## *History Should Not Repeat Itself*

By Suetsune Takashi

The tides of human civilization, it is generally believed, steadily march forward. The social system, since its beginnings on the banks of the Tigris–Euphrates, and the nation–state system have constantly advanced and developed. The social systems of ancient Greek and Roman civilizations, the thinking goes, were more advanced than that of the pharaohs of Egypt. Post–revolutionary France and the newly independent United States of America were better still.

Our current world, which followed the golden age of nation–states and two world wars, is thought to possess a better, more advanced system than anything that came before it in human history.

An empire built on Marxist–Leninist principles rose and fell during this same period. It also saw the collapse of the colonial system and the emergence of many independent countries in Africa and Asia, both considered pages in the history of human progress. Today, Europe is, at the very least, in the process of working toward political and economic unity. Here, too, the aim is to create a better system for Europe. On the other hand, the former Soviet Union and former Yugoslavia are moving in the opposite direction, where the chief movement is toward disintegration rather than integration. In either case, however, the goal is still to erect a better social system.

All the ideas and historical movements outlined above are based on the notion that human society advances in step with the passage of time and the flow of history. Is this way of thinking actually correct, however? The unification of a nation is normally seen as an example of progress and development on political, economic and social fronts. The Roman Empire is a good example. Its geographical vastness, huge population and great prosperity were unprecedented in human history. The development of this huge empire has been seen as a hallmark of human progress and the rise of a better organizational system for human societies.

If human history is the history of progress and development, the Roman Empire should have continued to grow larger and more powerful while preserving its "better" system? This did not happen, as Edward Gibbon clearly described in his *History of the Decline and Fall of the Roman Empire*. The Roman Empire broke apart and out of it arose many smaller nation–states along the Mediterranean and in Europe. Before long, they were fighting among each other for regional hegemony. Many alliances were drawn up as the countries born out of the disintegration of the Roman Empire strove once again for integration. Wars were fought; nations and peoples destroyed. Then came the peace treaties and people began searching and striving once again toward an integrated "better" system that would preserve peace and prevent conflict. If we now see a "United States of Europe" appear on the world stage, it will be an illustrious page in human history.

But what will follow? Another disintegration? What pain and trouble lie before us if the old saying "History repeats itself" proves true once again?

### COMING UP

There are signs of recovery in the Japanese economy from years of stagnation. Analyses and proposals have been made to set the Japanese economy on the right track. The next issue of the *Journal* will feature some of them by top–ranking ex–MITI officials and other experts. Also there will be an interesting feature by a business executive on the prospect of R&D in Japan. New technology and new businesses are regarded indispensable for the survival of Japanese industry.

## Helping Improve the Trade Balance in Asia: Japanese Firms' Subsidiaries Abroad

The Ministry of International Trade and Industry (MITI) has come up with a report showing that Japanese businesses are boosting exports from Asian countries where they are operating through subsidiaries and joint ventures, going a long way toward local economic development.

The report covered about 11,000 subsidiaries and affiliates set up by Japanese companies in nine main countries and areas in Asia, including China and Thailand. It came up with what may be called the balance of trade among these local units on the basis of three types of data—exports from the countries or areas where they are operating, the amount of their locally sold products (which can be assumed to have replaced imports), and the amount of imports of producer goods such as parts and equipment necessary for local production.

In fiscal 1994 which ended in March 1995, that trade balance was in the black, with the total of exports plus local sales exceeding imports of producer goods by ¥7.5 trillion in the nine countries and areas combined. Automakers and electric machinery manufacturers accounted for a large portion of the surplus.

On a country basis, Japanese companies operating in Thailand earned the largest surplus, ¥1.7 trillion, followed by those in Singapore and Hong Kong with ¥1.3 trillion each.

About 40% of goods produced by Japanese subsidiaries in China were

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exported to Japan in fiscal 1994, reflecting their characterization in the Chinese market as a base for supply to the home country. In countries other than China, however, nearly 60% were for local sales, showing how deeply Japanese companies are integrated in local economic activities.

"In Asia, major investments by Japanese businesses are expected to grow from now on," says a MITI official. "There is a possibility of the assumed trade surplus increasing further in the near future."

There are moves in some Asian countries to curb foreign corporate activities in their home markets, including Indonesia where a national car project is limited to local interests. MITI is preparing an English–language version of the report for distribution to those concerned in Asian countries to make a pitch for Japanese businesses, stressing their contributions to local economic development.

## First Double–digit Profit Gain in Seven Years—Better Earnings Seen in Fiscal 1996

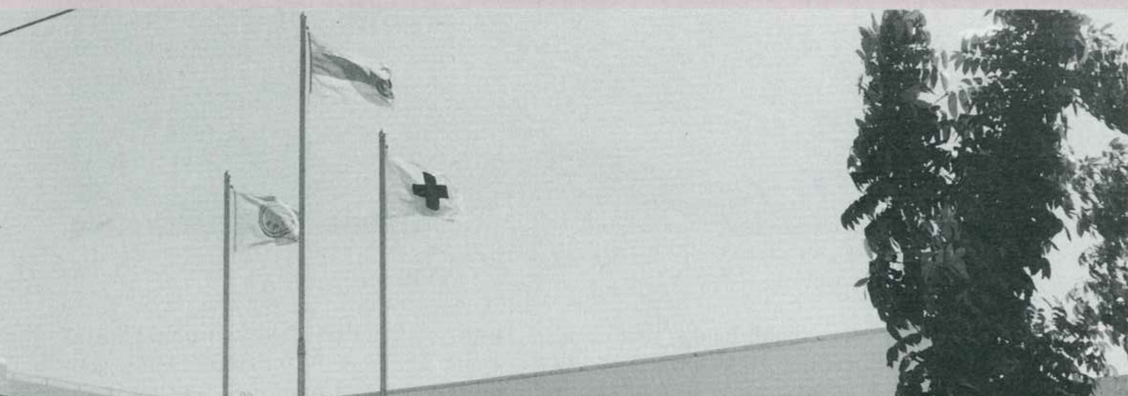
Major Japanese businesses saw their earnings increase for the second straight year in fiscal 1995, marking the first double–digit profit gain in seven years since fiscal 1988, when Japan was at the height of the "bubble" economic boom. The earnings results for the latest fiscal year, ended March 31, 1996, excluded financial institutions, which are still plagued by massive bad loans as a result of the burst of the economic bubble in the early 1990s. Behind the profit recovery were streamlining efforts and a booming high–technology industry paced by microchip manufacturers. Japan's economic recovery remains snail–paced. In terms of corporate profits, however, business activity appears to have shaken off the after effects of the bubble burst except in the financial industry. A majority of companies foresee an even better earnings picture for fiscal 1996.

According to fiscal 1995 earnings reports by 1,640 nonfinancial companies listed on Japan's stock markets, tallied by the leading business daily *Nihon Keizai Shimbun*, their combined unconsolidated sales edged up 1.0% compared with a 0.3% drop in fiscal 1994. In contrast, their unconsolidated pretax profits surged 19.0%, eclipsing the previous year's 9.4% gain.

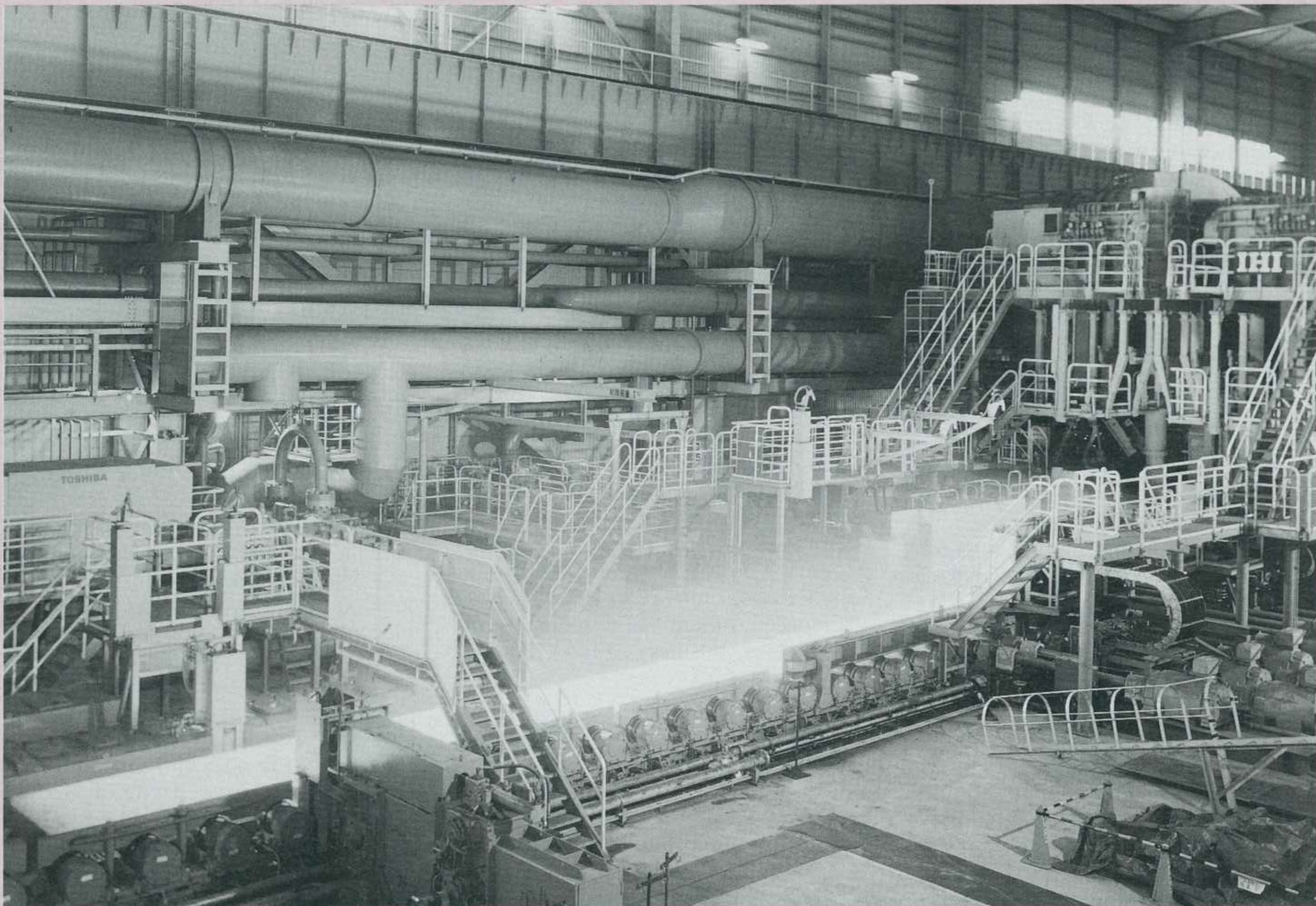
Pacing the remarkable earnings improvement was the manufacturing sector, buoyed by three factors— downsizing and other restructuring efforts, improved export profitability stemming from the yen's fall from a record high in early 1995, and rapid expansion of new demand centering on the information/telecommunications industry.

Steel, autos and petrochemicals are typical industries reporting sharply higher profits thanks to the correction of the yen's high exchange rate as well as cost–cutting measures such as work force reduction and consolidation of production facilities. In the steel industry, all six major manufacturers chalked up increased earnings in fiscal 1995 as NKK Corp., Kobe Steel Ltd., Sumitomo Metal Industries Ltd. and Kawasaki Steel Corp. swung back into the black for the first time in three years, joining the already profitable two others, Nippon Steel Corp. and Nisshin Steel Co. The six largest steelmakers slashed a total of 18,000 jobs in the past two years by transferring workers to subsidiaries and seeking early retirement in exchange for increased allowances.

Many companies in the high–tech sector, particu-




*A Japanese firm which has gained ground in Thailand. Japanese firms make inroads into the nations of Asia, pulling many of these nations into the black. Thailand is one of the great success stories.*




*March balance in—firms in the steel industry come into the black as restructuring finally permeates the industry, showing double–digit rises in profit.*

larly the information/telecommunications and semiconductor industries, scored steep gains in both sales and profits as new demand swelled. A prominent example is businesses related to mobile phones, including Nippon Telegraph & Telephone Corp. (NTT) which saw both sales and profits increase for the second straight year in fiscal 1995. NTT's sales rose 6.1% to a record high while its pretax earnings were 2.3 times as much as the previous year. Leaders in the electric appliance industry such as Hitachi Ltd., NEC Corp. and Fujitsu Ltd. enjoyed soaring profits on the crest of a global boom in the personal computer market coupled with swollen demand for microchips and stable chip prices.

On the other hand, banks, real estate firms and contractors performed poorly, writing off massive amounts of problem loans and other bad assets. As a result, all businesses, including financial institutions, showed a sharp drop in their combined net earnings for fiscal 1995.

The 11 largest commercial banks—counting Mitsubishi Bank and Bank of Tokyo separately (the two banks merged April 1, 1996)—registered a whopping 70.0% leap to an all–time high of ¥3.5 trillion in their combined operating income in fiscal 1995 as they earned handsome yields on loans against the background of a record–low official discount rate of 0.5% per annum. Dipping into the operating income, the banks wrote off a record total of ¥6.3 trillion in nonperming loans. The massive write–offs left seven banks, including Fuji, Sakura and Tokai, deep in the red. Reporting profits were the other four—Dai–Ichi Kangyo, Sumitomo, Mitsubishi and Tokyo. It was the first time since the end of World War II that a majority of major banks ended in the red.

In the current fiscal year ending next March, nonfinancial Japanese companies are projected to boost earnings further as economic activity will likely continue recovering mildly, with the yen's exchange rate expected to hover in the range of ¥100–¥110 to the U.S. dollar and the effects of restructuring likely to stay on.