

Unexpected Pitfalls of the Bullish Stock Market

– System Snags Disrupt the Tokyo Stock Exchange –

Photo: The Mainichi Newspapers

AN unexpected pitfall was found on the Japanese stock market which had recovered its bullishness. A series of system failures hit computerized stock transactions on the Tokyo Stock Exchange (TSE), leading to a temporary trading halt and extensive damage from an erroneous order. The TSE was speeding up all-out checks of its computer system and launched studies to build up the most advanced next-generation computer trading system in the world.

The first trouble occurred in November 2005. The computer system malfunctioned for about three hours, resulting in a complete halt to transactions in a total of 2,520 stocks and convertible bonds (CBs). The breakdown was caused by a defect in a computer program which had been developed as part of the project to upgrade the TSE's trading system capacity. The upgrade was designed to cope with a surge in online stock transactions by individual investors, which had led to waves of hectic trading volume surpassing 3 billion shares a day.

Another problem hit the TSE about a month later. Mizuho Securities Co., Ltd. placed an order to "sell 610,000 shares



The TSE's board was unable to display prices because of a computer system failure

of J-COM stock for ¥1" when it should have been a single share for ¥610,000. J-COM Co., Ltd. is a recruitment agency whose stock was newly listed on the TSE. After it realized the blunder, Mizuho tried to cancel the order but was blocked by a defect in the TSE's computer system. Mizuho lost ¥40.7 billion in only 10 minutes or so.

A loss in market confidence may lead to a shrinkage in buy orders for Japanese stocks from abroad. It may also undermine the government's policy to revitalize the economy by converting personal financial assets, which are estimated at ¥1,400 trillion, from savings to investment. With a strong sense of crisis, the Financial Services Agency issued a business improvement order to the TSE to prevent a recurrence of similar problems, and the president and CEO of the TSE, Tsurushima Takuo, and several board members resigned to take responsibility for the series of system failures. The selection of Tsurushima's successor was shelved, and Nishimuro Taizo, the chairman of the TSE, concurrently

assumed the presidency for the time being to tackle reforms of the TSE to restore investor confidence.

Nishimuro served as president and chairman of electronics giant Toshiba Corp. He once assumed the Japanese chairmanship of the Japan-US Businessmen's Conference. Nishimuro has already spelled out a chain of TSE reform plans: recruiting a chief information officer from outside to control overall computer system affairs, launching off-hours trading in the early morning and at night to disperse surging online transactions by individual investors, and opening the TSE's computer system to local stock exchanges in Osaka, Nagoya and other cities with its next-generation computer system, which will be completed as early as 2008, to effectively standardize computer systems among Japan's stock exchanges. Nishimuro is the first TSE head from the private sector in its nearly half a century of history. The future of Japan's stock market depends on whether the TSE can be reborn through the reform efforts led by Nishimuro.

COMING UP

"Japan's small and medium-sized enterprises (SMEs)" will be the theme of the next issue of Japan Spotlight. With the rapid growth of the Chinese and Indian economies, it may appear that Japan's influence in the industrial sector is on the decline, but there are many Japanese SMEs that have developed world-class technologies and products. Our writers will examine the role of SMEs, which are continually expanding their businesses in various fields, and review their new products and services. We will also report on female SME entrepreneurs.

Mitarai to Head Nippon Keidanren

– To Continue Okuda's Reform Drive –

MITARAI Fujio, who has long served as president and CEO of Canon Inc., is set to assume the chairmanship of Nippon Keidanren (Japan Business Federation) in May. The chairman of Nippon Keidanren's predecessor, Keidanren, was once called "the prime minister of the business world," and had been served by leaders of such "heavy industries" as steel and electric power and the last two were from Toyota Motor Corp. Mitarai will become the first top business leader ever from a high-tech company whose mainstay products include digital cameras and copying machines.

Mitarai is known as a businessman of international caliber, working for a total of 23 years in the United States, including a stint as president of Canon U.S.A. Shortly after becoming Canon's president, he decided to pull out of the unprofitable personal computer busi-

ness. He changed Canon's production system at plants from a conveyor-belt to cellular-manufacturing system and succeeded in improving efficiency remarkably. (Under the cellular-manufacturing system, a single worker goes through several stages of the production process, unlike simple assembly labor under the conveyor-belt system.) Through these reforms, Mitarai helped Canon develop into a highly profitable company. While he is well versed in American management, Mitarai has declared that Canon "will stick to the life-time employment system as long as I am the president," and applied the advantages of this type of employment system to the company's personnel management. He is not necessarily committed to US-style management but has his own original corporate philosophy.

The current chairman of Nippon Keidanren, Okuda Hiroshi, chairman of

Toyota, has promoted structural reforms in line with the Koizumi administration. In an effort to boost the business community's influence on national politics, Okuda resumed the practice of arranging political donations. Mitarai says "politics and the economy are the inseparable two wheels of a vehicle," and calls for maintaining the momentum of deregulation to promote the power flow from the government to the private sector by continuing Okuda's reform drive. A full-scale policy debate is expected to soon sweep through Japan's political world toward a race to pick the successor to Prime Minister Koizumi Junichiro, whose term of office as ruling Liberal Democratic Party leader is to expire in September 2006. Attention will be focused on what Mitarai will say on Japan's fiscal rehabilitation and regulatory reform, and how he will steer the business community.

Number of Foreign Visitors Exceeds 7 Mil. Mark

– Boosting Visits to Regional Areas Vital –

THE number of foreigners who visited Japan for tourism and business in 2005 reached about 7.45 million, rising roughly 10% from the previous year to hit a record annual high for the second straight year. It was the first time ever that the number topped the 7 million mark. Contributing to the sharp increase, particularly from Asian countries, were the opening of Central Japan International Airport (Centrair) outside Nagoya, EXPO 2005 in Aichi Prefecture and a visa waiver during the exposition for tourists from South Korea and Taiwan.

Foreign tourists' destinations still continue to center on major urban areas such as Tokyo, Osaka, Kyoto and Kanagawa. However, other tourist spots have been stepping up activities to attract foreign tourists.

The Niseko skiing resort in Hokkaido, whose quality of snow is said to be one of the best in the world for skiing, has seen a sharp increase in the number of skiing tourists from Australia thanks to the seasonal difference between the Northern and Southern hemispheres. Investment from Australia has been flowing into the Niseko area, which is turning

it into an international resort. A number of golf courses in the Tohoku region of northeastern Japan have succeeded in attracting golfers from such countries as South Korea.

Despite the increase, the number of foreign visitors to Japan is still 10% of the 70 million for France, the world's No. 1 tourism power. The Japanese government has been promoting the "Visit Japan" campaign in a bid to double the number of foreign visitors to 10 million by 2010. How to broaden the tourism base to outlying regional areas appears to be the key to meeting the goal.