JPRI
JAPAN POLICY RESEARCH INSTITUTE
CRITIQUE

JPRI Critique Volume 1 Number 2 (October 1994)

Japanese Cartels Still Block Imports
by Mark Tilton

The clock is once again ticking on a U.S. threat to invoke Super 301 sanctions against Japan for maintaining unfair barriers to trade. By September 30th, the Clinton administration will have decided whether the Japanese have met its criteria for openness in various areas such as autos and auto-parts, computers and super-computers, and sheet glass, or whether to call for stiff penalties.

Until recently, what I had read in the U.S. and Japanese media had half convinced me that Japan's retail revolution surely must have broken the back of informal barriers to imports. In-depth interviews with Japanese business executives in the last few weeks, however, have revealed that the cartels and trade practices that blocked imports in the past have not fundamentally changed. The loosening of the Large Scale Retail Store Law has permitted a certain expansion of discount stores that has helped bring down consumer prices. However, as the Clinton Administration has rightfully complained, the law continues to impede the development of truly competitive markets in Japan. Because of restrictions on building new stores, for instance, discount stores still account for only 10% of total sales of electronic goods. As a senior executive at a major electronics maker recently told me, "there isn't much discount pricing in Japan yet. Japanese consumers can't buy at cheap prices like in the U.S."

Although Japanese manufacturers of consumer goods have made some tentative moves toward buying cheaper materials from overseas, they are still surprisingly reluctant to import. Though Japanese domestic prices for steel, petrochemicals, and cement have been far higher than the prices of its imports or exports of these goods for a decade or more, it runs large trade surpluses in all of these markets. Why don't Japanese firms import more of their basic materials? In part it's due to a strong commitment by manufacturers to preserving security of supply and Japan's industrial vitality by purchasing them domestically. I recently spoke with a man one would suppose to embody the quintessence of internationalized Japanese business, a shipbuilding executive who had spent many years selling ships in the West. When I asked him why despite tough competition from low-cost shipyards in Korea his firm, like most Japanese shipbuilders, refused to buy cheaper Korean steel, he answered, “People have long said, ‘steel is the state.’ It’s true. If steel gets weak all of industry will get weak. If we switch to imported steel, the country will stop developing.” Although American economists suggest that firms under international competitive pressure are forced to switch to cheaper imports, Japanese firms have made every effort to shun imports and maintain what they consider strategic industries.

This refusal to switch to imports is not simply due to nationalism by the firms buying the materials, but also to cartels that prevent domestic manufacturers from pushing down domestic prices and driving each other out of business. Steel, petrochemicals and cement firms’ consistent pattern of selling cheap overseas and dear at home shows the discipline of the domestic price cartels. Though steel has been able to maintain this cartel through the powerful price leadership of New Japan Steel, other industries have developed elaborate market-governing mechanisms. Petrochemicals, for instance, has an eleven-year-old price-fixing formula for its basic goods that is universally acknowledged by buyers, but which has never attracted the Japan Fair Trade Commission’s attention. Electronics and auto makers recently confirmed to me that the formula is still standard practice.

In case an individual buyer’s commitment flags, in some industries there are sanctions against buying imports. Cement firms threaten to cut off sales to construction companies that buy imports. Shipbuilders and a retired steel executive told me recently that one reason shipbuilders won’t buy imported steel is that they fear domestic steel firms will retaliate by not buying machines from their machinery divisions and telling shipping firms not to buy their ships.

Some Americans believe the solution is to push for deregulation and wait for the market to work its magic. We may be waiting for a long time. It is true that the Japanese media are full of criticism of government regulation, and MITI officials will tell you earnestly that they now realize that past cartel policies were mistaken and have resulted in terrible inefficiencies. But neither the Socialist nor the Liberal Democratic Party is actually much interested in deregulation. And it is not clear that business is truly opposed to government help in ordering markets. The shipbuilder cited above said that if competition gets tougher in his industry, the government will have to organize a capacity-cutting cartel since that’s the only way firms can reduce capacity (without producing “ruinous” competition). The electronics executive said that MITI couldn’t possibly keep up with the pace and complexity of technological change in his industry. But he praised MITI’s cartels to keep prices high in the steel and chemical industries from which his company buys its raw materials as “wonderful, MITI’s true success. We were afraid the industries would go bankrupt.”

Certainly the U.S. is wise to continue to pressure Japan to pursue deregulation. In addition the U.S. ought to push to give the Japan Fair Trade Commission tough laws, generous staffing, and genuine independence, none of which it has at present, in order to break up Japan’s domestic cartels. However, neither industry nor the political parties support these goals. The U.S. seems to have no other choice but to push Japan to make specific promises for results, preferably in cooperation with other countries that have also been trying hard to break into Japanese markets.

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Tokyo Bureaucrats Rule as Leaders Come and Go
by E.B. Keehn

The last time Japan had a Socialist Prime Minister was 1947, and the country was under U.S. military occupation. Although politicians were chosen in free elections, they were not expected to set policy: that was the privilege of General MacArthur and an elite group of Americans under his command. In late June of 1994, Japan got its second Socialist Prime Minister, Tomiichi Murayama, after a dramatic leadership vote in the Diet. But Mr. Murayama will no more be able to govern than the last Socialist leader because Japan is still under the control of an unelected elite--its bureaucrats. Constitutional provisions aside, bureaucrats do not advise Cabinet ministers in Japan, they instruct them.

Differences of opinion within the coalition are important when discussing their ability to hang together in office, but they are meaningless when discussing which ideas have the best chance of being transformed into policy.

Politicians in Japan simply do not have the means to design and enforce policies that go beyond what bureaucrats deem acceptable. This is further complicated by the fact that there is no bureaucratic "view" on reforms, just a multiplicity of ideas and strategies that are often contradictory. Bureaucrats will agree only on policies that have been first vetted by their collective interests; that is especially true of deregulation and measures to open the market, and results in limiting the policy agenda of any Prime Minister, regardless of party affiliation or the nature of coalition politics. It virtually guarantees that new measures must meet with the approval of a broad range of bureaucratic interests or face being reduced to a set of vague and meaningless pronouncements.

Specific proposals from outside the bureaucracy can be pushed through, such as the deal that guaranteed Motorola a larger share of the cellular telephone market in Japan. The idea that this "liberalizes" Japan is something that lives only in the minds of American trade negotiators. Such deals only entrench the power of bureaucrats because it is the ministries that must sign these deals and manage them. That may lead to improvements in U.S.-Japanese relations, but it does not necessarily create a more open Japanese economy.

The fact is that Japan has long had good economic reasons for deregulating its markets, but that has not been translated into action. Lost sales as a result of over-regulation in the retailing sector are running at 50 billion yen ($500 million) a year. In the financial sector, lost profit-making opportunities as a result of over-regulation probably come to about 5,000 billion yen a year. On average, needless economic regulations impose on Japan a cost of living 18 percent higher than any other advanced nation. Just bringing consumer prices into line with the rest of the Group of Seven would release 60,000 billion yen into the domestic economy, translating into approximately eight million new jobs.

These are heady numbers for an economy just beginning to grope its way out of its worst recession in postwar history. The reason why nothing has been done during the three years of the recession to alleviate over-regulation is that too many bureaucrats felt that the cost of losing influence over important sectors of the economy would be far greater than whatever benefits deregulation might bring to consumers and hard-pressed businesses.

With the yen hitting new heights against the dollar and exports starting to dip, the pressures for deregulation are greater than ever. The various ministries involved are proceeding slowly to ensure that they will be able to maintain acceptable levels of authority wherever possible.

The obvious way to break this logjam is for politicians to take the process of deregulation out of the bureaucrats’ hands and put it in those of independent and accountable commissions. Yet most of Japan’s senior politicians have shown themselves unwilling to do this. All of them subscribe to the rhetoric of economic reform, and most recognize that economic reform is not possible without also taking on the bureaucracy. But few of them have shown a genuine interest in challenging the authority of the bureaucrats.

The power imbalance between bureaucrats and politicians will continue, regardless of which party gains temporary control of the Cabinet. The changes that have occurred in Japan since the Liberal Democratic Party lost power during the summer of 1993 have done nothing to alter this state of affairs.

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