

Government Adopts Anti-Deflation Package

On Oct. 30, the Japanese government adopted a comprehensive anti-deflation package that features steps to accelerate the disposal of banks' non-performing loans (NPLs). The package calls for tougher assessment of banks' assets and the creation of a new system designed to help achieve the revitalization of the financial and corporate sectors, by establishing the so-called Institution for Industrial Revival. In unveiling the package, the government said it stands ready to inject public funds into banks if necessary to stabilize the nation's financial system. Prime Minister Koizumi Junichiro expressed strong determination to tackle the NPL problem, saying, "We will take whatever steps are necessary." On the same day, the Bank of Japan moved to take additional credit-easing steps.

While the package sidestepped a hard-line proposal by the Minister for Financial Services and the Minister of State for Economic and Financial Policy Takenaka Heizo to change the accounting rules that allow banks to count deferred tax assets as core capital, it is expected to prod banks to deal with their NPL problems more seriously. The package hinted at the



Takenaka briefs the media about the government's anti-deflation package

compilation and submission of a fiscal 2002 supplementary budget to the ordinary Diet session in early January, saying the government will take the "necessary measures" after assessing the amount of tax revenues. It also included a proposal for tax breaks for housing to be considered in the tax revision for fiscal 2003.

In a cabinet reshuffle on Sept. 30, Koizumi sacked the Minister for Financial Services Yanagisawa Hakuo and replaced him with Takenaka, who concurrently retained his post as the minister of state for economic and fiscal policy. The move signaled that the government is tilting toward an even tougher policy to accelerate NPL disposal. Attention is now being paid to how the banks and their heavily indebted borrowers, such as those in the distribution and construction sectors, will react to the package.

The comprehensive anti-deflation package consists of two pillars – one designed to promote reforms and the other designed to help solve the NPL problem. The second pillar, known as the "financial revitalization program," is aimed at halving the rate of major banks' NPLs – currently more than 8% of total outstanding loans – by the

end of fiscal 2004 and asserts that public funds will be swiftly injected into banks if needed under the existing law.

The program points to the need to consider a new law so that the government can inject public funds into banks in a preemptive manner and to study measures so that preferred shares issued to the government by banks will be converted into common shares to nationalize banks if their operations seriously deteriorate.

A bank that receives the government's financial help will be required to make clear the responsibility of its top management, while its loans will be divided into a "new" account holding healthy assets and an "old" account serving as a bucket for bad assets.

Banks will also be required to start adopting in fiscal 2002 a more stringent assessment of their loan portfolios based on borrowers' fair earnings projections. Classifications of NPLs will be standardized based on the toughest method adopted among banks.

As for the proposed changes in accounting rules for banks to count deferred tax assets as core capital, Takenaka gave in to pressure from

COMING UP

The next issue of *JJTI* will focus on the new global trend of corporate governance in the context of the implementation of the revised commercial law in April this year.

Apology

In the November/December 2002 (vol.21 no.6) issue of the *Journal of Japanese Trade and Industry*, we inadvertently made an error in the author's profile for COVER STORY 3, page 20. The correct profile is printed below. We apologize for any inconvenience this error may have caused.

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bankers and some politicians from the ruling parties and gave up unveiling any specific timetable or method. But Takenaka told a news conference that the plan produced "big results" and that the important issue was how to implement the measures. The latest program is targeted at major banks, and a program for regional banks will be worked out separately by the end of March.

The proposed Institution for Industrial Revival will be created in April with money channeled from the state-run Deposit Insurance Corp. It will be headed by Tanigaki Sadakazu, who also serves as the state minister heading the National Public Safety Commission. The institution is to purchase debts of companies that are considered viable and will extend loans and help them in line with directives to be given by the headquarters for the revitalization of industry, enterprises and employment headed by Koizumi.

The package also proposed that tax cuts of more than ¥1 trillion should be implemented and safety net measures should be worked out for jobs and small and medium-sized enterprises.

Japanese Power Hitter Matsui Heading for Major Leagues

Yomiuri Giants cleanup hitter Matsui Hideki announced his plan to make it to the major leagues with a free agent deal on Nov. 1. The 28-year-old slugger was the highest-paid player in the Japanese leagues in 2002 with an estimated annual salary of ¥610 million. Joining the Giants from Seiryō high school in Ishikawa Prefecture in 1993 as a first-round choice in the amateur draft, Matsui has become only the eighth player to hit 50 homers in a season in 2002 while narrowly missing out on the triple batting crown. However, he led the Central League in both home runs (50) and runs batted in (RBI: 107) in the same year for the third time in his

professional career.

"My desire to play over there (in the major leagues) did not disappear. But I'll demonstrate what I call Giants' spirit there," Matsui said in a press conference, referring to his ambivalence about the decision-making process after playing for 10 seasons as a stalwart for the most popular baseball team in Japan.

Free agents became eligible for negotiations with any team on Nov. 13 and media reports have linked Matsui with the New York Yankees as his possible destination.

More than a dozen Japanese players have made their debuts in the majors since Nomo Hideo signed with the Los Angeles Dodgers before the 1995 season, paving the way for the aspirants to realize their dreams of pursuing a career in the world's most competitive leagues.

Matsui follows in the footsteps of the likes of Suzuki Ichiro and Shinjo Tsuyoshi on the list of position players but is the first Japanese player to test his slugging prowess in North America. There is keen interest among the media and fans alike and their attention has already turned to the degree of success the Japanese home run king could achieve in his first year in the majors.

It is not hard to imagine that Matsui got the itch to cross the ocean after watching Ichiro produce hit after hit with deft bat control in a sensational rookie year with the Seattle Mariners, which culminated in winning the American League's batting title and the Most Valuable Player honor.

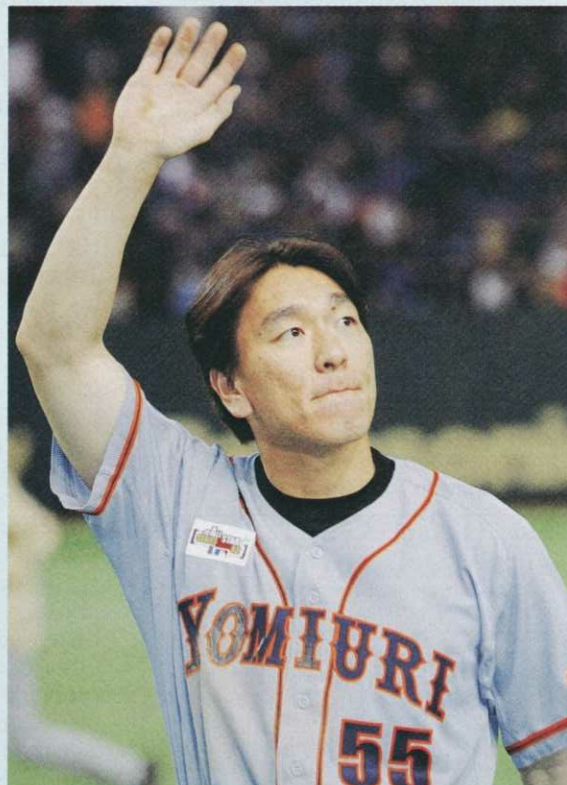
"I would go to America at any time unless I'm the Giants' cleanup hitter," Matsui was once quoted as saying. This suggests the weight of being at the

heart of the Yomiuri lineup is so overwhelming that he was put under pressure to give up on his dream.

Matsui's resolve to ply his trade in the majors was also dampened by the fact that the overall popularity of the Giants and Japanese baseball would suffer in his absence. As national heroes, Nagashima Shigeo and Oh Sadaharu before him instilled the people of Japan with dreams and courage, Matsui is a rare breed who likewise has given special attention to baseball fans.

Matsui tends to hold the bat in a grip pulled in behind him and swings at the ball swiftly from a completely stationary position. Since the autumn of 2001, he has worked on improving the batting skills he will need in the United States where power hitters prevail. It is not difficult to imagine that practicing in this way to get the knack of playing in the majors and hitting 50 homers in 2002 led to his deci-

Photo: AP/WWP



Yomiuri Giants' slugger Matsui Hideki waves to Japanese fans

sion to test the waters overseas.

The continual exodus of Japan's top players, coupled with the emergence of more live major league television broadcasts, will certainly lead to a further decline in the popularity of Japanese professional baseball. The majors, which were once totally alien to the Japanese people, have now become something they can readily identify with.

On April 13 last year, Matsui acquired the right to become a free agent, which allows him to move freely to another club in the off-season. There was a considerable interest in the topic of where he would decide to move, but shortly after the conclusion of the Japan Series, Matsui met separately with former Yomiuri manager Nagashima and current manager Hara Tatsunori and told them of his intention to jump over to the major leagues. "This was painful, but they listened to me and in the end accepted my selfish wishes," Matsui said after having to make the bittersweet decision to turn down the Giants' offer to remain with the club.

Matsui compiled 1,390 hits, 332 home runs and 889 RBIs with a .304 batting average in Japan. He played in 1,268 games with 4,572 at-bats.

JAL, JAS Merge to Create Japan Airlines System

Japan Airlines Co. (JAL) and Japan Air System Co. (JAS) integrated their operations under a new holding company, Japan Airlines System Corp., on Oct. 2, 2002, creating the world's sixth-largest airline group in terms of passenger miles and the third largest in terms of sales at ¥2,029.4 billion.

JAL President Kaneko Isao, who became president and CEO of the holding company, expressed his determination to develop the new company into a leading global airline group in both qualitative and quantita-

tive terms. "JAL has been working on cost reductions since the Gulf War and will be able to compete with American and European major airlines," Kaneko said.

By eliminating redundancies, including duplicating sales outlets, the new group expects to reduce costs by about ¥73 billion in fiscal 2005. At the same time, it plans to boost revenues by ¥20 billion by developing domestic networks.

The integration of the operations of Japanese airlines was the first since 1971, when Japan Domestic Airlines Co. and Toa Airways Co. were integrated into Toa Domestic Airlines Co., the predecessor of JAS.

JAS has suffered from Japan's decade-long economic recession and the sales slump, and rumors were rife for the past several years about its merger with JAL, but their consolidation failed to materialize as both sides were unwilling to compromise. The two groups finally struck the merger deal against the background of intensifying competition prompted by deregulation, which has resulted in the reorganization of major world airlines.

Japanese airlines are facing increasingly severe competition with other Asian airlines which are favored by lower personnel and other costs, and with American and European airlines which have been offering low fares. Both JAL and All Nippon Airways Co. suffered deficits in the

consolidated operating profits for the 2001 business year. JAS similarly saw its profits plunge sharply. Sharp reductions in the number of overseas tours following the Sept. 11 terrorist attacks in the United States have added to their woes. As a result, JAL and JAS, which had been supplementing each other, found no alternative but to integrate their operations as a natural consequence.

When the integration is completed in April 2004, JAL and JAS will be reorganized into several operating firms for domestic flights, international flights, cargo flights and others. New uniforms for cockpit crew, cabin attendants and ground staff will be introduced at that time. Until the full integration, JAL and JAS will maintain their current flight services. But they started sharing automatic self-check-in machines by the end of 2002.

The new JAL group has abandoned the round crane logo it had used for over 40 years in favor of a new mark, which is the Arc of the Sun colored red and silver, with the black bold print of the logo in the center.

The new aircraft design has an off-white base firmly emphasizing the logo on the forward section of the fuselage and the basic theme of the Sun is boldly located on the tail fin.

The new logo and new aircraft will be gradually introduced starting in November 2002 and all aircraft will be repainted with the new mark within a few years.

Photo: The Mainichi Newspapers



A new Japan Airlines System aircraft