

Dear Sir,

I have read with much interest and concern the article entitled "The Dangers of Local Protectionism" in the December issue of the Journal of Japanese Trade and Industry by Professor Kimura Fukunari who makes some very good points.

In my view free trade is very much a Japanese national interest. Japan will ultimately be the loser if the current pressures for trade protection whether in respect of minor horticultural products or textiles (such as towels) or memory chips are allowed to prevail. Japanese costs of living are still too high and Japanese competitiveness will be damaged by protectionist measures which keep up the cost of living. Japanese producers granted protection, like producers in other countries, will happily shelter behind protectionist barriers and will put little effort into cutting costs and improving productivity. When the time limit for any protectionist measures, which may be introduced, ends they will demand an extension.

When I was Commercial Counsellor in the British Embassy in Tokyo in the 1960s and again as British Ambassador to Japan in the early 1980s, we were often under pressure from London to endorse protectionist measures against Japanese exports to Britain under the safeguard clauses attached to the Anglo-Japanese Treaty of Commerce and Navigation. I always advised against such action because I did not believe that it would help to make our industries more competitive. Moreover I was convinced that Japan would take retaliatory action against any protectionist measures we took and that such retaliatory action would be more harmful to our interests than any temporary benefits limited sections of British industry would obtain. As I anticipated when I saw the foolish Japanese measures taken against three Chinese horticultural products to please a few lobbyists, the Chinese reaction was instant and damaging to Japanese exports to China. Retaliation may not have been commensurate as it

no doubt should theoretically have been and may not be justified under WTO rules (although China is not yet a member of the WTO) but surely Japanese politicians and officials should have foreseen what would happen and the damage that would be done not only to Japanese exports but also to Japan's relations with China.

I have often thought that Japanese civil servants, while generally being very clever, are often blinkered and incapable of seeing the broader picture. "My section, my bureau, my ministry" seems to count more for them than "my country's interests." Is this because Japanese politicians are too powerful in influencing civil service appointments? Japanese politicians seem no less blinkered. Are they incapable of seeing beyond the interests of a few lobby groups who provide them with electioneering funds? Or am I just too cynical about Japanese politics?

I had hoped that Mr. Koizumi might have been able to inject both a broader view, more common sense and a better understanding of the national interest into both Japanese politicians and civil servants. Am I crying for the moon?

Hugh Cortazzi,
British Ambassador to Japan
1980-1984

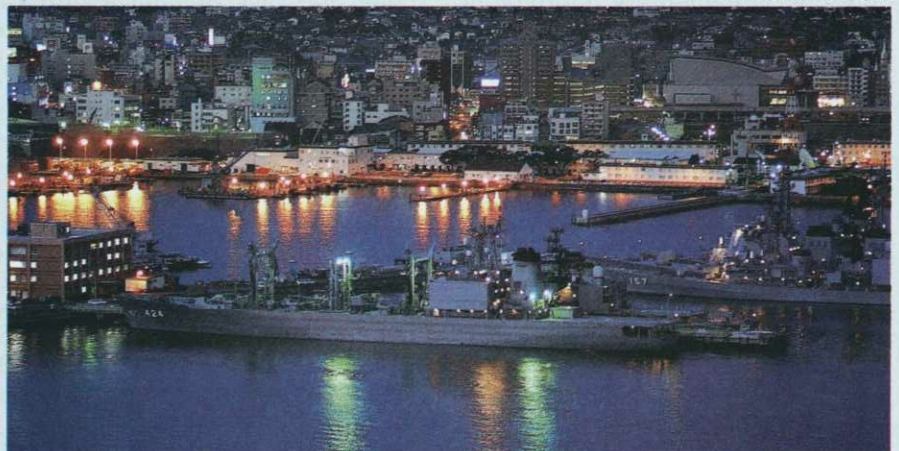
Japan Enacts Law to Help Fight Terrorism

Japan's parliament has voted into law a bill authorizing the Self-Defense Forces (SDF) to throw noncombat logistic support behind the U.S.-led military campaign against Afghanistan in the wake of the Sept. 11 terrorist attacks on U.S. soil. The legislation has opened the way for Japan to dispatch SDF troops overseas during an armed conflict for the first time. Under the law, the government must draw up a "basic plan" for the support operations before it can dispatch SDF vessels aimed at replenishing supplies and supporting transport for the U.S. military.

The bill was cleared by the House of Councillors, or the upper chamber of parliament, in a plenary session in Oct. 29, 2001 following earlier House of Representatives action. The upper house also passed two other related bills simultaneously. One enables the SDF to secure U.S. military bases in Japan on a newly assigned "guard mission" and to impose heavier punishment on those leaking defense secrets. The other authorizes the Japan Coast Guard to open fire on unidentified vessels suspected of engaging in illegal activities.

The upper house approval came only 25 days after the package of

Photo: The Mainichi Newspapers



SDF vessels at Sasebo base in Nagasaki Prefecture

three bills was submitted to the Diet. It was a speedy procedure costing only some 60 hours in the combined time of committee debate in both houses of the Diet. The antiterrorism support bill passed the upper chamber with a vote of 140 to 100. In the vanguard of the majority vote was the tripartite ruling coalition – the Liberal Democratic Party, the New Komeito party and the New Conservative Party. The main opposition Democratic Party of Japan (DPJ) joined the coalition in supporting the SDF “guard mission” bill while the DPJ, the Japanese Communist Party and the Liberal Party voted for the Japan Coast Guard bill. In approving the antiterrorism bill, the upper house rejected a DPJ proposal that the government obtain prior Diet approval in dispatching SDF troops abroad.

The antiterrorism law is limited to a two-year duration. As its main objective, the law commits Japan to active, self-initiated involvement in international efforts to eradicate terrorism. It also calls for Japan to: 1) provide foreign troops with logistic support such as supply replenishment and shipment; 2) conduct search-and-rescue operations for those missing or injured; and 3) engage in U.N.-requested humanitarian relief activities such as the transport of daily necessities and medical services for refugees.

The government initially wanted to rule out parliamentary approval in implementing the operations and make it suffice to simply report a basic plan on the dispatch of SDF troops to the Diet in advance. But the governing coalition modified the original bill during a lower house debate and included a clause requiring Diet approval of an SDF dispatch plan within 20 days of the Defense Agency chief giving a deployment order.

According to a Kyodo News opinion poll conducted by phone at the end of October, 57% of its respondents more or less favored the antiterrorism law and 38.9% did not. Of the supporters, 16.4% gave it “high marks” and 40.6% supported it “to some extent.”

Of those against the law, 24.7% gave it “little value” while 14.2% did not favor it at all.

Those supporting the administration of Prime Minister Koizumi Jun'ichiro stayed at a high level of 73.0%, but this was 9.8 percentage points below the approval rate in a poll taken through interviews at the end of September.

The latest poll also found 63% supporting the U.S. military strikes against Afghanistan, down about three points from the previous poll but still showing the vast majority of Japanese voters endorsing the military campaign.

As for the possibility of terrorist attacks on Japanese soil, 78.1% felt anxious more or less while only 3.1% did not harbor any worry at all. Such uneasiness appeared to underlie the relatively high rates of support for the antiterrorism law and the U.S.-led military campaign.

Collapse of Mycal and Industrial Revitalization

On Sept. 14, 2001, debt-saddled retailer Mycal Corp., based in Osaka, filed for court protection from creditors under the Civil Rehabilitation Law, making it one of the biggest corporate failures in Japan. Six of its group firms, such as DacVivre Co., based in Sendai (Miyagi Prefecture), and Mycal Kyushu Co., based in Fukuoka, also filed for bankruptcy protection under the same law.

Mycal, Japan's fourth-largest supermarket chain operator, was saddled with total interest-bearing liabilities of ¥1,388.1 billion on an unconsolidated basis and ¥1,742.8 billion on a consolidated basis. It was the largest failure of a company outside the financial sector since Sogo Co., a major department store operator, went under in July 2000 with debts of

some ¥1,870 billion.

Mycal was forced to give up self-rehabilitation efforts after Dai-ichi Kangyo Bank, its biggest creditor bank, decided to halt financial support. Before the failure, Mycal had made little progress in its restructuring programs, which centered on the closure of loss-making stores, job cuts and debt reduction.

The collapse of Mycal fueled concerns about Japan's economy and its labor market conditions, which were aggravated in the wake of the Sept. 11 terrorist attacks in the United States. It signaled the “pain” of structural reforms pushed forward by Prime Minister Koizumi Jun'ichiro.

But the news of Mycal's failure helped send the key Nikkei Stock Average closing above ¥10,000 for the first time in three days, highlighting market expectations that banks will accelerate moves to cut off lifelines to ailing firms and dispose of more non-performing loans (NPLs), thus promoting overall structural reforms.

Founded as Nichii, a cut-price superstore featuring clothing items, Mycal aggressively expanded its business in the 1980s by creating the Saty mass-retail chain of shops and Vivre clothing stores, but gradually accumulated interest-bearing debts. It continued to make capital investments and built such large facilities as the Mycal Otaru (in Hokkaido) com-

Photo: The Mainichi Newspapers



Former Mycal President Yamashita Kozo (second from the left) explaining the collapse of the company at a press conference

mercial complex. Most supermarket operators were hit hard by the bursting of the asset-inflated bubble economy a decade ago, but Mycal suffered the most.

Now that the debt-saddled Mycal has filed for bankruptcy protection, Koizumi's reform initiatives, which primarily aim at promoting outright disposal of banks' NPLs, are expected to go into full swing. As a result, an increasing number of companies in slump-ridden industries, such as construction, distribution and real estate, are likely to be allowed to go under.

Mycal, with consolidated sales of ¥1.7 trillion, was a major player in the distribution industry. Many industry officials had thought Dai-Ichi Kangyo Bank would continue to support Mycal because its failure could affect a host of business clients more seriously than in the case of Sogo's collapse.

But Dai-Ichi Kangyo refused to accept Mycal's repeated requests for a short-term credit line as the bank believed Mycal, which had already seen its debt ratings downgraded and its share price plummet, was unlikely to be able to rehabilitate itself. It eventually gave up on Mycal to minimize its exposure to the troubled retailer.

To unload NPLs from their books, banks would either forgive loans or let troubled borrowers apply for court-mandated rehabilitation. Recently, bankers and business leaders agreed on stricter guidelines on banks' debt forgiveness, making it harder for banks to waive loans to their borrowers. In the past, there were many cases in which main creditor banks waived loans to such troubled firms as general contractors. But the collapse of Mycal is likely to prompt banks to think twice about the advisability of debt forgiveness and let borrowers seek court-mandated rehabilitation.

Mad Cow Scare: Ripple Effects

The first discovery in Japan of a cow infected with mad cow disease – bovine spongiform encephalopathy

(BSE) – has sent shock waves throughout the country. The BSE-stricken cow, found at a farm in Shiromachi, Chiba Prefecture in September 2001, led to a temporary ban on the distribution of meat and bone meal (MBM) – animal feed viewed as a likely source of the BSE infection – and to the recall of processed food containing potentially risky cow parts such as the brain. These and other developments left consumers uneasy, boosting their distrust in the safety of domestic beef – particularly after criticism grew that related government departments, including the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the Ministry of Health, Labor and Welfare (MHLW), were slow in responding to the outbreak of the deadly disease.

"It is highly likely that imported MBM infected with BSE caused the disease," a MAFF official said. The ministry temporarily prohibited the distribution of both imported and domestically produced MBM from Oct. 4. But the ministry has yet to confirm if the cow ate MBM, and it is still tracking down the route through which the disease was transmitted.

On Oct. 18, the MHLW began screening all beef cattle for any signs of the disease before they are processed into meat. The ministry has also ordered the recall of all processed food and cosmetics containing any of the risky parts – the brain, spinal cord, eyes and ileum of cattle. But the ministry's action remains vague as to which cattle parts are safe and which products are dangerous, leaving both consumers and producers suspicious.

Japan annually produces some 400,000 tons of MBM and imports about 200,000 tons. The government has been advising the livestock industry since 1996 not to mix cow feed with MBM. But Japan imported MBM from European Union member countries, where mad cow disease was first reported, until imports of MBM manufactured in those countries were banned in January 2001.

Cattle products such as beef



BSE-screened beef on sale in a supermarket

extract and gelatin are contained in various processed foods. Consumers are keeping a close watch on these products largely due to the delayed action on the part of the agriculture ministry and other quarters concerned. Manufacturers of processed foods are making desperate efforts to dispel consumers' anxiety.

Beef extract is used for various food applications, including seasonings, soup and pouch-packed baby foods such as beef stew. Producers of these food products receive one query after another from consumers who have become suspicious after learning of the use of beef extract from the list of ingredients on the product package label.

Moves are growing in the food industry to switch from domestic cattle to beef imported from BSE-free countries. Baby food manufacturers, taking a serious view of the consumer uncertainty, are considering using chicken and fish extract in place of beef extract.

Gelatin is widely used in sweets such as biscuits, candies and ice cream. Manufacturers are emphasizing the safety of their products, saying they are produced through a process satisfying specified safety standards. But some of them are apparently switching to alternatives such as pig skin in an attempt to placate the uneasiness of consumers.