Publisher's Note

New Era, New Imperatives

By Shoichi Akazawa

This July, the Industrial Structure Council presented its package of trade and industrial policy recommendations for the 1990s. In an impressive document prepared for the minister of international trade and industry, the Council outlined the basic policy directions—both the whys and the whats—for the rest of this century.

The Council has existed since 1964 as the umbrella organization for the deliberation and discussion of Japanese industrial policy. Although there is some debate over how extensive industrial policy can be and still be compatible with our basic free-market economic principles, the Council's deliberations provide a forum for opinions, expertise and other input from the various industries and sectors concerned, as well as from an impressive array of academic and governmental figures, and its reports and recommendations have long been accepted as definitive indications of the fundamental tenets of Japanese industrial policy. Indeed, it has been argued that the Council's recommendations are at least partly responsible for keeping the Japanese economy on track and growing.

Culminating its regular work, the Council issues visionary reports once every 10 years in which it outlines what direction Japanese trade and industrial policy should take in the ensuing decade. Just as the former three visions proved to be important statements of the fundamental policies for the 1960s, 1970s and 1980s, the recently released vision for the 1990s is expected to set the policy tone for the coming decade.

The Council's visions define the central themes for the Japanese economy. The vision for the 1970s, for example, emphasized information-intensive industries. This was an effort to ensure that the Japanese economy stayed abreast of the information revolution that swept the world in those years and to encourage the growth of such futuristic industries. Reflecting the harsh experiences of the 1973 and 1978 oil crises—traumatic shortages that reminded Japan of its vulnerability to the whims of the world market—the vision for the 1980s emphasized the concept of "economic security."

For the 1990s, the vision is subtitled, "Creating Human Values in the Global Age." At first glance, this theme seems less dramatic and less impressive than the 1970 and 1980 themes. Yet given the accelerating globalization of business as people, goods and money are able to move more freely across national borders, and with the maturation of Japanese society and the economy, there is no more compelling imperative than this emphasis on the global era and the need for values that are directed to enhancing the quality of Japanese life and contributing to the international community.

This theme also underscores the importance of the 1990s as the last decade of the 20th century and as a prelude to the 21st century. During the next 10 years, the world will not only be putting the finishing touches to this century's advances but will also be readying for the social and economic challenges that are sure to come in the first part of the 21st century. It is the task of economic policy in the 1990s to put the systems in place that we will need to respond to such changes.

There are numerous ways in which this report assigns trade and industrial policy a less important role in guiding the economy's workings than it had in the 1970s and 1980s. Yet this is not so much a downplaying as it is a recognition of the economic realities and an effort to find a 1990s mix of governmental policy advice and free-market initiative. In every era, Japan and the Japanese economy—both the government and the private sector—have tried to respond to historical circumstances and popular aspirations. Building on its eloquent background brief and then looking incisively at where Japan should go for the next 10 years, this Council report is expected to be an important guide to economic policy in the 1990s.

Letters

Reasons for Success Of Foreign Businesses

On page 58 of your May-June issue, you show that in some sectors of the Japanese economy, foreign-owned firms are found among the top ranks, and that these firms perform consistently better than their domestic rivals. You infer from that fact that the Japanese market is not as hard to penetrate as foreigners maintain. I believe the facts suggest a different inference.

If foreign companies perform consistently better than Japanese companies, why aren't there more foreign companies? Answer: Because cartelization and bureaucratic hurdles make it difficult. Once established, however, foreign companies are able to generate near-monopolistic profits simply because they are so much better than their Japanese rivals and have no competition to fear from their own peers—in other words, the established foreign company benefits from Japanese protectionism in two respects: it depresses the level of sophistication of Japanese companies and shuts out those companies that could actually compete. Both Nestlé and IBM are cases in point.

It should be noted that Japanese protectionism is not directed against foreigners in particular, but against newcomers in general. Why else would dynamic companies like Honda and Sony be selling more abroad than in Japan, while stick-in-the-muds like the old *zaibatsu* companies need to rely on protectionism to keep them afloat.

Jürg Gassmann
Zurich
Switzerland

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.

COMING UP

The sharp rise in Japan's direct investment overseas often seems a focus of interest for the world news media, yet little attention is paid to the steady increase in foreign investment in Japan and the successful inroads into the Japanese market by foreign companies.

The November/December issue of the *Journal* will look at foreign investment in Japan in its Cover Story section. Chikao Tsukuda, president of the Institute for International Trade and Investment, analyzes the overall trend, while Masayuki Hara, a professor at Kobe University, examines U.S. investment in Japan and compares it with investment by Japan in the United States.

There will also be an article by Vladimir Pucik, an associate professor at the University of Michigan, about his survey on personnel management in Japanese companies in the United States. He will report on a similar survey on American companies in Japan in the following issue.

Final SII Reports Agreed with U.S.

Japanese and U.S. trade officials ended a year of hard negotiations in June with the announcement of two reports spelling out measures for removing barriers to trade and investment in both countries. The final reports on the Structural Impediments Initiative (SII) urged both governments to reform their economic structures to help reduce Japan's huge bilateral trade surplus.

The reports contained a specific commitment by Japan to spend ¥430 trillion over the next 10 fiscal years on public works projects and to eliminate exclusionist trade practices by revising the Antimonopoly Law and establishing tougher guidelines for its implementation. Japan also pledged to shorten the time needed to open a new store under the Large-Scale Retail Store Law to just one year.

The U.S. government pledged in return to increase taxes in order to reduce the chronic federal budget deficit. The Japanese government hopes the agreement will help reduce tensions between the two countries.

The reports covered measures to be taken by Japan in six specific areas, including savings and investment patterns, land use and the distribution system. All are intended to reform Japan's economic structure in the consumer's interest.

In addition to the increased public works spending, another ¥25 trillion will be spent on capital investment by the Japan Railways Group and Nippon Telegraph and Telephone Corp., former public corporations privatized in recent years. Japan also said it would earmark 60% of the new public works spending for projects to improve the quality of life, including raising the average floorspace of new homes to 95 square meters by fiscal 1995 from 89 square meters in fiscal 1988.

On land use, the reports said land taxes will be reviewed and possible new taxes considered to curb the land price spiral. A bill to revise the land tax system should be drafted by the end of the year.

On the distribution system, besides revising the Large-Scale Retail Store

Photo: Nihon Keizai Shimbun

Prime Minister Toshiki Kaifu, flanked by his foreign and finance ministers, announces the final agreement on the SII.

Law, Japan committed itself to setting standards for such commercial practices as rebates, and establishing an import council to prepare the way for further import promotion.

In the area of exclusionary business practices, Japan promised to form a special panel under the chief cabinet secretary to decide on higher fines for violators of antitrust regulations by the end of the year. Japan also pledged to shorten within the next five years the time needed for patent applications from 37 months to 24 months.

On *keiretsu* business affiliations, informal ties between members of large business groups, Japan promised to require companies holding more than 10% (compared with 20% at present) of each other's stock to disclose information on bilateral commercial deals. The report also cited the need to end price differentials between the Japanese and overseas markets.

For its part, the U.S. government pledged to consider creating a new family savings account to encourage savings and cutting the capital gains tax to stimulate corporate investment.

Both governments agreed to hold follow-up meetings three times in the initial year and twice a year thereafter to review implementation. The meetings will be attended by vice ministers or their equivalents of both governments.

Japanese Firms Watch Opening of E. Germany

With the collapse of the Berlin Wall, Japanese businesses are gearing up to enter East Germany. The economic unification of East and West Germany on July 1 made the East German currency convertible and paved the way for a market-oriented economy with a population of 17 million and a gross national product of $200 billion. The allure of this new market is drawing active investment from Western industrial countries.

Among Japanese firms, information-sensitive trading houses were the quickest off the mark. Mitsubishi Corporation led the first wave by opening a branch office of Mitsubishi International G.m.b.H. in West Berlin that will serve as a base for Mitsubishi's move into East Germany. Nissho Iwai Corp., another major trading house, opened a local representative office of its German affiliate in West Berlin in March, while C. Itoh & Co., Mitsui & Co. and Sumitomo Corp. are all considering stepped-up operations in East Germany. Another trading house, Marubeni Corp., has already announced plans to build oil refining facilities on East Germany's Baltic coast in a tie-up with Thyssen Stahl, a major West German steel company.

Where business goes, bankers follow. The Bank of Tokyo opened a representative office in East Berlin in June, and four other major banks – Sumitomo, Sanwa, Mitsubishi and Mitsui Taiyo Kobe – plan to follow suit by the end of this fiscal year.

Long-term trust banks are also seeking footholds in East Germany and other Eastern European countries. The Long-Term Credit Bank of Japan has established a local corporation, the Long-Term Credit Bank of Japan (Deutschland) in Frankfurt, as a springboard. Two other long-term credit banks are also moving to launch operations in East Germany and other countries in Eastern Europe.

Meanwhile, Nomura Securities Co. opened an office in West Berlin in June to meet growing interest in Japan in German stocks. It was the first Japanese securities house to do so.

Auto companies, the pacesetters of Japan's export industry, are also showing keen interest in East Germany, with Nissan Motor Co. starting sales and repair service operations in 36 places on June 22. Toyota Motor Corp. plans to launch similar operations in 30 locations in East Germany.

However, many Japanese companies remain cautious about moving into East Germany. At the moment, most Western corporations operating in East Germany are West German.

Japanese companies are nervous because of the many factors for economic instability in East Germany, including inflation and rising unemployment. Japanese companies also are finding it hard to get solid information about East Ger-

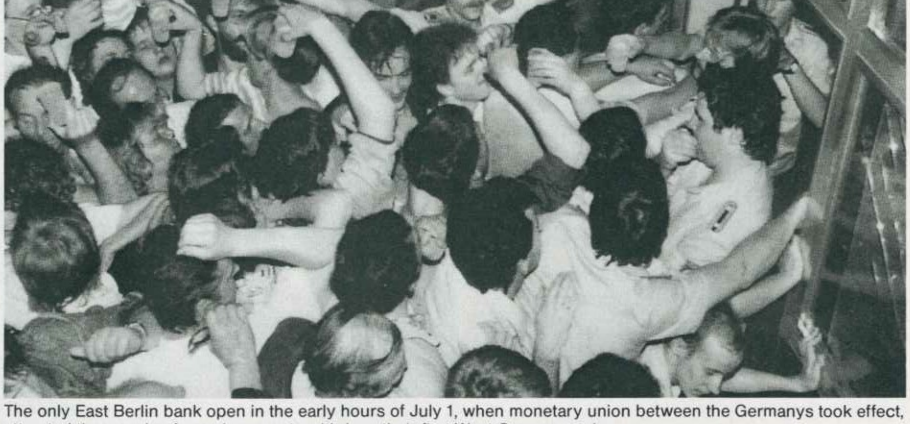
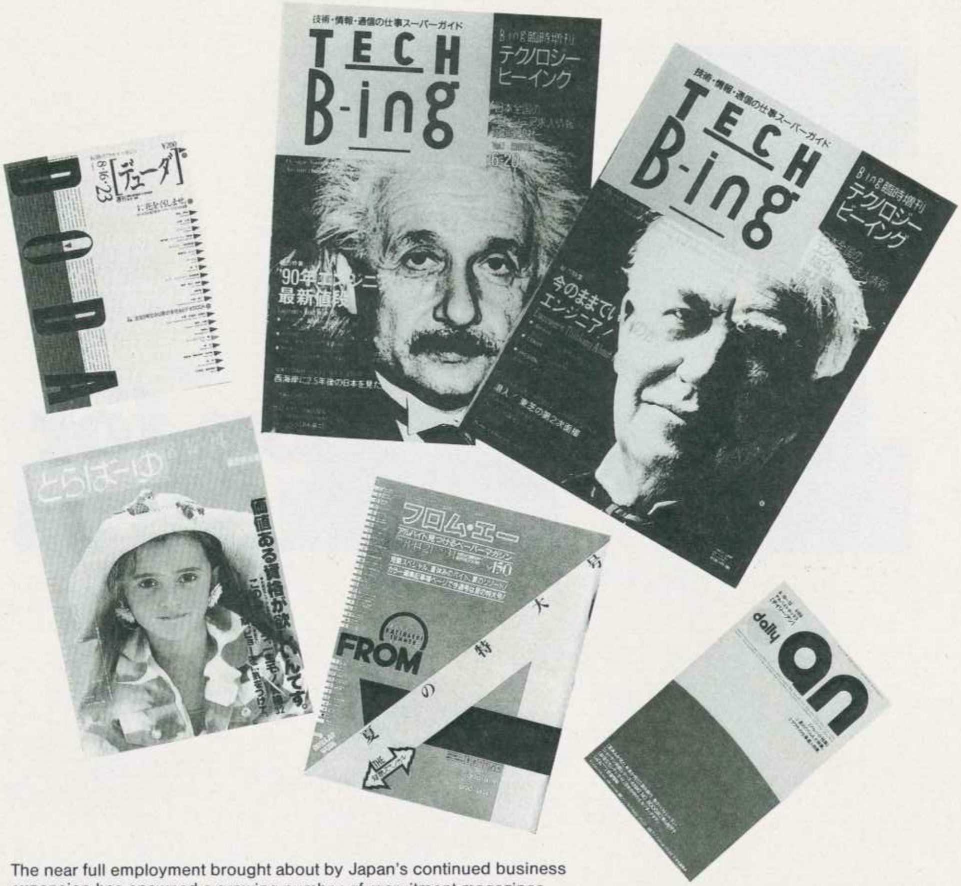


Photo: Nihon Keizai Shimbun

The only East Berlin bank open in the early hours of July 1, when monetary union between the Germanys took effect, attracted thousands of people eager to withdraw their first West German marks.

many, while some fear that moving too aggressively into the new market could irritate European Community countries.

Although most Japanese companies are interested in East Germany, all they have done so far is to start gathering information, including dispatching survey missions. "The most promising items for the East German market are durable consumer goods like high-tech cameras and VCRs," said Kunihiro Ashida, director of Sumitomo Corp. "But it is too risky now to establish production bases or make direct investment in East Germany. Japanese companies would do better to strike up partnerships with their West German counterparts, since acting on their own could cause suspicion over Japanese intentions. Manufacturing companies would do better to build up their marketing networks before thinking of building factories."



The near full employment brought about by Japan's continued business expansion has spawned a growing number of recruitment magazines.

Businesses Hard Hit By Labor Shortages

Amid continuing business expansion, seven out of every 10 Japanese companies are facing serious labor shortages, and one out of every three is suffering from soaring labor costs, according to a report by the Economic Planning Agency (EPA).

The report, "The Labor Shortage and Its Impact on the Industrial Economy," was based on a poll taken in November and December last year of 4,500 firms across the country.

Asked if they were experiencing a labor shortage, 26.6% of the 1,330 companies responding replied "Definitely yes," and 44.1% others "Yes, to some extent," for a total of 70.7%. The survey found that 69.3% of the firms suffered from a shortage of full-time employees, compared with only 30.7% experiencing a shortage of part-time employees and 22.2% a shortage of seasonal employees.

The shortage most keenly felt was that of technical staff (55.6%), followed by sales staff (42.6%) and skilled workers (36.1%). The EPA report said the figures reflected a trend among college engineering graduates to seek jobs in financial institutions or simply shun physically hard work.

The companies said the shortage was affecting them in many ways. Increased overtime was cited by 48.5%, followed by higher personnel costs (34.4%), a drop in days off taken by staff (29.5%), and lower quality customer service (23.8%). (Multiple replies were allowed).

Of the companies citing increased labor costs, 13.1% said they had met the extra costs by charging more for products and services. Another 8.1% that considered markups possible nonetheless chose to improve productivity instead. And 61% of the companies responding said they could not meet the extra costs by raising prices because of customer resistance.

By industry, 27.5% of information, medical care, education and other service businesses had raised prices, followed by 16.7% of wholesalers, retailers and restaurants, 8.8% of manufacturers, 7.9% of construction firms and 5.0% of transportation companies.

Those choosing to absorb extra costs through improved productivity included 49.2% of manufacturers, 40.5% of commercial businesses, 31.0% of construction firms, 29.8% of service businesses and 26.6% of transportation companies.

The survey found that 42% of the firms responding were coping with the labor shortage by increasing the number of staff, 41% by offering more days off, and 29% by investing in more labor-saving equipment. Only 17% reemployed retired workers, and a bare 8% reemployed former female staff who had left the company.

The report predicted that Japan's labor supply will remain tight with "near full employment" continuing for some time to come. It recommended that companies offer more job opportunities to women and the elderly, and urged employers to improve working conditions for those willing to do "dangerous, dirty or arduous" jobs.