

A Problem of Historical Inertia

By Naohiro Amaya

“Japan is a resource-poor nation.” So goes the time-worn refrain. And in truth, Japan lacks the important mineral resources that industry needs. Yet in the mid-19th century, before the Meiji Restoration, Japan had all the resources it needed. Back then, Japan was an agricultural nation with abundant land, water, sunshine and iron. Land is scarce today only because the Japanese population has grown to 120 million from less than 30 million between the 17th and 19th centuries. Water and sunlight have always been plentiful, and the iron ore and charcoal used to produce iron were abundant through Japan's pre-industrial history.

As long as it remained an agricultural society, Japan was a self-sufficient, resource-rich nation, and there was no need for foreign trade. True, pre-Meiji Japan did trade sporadically

with countries such as China and the Netherlands, but this commerce was primarily in luxury goods, and Japan was able to close its doors to the world whenever it wanted. The natural sea barrier made invasion from the nearby Asian continent highly improbable and there was no need to worry that someone would try to pry open Japan's closed doors. Until Commodore Perry's arrival with his black ships, Japan was able to withdraw from the international milieu at periodic intervals over the centuries.

Still, Japan was never as completely isolated as Hawaii, Tahiti and the other Polynesian islands. Close enough to Korea and China to maintain a keen interest in events on the Asian mainland, Japan threw open its doors at various times to absorb the best of flourishing continental cultures. A nation's character is molded over the eons of history and cannot be changed overnight.

Over the 130 years since Perry came knocking, there have been tremendous changes in

the global structure, and Japan can no longer close its doors and shut the world out. Japan is now an integral part of the world trading system, and it is inconceivable that Japan should try to “go it alone.” Attitudes, however, have not always kept up with reality, and the strong bonds uniting the Japanese people in an “us-them” mentality have been preserved by historical inertia. Nevertheless, while some Japanese see foreign criticism of this exclusiveness as unwarranted interference in Japanese affairs, at least as many are aware of the need to break through this historical inertia.

While liberalization of Japanese trade and finance has been implemented largely as a result of outside pressure, it is worth noting that these foreign pleas have fallen on receptive soil within Japan. Today, these domestic forces for change are stronger than ever, and it is imperative that Japan overcome the numerous obstacles of isolationism and promote ambitious internationalization for its own and the world's good.

Letters

Still Broader Coverage Wanted

Congratulations! The *Journal* keeps improving. The article on South Korea made very good reading, and I hope to see more about Japan's neighbors in future issues. It is extremely interesting to foreign readers to be given a Japanese view of these economies and societies. Similar articles about Brazil, the Soviet Union and the East European countries, for example, would also be very interesting.

I hope future issues of the *Journal* will cover such subjects as savings in Japan (with some historical perspective on prewar attitudes); taxation (again with some historical perspective); and the changes now underway in the organized labor movement.

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Deregulation's Impact

The 1985 Nov./Dec. *Journal* article on deregulation in Japan caused me to wonder if the impact there will ultimately be similar to that in the United States.

In the United States, deregulation in telecommunications, banking and air travel has lessened the constraints on the number of companies permitted in these industries, has lightened the controls on what products or services may be offered and has allowed greater price flexibility.

With lowered barriers to entry, these industries found themselves flooded with new entrants, all vying for the same potential customers. Relaxation of price controls provided additional freedom for implementing strategic plans, and lifting restrictions on product and service offerings led to product proliferation.

In all three industries, companies respond-

ed by segmenting the market to a finer degree and developed strategies for the niche they found the most interesting. In banking, for example, some banks introduced minimum account balance requirements and differentiated interest rates to attract the specific market segment that they saw as most desirable—people with high account balances and few transactions.

A second consequence of deregulation was that product offerings had to be financially self-sufficient. A strong product in one niche could no longer support a weak product in another, since price competition in high-priced niches made it difficult to generate the profits needed to counterbalance low profit margins in other segments. In the telecommunications industry, for example, some companies chose to concentrate on the business market for its more attractive margins. Those companies that had previously served both the residential and business segments and had used the profits from one to support the other were thus faced with the difficult task of making each service segment stand on its own two feet.

To survive in this new environment of market niching and increased competitive price pressure, businesses naturally moved to establish cost leadership. In the airlines' case, they weeded out routes with low passenger fill ratios and cut back on the number of flights on other routes in an effort to reduce costs.

What will the impact of deregulation be in Japan? Will the Japanese markets become even more fiercely competitive? Will market share give way to profit-oriented niching? Only history can answer these questions, but it is clear that strategic planning will become even more important than it has been.

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Distribution Information Helpful

For the past several years I have been conducting research and teaching at the Università Commerciale Luigi Bocconi in Milan on the subject of distribution channels within the major industrialized countries, and I have found it important to evaluate the Japanese distribution system in comparison with the American, Italian and other European systems.

The Japanese distribution system is of particular interest because of the similarities it bears to the Italian distribution network, especially with regard to the size of the average company and the proportion of small family-owned stores. It has, however, often been difficult to obtain detailed information on the Japanese system, and the *Journal* has been a boon to my work.

I found the 1984 May/June issue which discussed Japanese distribution channels not only especially informative but also very well written. This issue did much to offset the unfortunate paucity of information available about such Japanese topics, and I anxiously await a sequel to the *Journal's* coverage of this important issue.

I am presently evaluating the degree of competition between Japanese companies within their home market and would find an article on this subject highly useful. I am sure that such a feature would be of interest not only to my Italian colleagues but also to the tens of thousands of other professionals around the world who read the *Journal* regularly.

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The *Journal* welcomes letters of opinion or comment from its readers. Letters, including the writer's name and address, should be sent to the Editor, Japan Economic Foundation, 11th Floor, Fukoku Seimei Bldg., 2-2 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, 100 Japan. Letters may be edited for reasons of space and clarity.

Sumitomo and Heiwa Sogo Banks to Merge

Sumitomo Bank and Heiwa Sogo Bank have agreed to merge, effective October 1, 1986. A February 21 memorandum states that the two banks will exchange a contract in May and formally approve the merger at their respective shareholders' meetings in June.

The planned merger will boost Sumitomo's total deposits over ¥22 trillion (about \$122.2 billion at the rate of \$1/¥180), pushing it past Fuji Bank into the No. 2 slot after Dai-Ichi Kangyo Bank, with deposits of ¥25 trillion.

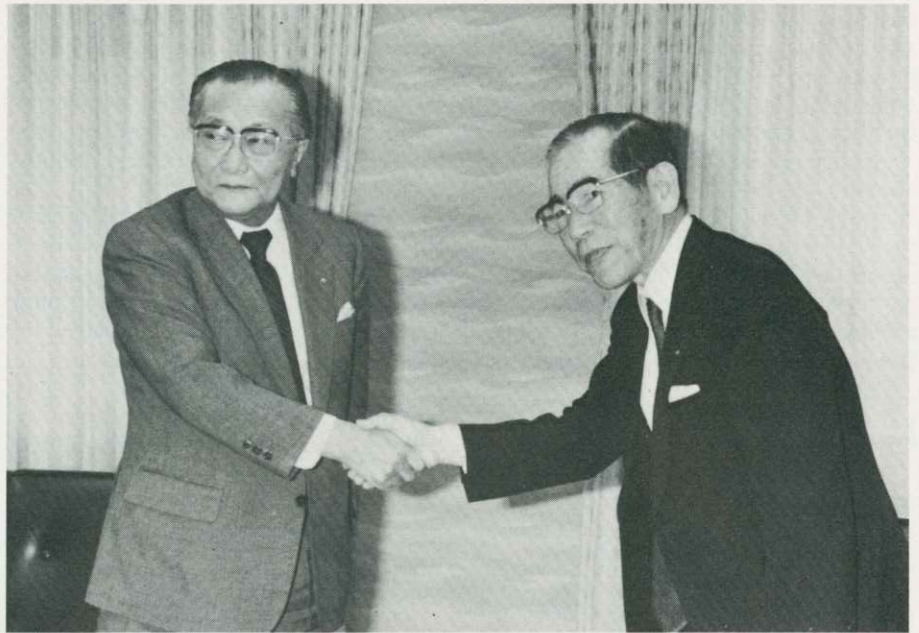
The merger is the first ever between Japanese city and *sogo* (mutual savings) banks, and is the first large-scale domestic takeover by a Japanese city bank since Taiyo Bank and Kobe Bank merged in 1973. Other financial institutions are closely watching what many see as an attempt by Kansai-based Sumitomo to expand its business in advance of full-fledged financial deregulation and to make inroads in the Tokyo metropolitan area. The Sumitomo-Heiwa Sogo merger could trigger a wave of realignments in the Japanese financial world.

Heiwa Sogo was forced into the merger by internal management disputes and a massive ¥180 billion in bad loans, or 20% of its total lending.

Sumitomo says it will be able to make good use of Heiwa Sogo's "suitably placed" branches in the Tokyo area. The bank will also gain a low-cost deposit base that is oriented toward small- and medium-sized enterprises, the bread and butter of *sogo* banks. Sumitomo has said the advantages outweigh the burden of Heiwa Sogo's bad loans.

Japan's Finance Ministry has consistently exercised strong administrative guidance to prevent bank failures. But the ministry now appears to be rethinking this policy as part of the liberalization of Japan's financial and capital markets. The day may yet come when Japanese banks will be allowed to go under.

Deregulation of interest rates on bank deposits, which began last year with deposits of ¥1 billion or more, is likely to spread to smaller deposits in another two years. Financial institutions will be forced to raise interest rates to attract deposits. Yet at the same time banks are



Koh Komatsu, president of Sumitomo Bank (left), shakes hands with his counterpart, Kazumasa Tashiro, of Heiwa Sogo Bank after signing the merger contract.

having to lower corporate lending rates to survive an intensified lending war. The prospects are for falling profits and increasing managerial difficulties.

Sogo banks specialize in lending to smaller enterprises, but when it comes to close contacts with local clients they cannot compete with the *shinkin*, or credit unions, which offer similar services. *Sogo* banks also have trouble extending large, low-interest loans to corporations. In short, they are considered the least profitable of all financial institutions in Japan.

Heiwa Sogo Bank is in a class by itself when it comes to financial troubles, but many others are facing similar problems. Chances are good that there will be still more Heiwa Sogos in the future.

Human Frontier Program

A Human Frontier Program designed to create a new scientific and technological system more in harmony with man and nature has been proposed by the Agency of Industrial Science and Technology of the Ministry of International Trade and Industry (MITI).

The aim of the program is to set up under Japanese initiative a system for developing basic technologies as a common asset of all mankind, and contributing the achievements to the international community.

With a GNP accounting for 10% of the world's total, Japan must play an increasingly important role in international society. A consensus is forming in Japan that the nation should be more assertive in making creative contribu-

tions to the world in the realm of science and technology.

This new program is intended to solve various problems confronting the world, such as the deterioration of the environment, the depletion of valuable resources, skyrocketing energy consumption, increasing tensions in the relationship between man and technology and an increasing world population. Planners of the program hope it will create a new paradigm for science and technology consistent with human and ecological needs, bringing affluence and hope to human society in the 21st century.

The main research themes are: 1) elucidation of multi-functions of living organisms; and 2) basic research and development for the utilization and application of functions of organisms. An organ tentatively called the "Human Frontier Program Promotion Center" will be set up to coordinate the overall program. The center's tasks will include: 1) establishment of a comprehensive plan, screening of R&D themes, and assessment of R&D results in cooperation with prominent Japanese and foreign scholars and researchers; 2) funding for R&D activities conducted by research institutes, universities and private enterprises, both Japanese and foreign; and 3) consolidation of research facilities for smooth implementation of international collaborative research.

The program, expected to entail a total cost of ¥1 trillion (about \$5.6 billion at the rate of \$1/¥180), will cover two ten-year periods. During the first half, existing bodies will undertake fundamental research. Japan now plans to provide all

basic funding necessary for this initial stage of the program. Additional contributions by foreign governments and enterprises are welcome to strengthen the project and obtain better results.

Agency officials say cooperation from abroad is essential to raise the colossal sum of ¥1 trillion needed to implement the project. Prime Minister Yasuhiro Nakasone is expected to ask countries participating in the Tokyo Summit conference in May for their cooperation in the program.

Made in Europe Fair

A large-scale "Made in Europe Fair" was held in Kobe March 26-30 to help expand Japan's imports from Europe and ease trade friction with the region. The fair was sponsored by the semi-governmental Japan External Trade Organization (JETRO) and the Kobe Import Fair Council.

The exhibition followed the "Made in U.S.A. Fair" held in Nagoya in March 1985, also under JETRO sponsorship. The event was the first fair ever to cover all of Europe. Participants included some 160 manufacturers of general machinery and other products from Austria, Belgium, Switzerland, West Germany, Denmark, Spain, France, Italy, the Netherlands, Portugal, Sweden, Norway and Britain.

Although such internationally known firms as Siemens AG of West Germany, N.V. Philips of the Netherlands and Hawker Siddeley Group PLC of Britain took part, most exhibitors were small- and medium-sized companies which have yet to make inroads into the Japanese market. The fair promised to create new business between Japan and Europe.

Among items exhibited were many new to Japan, including medical, telecommunications and electronic equipment, measuring devices, industrial machinery, machine tools and precision instruments.

The first three days of the fair were given over to business as the exhibition site was opened only to traders. The remaining days focused on publicizing foreign products among the general public.

The entire fair was divided into four areas. Section A covered industrial machinery and machine tools such as vacuum packaging devices, welding robots, metal cutters and ink-jet printers. Displayed in Section B were precision and measuring equipment, including engine meters, radioactivity measuring devices and high-voltage insulation testers. Section C covered electric and electronics

equipment such as data communication devices, telephones, peripheral equipment for video tape recorders and large PCP copiers. The last section was devoted to medical apparatus, including rehabilitation systems, medical testing devices and veterinary gear.

During the event, the Kobe Import Fair Council simultaneously sponsored the 15th Kobe International Fair at the adjacent World Memorial Hall. Clothing, food and other goods were displayed by foreign firms from 16 countries and 72 Japanese companies. Another import promotion bazaar was held at a nearby hall. In all, visitors to the three international fairs totaled 150,000.

Toward an International Industrial Property System

The role of the industrial property system was discussed at an international symposium held at a Tokyo hotel March 24-27 with more than 100 participants each day from Japan and 12 other Asian countries. The 12 participating countries included Bangladesh, China, India, Indonesia, Iran, Malaysia, Pakistan, the Philippines, the Republic of Korea, Sri Lanka, Thailand and Vietnam.

The event, the first of its kind in Asia, was sponsored by the Japanese Patent Office (JPO), the Ministry of International Trade and Industry (MITI) and the World Intellectual Property Organization (WIPO), the United Nations' 14th sub-organization. Particular emphasis was placed on the role of the industrial property system in economic and technological development.

Calls for the protection of industrial property in developing countries have become louder in recent years among industrialized nations because the system of industrial property, which includes patents, industrial designs and trademarks, is not adequately enforced.

The sponsoring organizations stated that the purpose of the symposium was to enable senior government officials from the participating countries to examine and discuss the role of the industrial property system in the light of the significant contribution that the system has made to the economic and technological development of Japan in particular.

At the outset of the meeting, Kazuo Wakasugi, MITI vice minister for international affairs, extended greetings. The WIPO's Deputy Director General Marino Porzio said in his speech, "The WIPO's development cooperation program intends to assist developing countries in organizing their industrial property sys-

tems paying due attention to their legal and institutional aspects and to the development of necessary human resources so that these systems may effectively contribute to the economic and technological development of these countries."

The JPO's Director General Michio Uga also stressed the need for developing nations to adequately enforce the industrial property system in order to introduce advanced technologies from abroad. He said, "When Japan was opened to the Western world in 1867, advanced Western technology was introduced to fill the gap between Japan and Europe and America. An industrial property system was thus adopted and Japan participated in the Paris Convention. Any technology introduced from abroad is covered by a patent system based on the premise of protecting the technology. The Japanese Patent Office intends to cooperate with other Asian countries in preparing their own patent systems."

During the symposium it was pointed out by some participants from Southeast Asian countries that preparations for an industrial property system are in different stages of progress among their countries. They also emphasized that it is important for industrialized nations to impart their technology, assist the development of industries in the developing countries, and prepare a basis for an effective industrial property system.

Many other participating dignitaries made valuable comments. One emphasized the need to strengthen and improve industrial property systems in the developing nations and to disseminate the importance of the role played by such a system to the general public, particularly to corporate managers, research and development administrators, researchers, technicians and others who might use the system.

At the close of the symposium the following general conclusions had been agreed upon among the participants:

- 1) The true value of the industrial property system should be fully appreciated. It should also be understood that only those countries which intend to make the necessary efforts for its establishment can expect substantial industrial growth.

- 2) International cooperation is essential for the establishment of the industrial property system and the promotion of technological development.

- 3) The role and effect of the industrial property system must be positively demonstrated to the general public in developing nations if it is to be effectively enforced.