Publisher's Note

Balancing the Whys and Hows

By Naohiro Amaya

Every tool, every piece of hardware, requires an operating system, software, before it can be used meaningfully. On the personal level, for example, the golfer's clubs are his hardware, and the skills he develops through coached practice are the software. Likewise, an automobile is hardware, and an individual has to learn how to drive before he can use the hardware safely and productively. But this personal software is not enough. The automobile also needs good roads, traffic regulations, reliable automobile engineering technology, assured fuel availability and much more if it is to be a viable means of transport.

Likewise with the international passenger jet—a highly sophisticated piece of hardware requiring pilots, international flight regulations, airports, telecommunications networks and other manifestations of international cooperation. In many ways, this social and physical infrastructure is the software of modern life.

The many tangible and intangible software elements that sustain the essential hardware in our lives have four concentric dimensions: personal, corporate, national and international. Moreover, there must be a dimensional harmony between the hardware and its operating system. The larger and more sophisticated the tool, the broader support it will require.

While tools are developed through advances in science and technology, their applications are largely determined by human and social concerns. There is thus no guarantee that an appropriate support structure will emerge for every new scientific and technological advance.

In the immediate postwar years, Japan was nearly overwhelmed by a flood of new hardware from the United States. Yet because this flood was accompanied by the wholesale discarding of prewar values, social systems and vested interests, Japan was able to maintain its hardware/software balance by creating new support structures suited to the new tools at its command. Indeed, this balance was a major factor enabling Japan to grow as rapidly as it did.

Having achieved that growth, however, Japan now needs to build a new kind of support infrastructure suited to the new wave of hardware that is becoming internationally available. Providing better housing, urban renewal, educational reform and a climate conducive to vigorous research and development, this new social infrastructure differs markedly from the social and structural underpinnings that facilitated Japan's industrial development—so much so that there is some question about whether or not Japan can successfully make the transition from industrial to post-industrial society.

The system of land ownership, for example, is an essential element in the construction of any social infrastructure, but critical flaws in this system have caused Japanese land prices to spiral incredibly high. Not only do these outrageous prices effectively block the kind of infrastructure development that is the starting point for the post-industrial society, they also engender numerous social inequities and stifle much-needed expansion in domestic demand.

Upgrading our basic social structures to match our current hardware capabilities is far more important than developing still more advanced hardware such as the fifth-generation computer. Yet politicians, government officials, businesspeople and nearly everyone else are ignoring this need and pretending that more and better hardware will solve all of our problems.

This is true not only in Japan but in many other countries as well, and the refusal to address these human needs is one of the principal causes of the growing economic malaise that confronts all of us today.

Letters

Fine Focus

I enjoy the *Journal* and find its articles add depth to my consulting. Some of the articles are ageless, as they give historical information in addition to current trends. Also, in that each issue tends to focus on a particular subject, readers can obtain a diverse evaluation of the subject being presented. They are well read by myself and my staff.

Louis H. King, Jr.
International Trade Management Corporation
Washington, D.C.

Economic Integration

The "Foreign Business in Japan" feature in the November/December issue of the *Journal* provided a very helpful overview of this important topic. More and more American and European corporations are coming to understand the necessity of learning to compete with Japanese firms by doing business in Japan, and their economies—and particularly those of the Unites States and Japan—will become increasingly integrated. The liberalization and deregulation in Japanese financial and other markets, which has attracted considerable attention abroad, is an important factor behind this trend.

The individual articles in the feature section bring out many useful points. In this connection, the data provided on the fact that foreign companies operating in Japan are quite profitable over the long term, and the suggestions regarding the policies foreign firms should follow—and those they should avoid—are very useful. Also valuable were the statistics on the national origins, industrial categories and prefectural locations of foreign factories in Japan.

The high value of the yen at the present time makes establishing a business venture in Japan quite expensive, and this may cause some foreign firms to postpone such investments. Yet the size and importance of the Japanese market suggest that the long-term trend clearly is for greater cross investment among the world's three most productive economic regions.

William J. Barnds
President
Japan Economic Institute of America
Washington, D.C.

Double Standard?

I found the feature in your November/December issue on foreign-affiliated companies (FACs) in Japan interesting as far as it went, but felt it failed to address itself to the wider implications of the subject.

For example, author Tatsuya Ohmori says it is imperative that FACs in Japan adopt Japanese management practices. Yet Japanese companies abroad have not felt it incumbent upon them to adopt local management practices. Usually only some modification of Japanese practices is deemed necessary or desirable, as with Nissan in the U.K. – and this has so far been successful.

Likewise, a top Japanese executive was quoted as urging foreign companies to be more international. This occurred in a paragraph in which the terms "foreign," "Western" and "American" appeared to be absolutely synonymous. The article would have benefited from a more critical approach to the notion of "international." In the context, it meant no more than doing things the Japanese way.

This is only one of several aspects where the *Journal* merely scratched the surface. I look forward to follow-up depth in future issues.

Anthony Head
Kawasaki, Japan

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.

Notice: With this issue, the *Journal of Japanese Trade & Industry* has revised its overseas subscription prices to better reflect currency exchange market rates. The domestic Japanese subscription price remains unchanged.

TOPICS

Booming Foreign Stock Listing on TSE

The number of foreign firms with stocks listed on the Tokyo Stock Exchange (TSE) was expected to increase to some 60 by the end of 1986, surpassing the 53 foreign stocks listed on the New York Stock Exchange as of the end of 1985.

The attraction for foreign firms of being listed on the Tokyo market is an easy access to funds available in Japan and publicity that makes their names better known among potential Japanese customers, according to officials of Barclays Bank of Britain and McDonald's Corp. of the United States. Such a development is expected to enhance the TSE's international role as a financial and capital center.

Foreign stocks listed on the TSE numbered 44 as of December 11, 1986, with about 20 more to be added by the end of the year. Among those seeking listing are Merrill Lynch & Co., which is already a TSE member, oil giant Exxon Corp. and Swedish automaker AB Volvo.

Foreign companies that listed their shares in Tokyo from January to November 1986 numbered 20 including British Telecommunications, U.S. chemical firm Du Pont and West German bank Commerzbank AG. With about 20 more to be added by the end of the year, the number of foreign companies newly listed in 1986 was expected to reach as many as 40, compared with the 10 newly listed in 1985.

The foreign stock section in Tokyo was created in 1973 with only six foreign shares initially listed. The number expanded to 17 in 1976 but dropped to 11 in 1982 mainly because of the high cost needed to remain listed. The number then increased again to reach 21 at the end of 1985.

The Tokyo Stock Exchange will soon be handling the stocks of some 60 foreign firms – more than the number of foreigners on the New York Stock Exchange.

A dramatic change occurred in 1984 when the TSE eased listing requirements for foreign stocks, simplified documents for listing applications and abolished dual auditing, which required foreign firms to have certified Japanese accountants audit their financial statements before seeking listing. Officials of the TSE's Foreign Stock Department said the Tokyo market is now more attractive to foreign companies as they can raise funds at low cost from one of the world's richest countries and can expect to gain business opportunities in line with deregulation involving the financial and telecommunications sectors.

Some foreign companies, whose yen-denominated earnings are increasing because of their expanded business in Japan, find it necessary to hold yen-denominated borrowings to hedge against foreign exchange fluctuations. Also contributing to the attractiveness of TSE listing is the fact that the TSE extended trading hours for foreign stocks from one hour to four hours, the same hours applied to Japanese stocks, beginning in 1986.

Reflecting the trend, foreign companies that listed their stocks on the TSE between 1985 and 1986 were mainly banks, securities houses and insurance and telecommunications firms, all closely related to securities transactions.

This boom in foreign stock listing is likely to continue in 1987 with more than 30 foreign companies planning to seek listings. These will include British Airways, United Airlines, West German automaker Daimler-Benz AG and Italian automaker Fiat.

Major Tax Reform Proposed

The government's Tax System Council submitted a final proposal on a sweeping overhaul of Japan's postwar tax system to Prime Minister Yasuhiro Nakasone in October 1986.

The proposed package is aimed at appeasing the people's dissatisfaction with perceived distortions and inequities in the current taxation system and fulfilling Nakasone's pledge made during the general election in July to reduce both the personal income/inhabitant tax and corporate tax rates.

The proposal called for individual tax cuts totaling some ¥4.8 trillion (about $29 billion at the rate of ¥165/$), while suggesting the introduction of a new indirect tax and the abolition of tax-free interest on savings, thus trying to neither raise nor lower government revenue.

Regarding the proposed tax cuts, consideration was given to salaried workers who are thought to be treated "unfairly" under the present tax system. The council suggested that the number of tax brackets for individual wage earners be reduced to six from 15, with the maximum tax rate trimmed to 50% from 70%. As a result, the basic tax rate of either 10% or 15% would be imposed on wage earners with an annual income of up to ¥9 million (about $54,500), who account for about 90% of the nation's salaried workers.

The Finance Ministry estimates that the income tax for a salaried worker with an annual income of ¥9 million would be reduced by about ¥300,000 (about $1,820), the amount that buys a high-quality color television set.

Shigeru Aoki, who represents the Salaried Workers' Party in the Diet, hailed the proposal as a "step ahead" toward the tax reform his party has long been calling for. But Aoki pointed out that the proposal would not eliminate loopholes in the present system that "make it difficult to differentiate tax saving from tax evasion." He said the proposal, if implemented, would leave salaried workers still discontented with the "unfairness" of the present tax system.

The council also proposed that Japan's effective corporate tax rate, the highest among advanced countries, be substantially reduced and the depreciation system, giving corporations a way to reduce tax payments, be reviewed.

In relation to a tax increase, the council called for the abolition of the tax-exempt system for small-sum savings but mentioned more than one alternative to substitute for the existing system. Several alternatives were also recommended by the council for a new indirect tax which said that a Japanese version of the European-style value-added tax is most appropriate "theoretically."

Discussion on the tax reform is now left to the Tax System Council of the ruling Liberal-Democratic Party and the Diet. The most contentious issues of the package will be the introduction of an indirect tax and replacement of the present tax-exempt system for small-sum savings. The government plans to implement the tax reform in the year beginning in April 1987.

The proposal has left room for tax increases in the future with the council stating that "The tax reform should be implemented so as to flexibly cope with requirements for fiscal spending in the future."

Japanese Industry Faces Structural Reform

A time of change has come to the industries that in the past helped create the Japanese economic miracle. In part, their decline is an inevitable consequence of international trade friction and the growing role of high technology and information in Japanese society. But the sharp appreciation of the yen since the autumn of 1985 has given further impetus to the transformations shaking these industries. The enterprises themselves are doing all they can to weather the crisis. Their plans to sharply cut employment, however, have proven traumatic for the workers concerned.

The most sweeping structural changes are taking place in the steel industry, which has been battered by a yen appreciation of over 50% against the dollar since the G-5 finance ministers' conference in September 1985. Crude steel production by the nation's major steel companies is expected to fall in 1986 to the lowest level since 1972. The five largest steelmakers plunged into deficit in the first quarter of fiscal 1986 as a result of reduced sales. Their total deficit for the first half of fiscal 1986 reached an estimated ¥180 billion (about $1.1 billion at the rate of ¥165/$), while that for the whole of fiscal 1986 is believed to have exceeded ¥400 billion.

Under these circumstances, leading steelmakers have announced plans to lay off redundant workers, or keep them waiting at home until further notice. Of a total work force of about 180,000, 30,000 to 40,000 steelworkers are believed to be unneeded. Drastic measures to consolidate or scrap steel works are being studied, while the industry is also striving to reduce its dependence on steel demand and branch out into new lines of business. For example, industry leader Nippon Steel Corp. is expanding into such high technology as condensers and minicomputers, and is reshuffling its old operations. In 1986 alone, nearly a dozen departments were broken out into independent subsidiaries. Similarly, Kawasaki Steel has set up a joint venture, Japan Semiconductor, with LSI Logic, a U.S. semiconductor maker. The new company plans to start producing semiconductors in Japan in 1987.

The crisis in the steel industry has dealt a heavy blow to coal mining. The yen's rise has pushed up the price of domestic coal to three times the price of imported coal. The steel industry, a major user of domestic coal, has refused to pay more for domestic coal than it does for imports. Mining companies are trying to overcome their immediate cash flow problems with the support of their parent companies, but it is clear that the industry has lost its international competitiveness. Coal mining employed 230,000 workers 27 years ago, but the work force has since shrunk to only 14,000 and is expected to decline even faster in the years ahead.

The shipbuilding industry also faces difficult times. Fifteen years ago Japan's shipyards produced 50% of the world's new ships, or 35 million tons. Current output is only one-fifth that figure. Shipbuilding companies are firing large numbers of workers. The Shipbuilders' Association of Japan says that the present work force of 70,000 must be reduced by 20,000 in order to tide over the recession.

The textile industry, heavily reliant on exports, is also slashing employment in the face of competition from South Korea and Taiwan. Products from these countries enjoy a price advantage over Japanese products because their currencies—the South Korean won and the New Taiwan dollar—have depreciated against the U.S. dollar while the yen has appreciated against it. Japan's textile products have lost their competitive edge on world markets.

Business Study Program Well Received

Perhaps the most effective way to correct misunderstandings about Japan, often the cause of international criticism of the country on trade and other issues, is to have foreigners spend time here themselves. As a Japanese proverb says, "To see for oneself is worth more than any travel book."

That was the motivation behind the "Japanese Business Study Program," launched in 1984 at the initiative of the Ministry of International Trade and Industry (MITI) in accordance with an agreement at the 1983 quadrilateral trade ministers' meeting between the U.S., Canada, the European Community and Japan. Under the study program, managed by the Institute for International Studies and Training, two groups of 50 American, Canadian and European businesspeople visit Japan each year, one group in the spring and the other in the autumn, for four months.

The program includes lectures by ranking government officials and top businessmen on Japanese management, the Japanese market and the Japanese distribution system. Akio Morita, chairman of Sony Corporation, and Makoto Kuroda, MITI vice minister for international affairs, have been among the speakers. The lecture sessions are held in Tokyo and in Fujinomiya at the foot of Mt. Fuji, where the institute's training center is located.

"To see for oneself is worth more than any travel book."

Participants also take one-week tours of industrial plants to observe production lines and meet executives. While in Fujinomiya, participants are invited to the homes of local residents through arrangements made by the local junior chamber of commerce and industry.

A total of 289 American, Canadian and European businesspeople have participated in the six programs implemented so far. Participants have praised the program, which they say helped them to understand Japan in a short period and consequently to conduct business with Japanese more effectively.

The program has also been well received by the governments of the participants' home countries. Indicative of its popularity, overseas offices of the Japan External Trade Organization (JETRO), which recommends participants, have been swamped with applications. Participants in the sixth program held in October were older and held more senior posts than those in the previous five, also reflecting the high esteem in which the program is held.

At the farewell party for the sixth program, participants expressed their appreciation in a song, "The Ballad of the Japanese Business Study Program," written by one of the members and set to the tune of the American folk song "The Wabash Cannonball."

Although the program was initially conceived as a means of solving trade friction between Japan and its major trading partners, it is expected to be continued so as to contribute even further to deepening international understanding.