

Voice of the Private Sector

Interview with Gaishi Hiraiwa, chairman of the Federation of Economic Organizations (Keidanren), by Takashi Suetsune, managing editor of the Journal of Japanese Trade & Industry

As chairman of the Federation of Economic Organizations (Keidanren), the most powerful business organization in Japan, Gaishi Hiraiwa is practically the commander in chief of the nation's private sector.

Keidanren, the Japanese equivalent of the American Chamber of Commerce, takes an overview of the Japanese economy from a business perspective, coordinates the views of the business world and puts pressure on the government and the Diet to make business interests prevail. It carries considerable influence in the government's economic policy-making. Under Hiraiwa's stewardship, Keidanren has an important role to play as the Japanese economy falters amid a welter of international problems.

Hiraiwa, a year and half after taking office, outlined his views on various problems now facing the Japanese economy in an interview with the *Journal*.

Question: *How do you judge the current state of the Japanese economy? What are your short-term and long-term views?*

Answer: The Japanese economy is now in the doldrums after a period of excessive expansion. Although it is regaining equilibrium, it is yet to bottom out. Consumer spending is slowing down and capital spending, led by manufacturing industries, is on the decline. Inventory adjustment is in full swing and production has stalled. Corporate earnings remain bearish as most companies see their profits continue to fall. Housing construction has started to recover. Yet in my judgment, the economy as a whole is still in the adjustment stage.

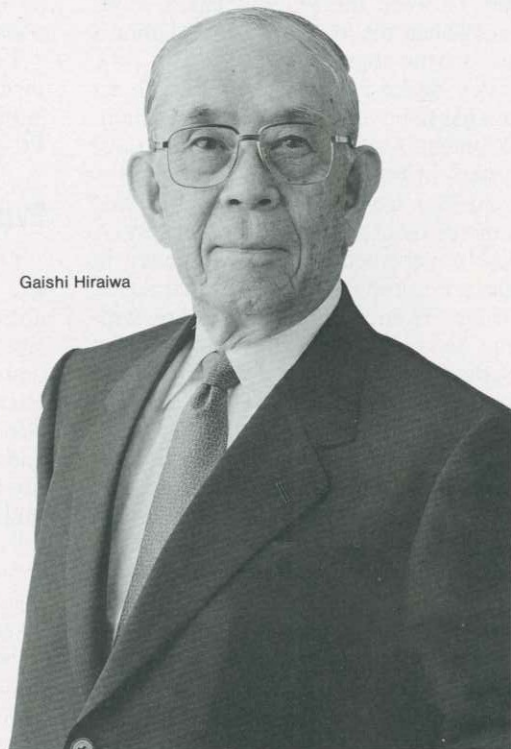
I believe that the emergency economic stimulation package announced by the government on March 31 and the fourth reduction in the official discount rate that followed will gradually begin to take effect, with business conditions beginning to improve from autumn to the end of this fiscal year (March 1993).

Inventory adjustment will have run its course by the autumn, after which production will begin to pick up. But even if consumer spending and capital spending start to turn around, the pace will be slow. Real growth for fiscal 1992 might be around 3%. I hope that the government will implement the public works projects decided on in

the emergency package ahead of schedule and compile a supplementary budget in the autumn to push for more public works projects.

Taking a long-term view, I expect that the Japanese economy will grow at an annual rate of about 4% in the first half of the 1990s and 3.5% to 4% in the second half. If Japan is to become a country with a better quality of life while steadily making international contributions, it must build a vital and strong but resilient economy capable of continually supplying socially useful goods and services.

In our economic management in years to come, it is important to attain balanced economic growth led by domestic demand and free from inflation and speculative "bubbles." We must link the results of economic development with our two major objectives of making the Japanese people's lives truly affluent while at the same time stepping up international contributions. Key issues we must address in order to do this



Gaishi Hiraiwa

include labor shortages, the aging population, and constraints concerning energy and the environment. At the same time we must flexibly manage our macroeconomy, paying due attention to changes in final demand, household spending and corporate confidence.

Q: *In what way do you hope to settle economic and trade frictions with the United States and other countries?*

A: Both the government and the private sector have implemented voluntary export restraints and makeshift import promotion measures. But such an expediency is now outliving its usefulness.

In dealing with trade frictions with Asian countries, for example in Thailand, we have shifted our focus to investment, away from trade. But in the United States and Europe, where there exist already established industries and businesses, further expansion of direct investment by Japanese companies could invite such new problems as the imposition of overall control on Japanese products, including regulation of local content requirements and local production. Japanese companies operating in the U.S. and Europe must continue to strive to become "localized." But such measures alone are not enough.

Since the dispatch of a high-level mission to Europe last November, Keidanren has been advocating "economic symbiosis" with foreign countries. The "economic symbiosis" initiative reflects our intention to seriously consider foreign criticism of Japanese business methods which boost international competitiveness at the expense of working hours, wage standards and other aspects of the individual life of workers. This will require Japan's adjustment of its competitive position to that of foreign countries, a review of the Japanese corporate emphasis on expansion of market share, and efforts for enhancing the quality of life of individuals.

On the other hand, both Japan and the United States must seriously address problems identified at the Structural Impediments Initiative talks if the two countries are to settle their bilateral economic frictions. The SII talks provide an important forum for making a two-way approach to both countries' structural problems from a long-term standpoint. It is important for us to continually focus on the SII venue, where constructive argument should be sustained.

Q: *How do you think the market integration of the European Community will affect the world economy, in particular Japan?*

A: The 12 member countries of the EC alone will constitute the largest single market in the world. With the forthcoming addition of the EFTA member countries, the EC single market will expand into a vast European Economic Area. In future, an even larger economic group embracing East European countries and some of the former Soviet republics could possibly be created.

Undoubtedly, the emergence of such a huge single market would have a great impact on the world economy, though the nature of that impact remains to be seen. The Danish people's rejection of the Maastricht Treaty casts some uncertainty on the process from market integration to economic and monetary integration, and then to political integration. All we can do at this stage is to closely observe developments.

In the late 1980s, Japan and the United States expressed anxiety over a Fortress Europe. The EC Commission and leaders of EC member countries have since dismissed such anxiety as unfounded. When we visited Europe last autumn, European leaders repeated their pledge that Europe will not become a fortress.

A single European market can undoubtedly revitalize the world economy if Europe does not become isolationist. After all, a single market will accelerate the free movement of goods, people, capital and services, and make global economic activities efficient and brisk. Countries outside the market including Japan will be able to share the benefits of the free market. At the same time, industries within the EC will be able to boost their competitive position and compete with their counterparts in the U.S., Japan and other countries at a higher level.

More importantly, the EC's efforts to integrate beyond the framework of states will force Japan to transform its own socioeconomic structure. We will have to learn from the supranational perspective of the EC member countries.

Q: *Yearly working hours in Japan are substantially longer than in other advanced industrialized countries. This is a difficult question related to productivity, wages and distribution. What is your view on this question?*

A: Average yearly working hours of Japanese workers, running at 2,008 hours in fiscal 1991, have been considerably declining but are still longer than in other advanced industrialized countries, particularly Germany and other European countries. Japanese companies must revise the Japanese corporate attitude, criticized by other countries as corporate-centered, and push

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for shorter working hours. This is necessary to improve the living environment of employees and enable each to live a better life.

Companies should regard time as a rare resource. In this connection, we need to abolish night shifts, cut down on shift work, encourage unmanned operations and upgrade efficiency through the introduction of labor-saving facilities and information equipment. At the same time, we must develop and offer creative goods and services in order to win customers' long-term satisfaction and confidence, and thereby enhance value-added productivity per hour. This will require us to avoid excessive competition based on corporate rivalry, and review our business approach.

As a target for reduced yearly working hours, the government suggested in its new five-year economic plan that they be reduced to 1,800 hours by 1996. The pace of reduction should not be legislatively enforced but decided in management-labor consultations in the private sector. I should like to see companies work conscientiously toward the attainment of the target.

Q: *Lately, there have been suggestions overseas that Japan is a "different" country and so should be dealt with differently. How do you feel about such opinions?*

A: It is true that Japan in some aspects seems different from foreign countries. But it is inappropriate to regard these differences as wrong, since they result from different historical and cultural backgrounds. Among economic differences, foreign critics note the exclusive nature of Japanese long-term business relationships, *keiretsu* groupings and other Japanese trading practices, the fact that there seem to be too many government regulations, that markets are not transparent but closed, and that working hours are extremely long. We have to seek correct foreign understanding of Japan's history and the origin of its practices, while closing gaps with foreign countries as much as possible.

Japanese companies have long respected relationships of trust among client companies, and aimed at long-term, close trading relationships by offering good products and services, and through cross-holding of stocks. Such stable trading practices have substantially contributed to the development and strong competitiveness of Japanese companies. It is true, however, that such practices appear to be barriers to foreign companies seeking access to Japanese markets. We have to remove as much as possible this impression of the exclusive and non-transparent

nature of Japanese corporate practices. We must also strive to seek foreign understanding of traditional ways of doing business in Japan.

Government regulations were necessary during the postwar development period, and in fact the private sector itself sought such measures. Today government regulations have more demerits than merits when it comes to developing sound competition, fairness and a spirit of renovation. They should be removed as much as possible. In particular, systems based on administrative guidance are becoming questionable because of their non-transparent character. Legislation governing administrative procedures, including the documentation of administrative guidance, should be enacted as soon as possible.

Q: *It is said that Japan will not be accepted into the international community just by selling high-quality goods at moderate prices. What do you think?*

A: If Japanese companies are selling high-quality goods at moderate prices throughout the world, it can be said to be the fruit of their efforts. Selling high-quality goods at moderate prices is in the interests of consumers and is not to be criticized. Foreign criticism persists, however, that Japanese companies take advantage of a closed domestic market to earn monopolistic profits, then use the profits to assist each other and dump their products overseas. Some foreign companies charge that Japanese companies compete with each other for market share even on foreign soil, to the detriment of local industries.

In order for Japan to be globally accepted, we must respond to foreign criticism of the closed nature of the Japanese market and reexamine our corporate attitude toward competition for market share. Specifically, we must increase the transparency of our long-term trading practices, push for deregulation and promote the function of the market mechanism. We must also review the alleged anti-competitive structure of the Japanese market, and align our competition rules with those of other countries.

Accordingly, Keidanren, at its general meeting in May, established a "Committee on Economic Symbiosis" to study ways to get along better with foreign companies on the basis of a free market and competition under common rules. The committee's task is to produce an in-depth analysis recommending what Japanese companies should do and reviewing what is wrong with what they have done. ■

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