China and Japan. Yet by investing their trade surpluses in dollars, both countries are funding America's budget deficits and keeping our interest rates down. Because of this, and because of Japan's ties to China, future U.S. trade friction with Japan (as is likely in automobiles) will be more difficult to resolve than in the past. One thing is clear: It was wrong to write the Japanese economy off in the 1990s; it is foolhardy to do so now.

[Illustration]
PHOTO; Caption: PHOTO: In recent months, Toyota Motor Corp. obtained a record 12.2 percent of the U.S. vehicle market. AP photo by Katsumi Kasahara.