RESTRUCTURING STRATEGY OF JAPAN'S SERVICE SECTOR IN THE TWENTY-FIRST CENTURY

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INTRODUCTION

Despite a prolonged economic recession, Japan is still the second largest economy in the world and it plays a central role in the Asian economy in trade, foreign direct investment, and official development assistance (ODA). During the post-war period Japan's economy expanded by enhancing production capability to become a so-called manufacturing economy. Japan's automobile and consumer electronics industries are world leaders and they are strong global competitors. On the other hand, its service industries such as telecommunications, transportation, and finance are far behind the global top runners. "Strong manufacturing and weak services" describes the overall situation of Japanese industry in the global economy today.

As an economy matures, the industrial structure changes, and employment and value-added increase in the service sector while they decrease in the manufacturing sector. In fact, Japanese manufacturing companies have already moved a substantial portion of their production facilities to other places in the Asia region. The service industries must create jobs in Japan to absorb their workers in Japan as well as new entrants to the labour force. Furthermore, with the globalisation of capital, goods and services, and information, the service industries can no longer remain purely domestic. Although human resources and logistics depend on domestic participants, the global movement of capital and information breaks down national borders. Japan's service industries have been less exposed to global competition than its manufacturing industries and their management has become less efficient. Foreign-owned companies are moving into Japan's service sector, and Japanese companies are losing their positions in high value added industries such as telecommunications, the Internet, and insurance.

Entering the twenty-first century, Japan's service sector must build its own core competence to meet increasing competition. Japanese households have more than US$10 trillion saved at banking institutions. Domestic companies can tap into this vast buying power by selling services and attracting investment—if they offer something different, like the foreign-owned companies that have begun doing business in Japan.

This chapter focuses on Japan's service sector, within which some industries are doing well and others are not. It emphasises the necessity for change in the management system and for deregulation in order to restructure the service sector to cope with globalisation and to exploit new information technologies. The first part of the chapter examines the current situation and the challenges facing Japan's service sector. The second part discusses the strategy that the service industries should adopt to restore their vitality and competitiveness. The chapter concludes with policy recommendations.

CURRENT STATUS OF THE SERVICE SECTOR IN JAPAN

In 1997 services comprised 67.7 percent of Japan's GDP value added compared with 24.3 percent for manufacturing (Table 11.1). The service sector's share of the economy is roughly the same in Japan as in the United States (67.9 percent of GDP value added) and higher than in Germany (58.1 percent of GDP value added) or the UK (62.0 percent). Real estate and wholesale and retail trade are the two service industries with the largest share of value added. The service sector accounts for 72.0 percent of total employment in Japan compared with 80.7 percent in the United States. Wholesale and retail trade alone accounts for almost one-fourth of total employment in Japan and personal, community, and other services for about another one-fourth. The construction industry has a larger share of employment in Japan than in the United States, Germany, or the UK. On the other hand, financial services has a smaller share of employment in Japan than in these three other advanced economies.

Services are not Driving the Economy

In the United States and Europe the service industries are driving economic growth, but that is not the case in Japan. Low growth rates in the finance, insurance, and telecommunications industries have restrained overall GDP growth in Japan compared to the United States, Germany, and the UK (Table 11.2). As the *Economist* (27 November 1999) put it:

> In Europe and America, service industries such as information technology and finance have become engines of growth as manufacturing has moved offshore. In Japan, they have been hobbled by restrictive regulations. Small, entrepreneurial companies have a hard time of it. Instead, capital and labour stay locked up in big companies, which try to diversify into new, "growth" industries, but rarely succeed.

High Unit Costs

One source of weakness in the service sector can be seen by comparing value added per employee in Japan and other countries. Overall and in the manufacturing sector, value added per employee is similar in Japan and the United States (Table 11.3). In every service industry except trade, on the other hand, value added per employee is higher in Japan than in the United States. The discrepancies are particularly large for the construction and utility industries. In the context of minimal competition in Japan, these differences imply that service industry costs in Japan are higher than in the United States, not that service industries in Japan are more productive than in the United States.

Lack of Global Presence

Japan's service industries also are relatively inactive outside of the domestic economy, although this was not always the case. At one time, Japan's general trading companies, or *sogo shosha*, were active throughout the world. During the 1980s, Japanese financial institutions expanded their overseas branches. The major activity of these overseas branches was not to do financial businesses with local companies, however, but to lend to sovereign borrowers and financial institutions overseas, and since the bursting of the bubble economy they have been closing these overseas branches. The service industries' inactivity outside Japan is manifest in the service trade deficit, which is the largest in the world (Table 11.4). Particularly worrisome is the deficit in information services. Japan has carried a trade deficit in information services since the late 1980s, at the same time that the United States was carrying a large surplus in this industry. This explains Japan's weak position in the emerging information-based economy.

According to the Organisation for Economic Co-operation and Development such strategic business services as computer software and information processing services, R&D and technical testing services, marketing services, business organisation services (management consulting and recruiting services), and human resource development services are essential to business progress, firm competitiveness, and growth (OECD 1999). Japan's 21 percent share of world trade in these strategic business services is less than half that of the United States (49 percent). Japan imports key business services such as computer services, management consulting, and public relations from the United States (Table 11.5).

Competitiveness Factors

The Institute for Management Development (IMD) in Lausanne, Switzerland ranked 47 countries and regions on the basis of factors that contribute to international competitiveness. In the Institute's *World Competitiveness Yearbook* for 1999, Japan ranked at the bottom or next to the bottom on eight individual factors, including entrepreneurship and creation of new businesses (Table 11.6). Japan's weakness in entrepreneurship and new business creation is a critical disadvantage to enhancing the service sector. As the success of Yahoo and Amazon.com demonstrates, new services come from entrepreneurship.

Low Diffusion of Information Technology

In other economies, Internet-based e-commerce is a driving force of new service business, but in Japan inadequate information infrastructure for consumers is holding back the service sector. Internet penetration and e-commerce volume are far lower in Japan than in the United States (Tables 11.7 and 11.8). During the 1990s, investment in information technology in part supported the long up trend in the U.S. economy. In Japan, on the other hand, the rate of IT investment was much lower, and the economy suffered slow or negative growth (Table 11.9).

IMPEDIMENTS TO THE GROWTH OF THE SERVICE SECTOR

Although Japan has undertaken some deregulation of service industries, the dynamism and competitiveness of the service sector are still impeded by government regulation and its consequences and by the incentives of the traditional management and corporate systems.

Over-regulation

A distinctive and long-standing feature of Japan's service industries is an absence of competition. Banking, telecommunications, construction, insurance, transportation, and utilities have all operated in a highly regulated domestic environment and they have been heavily protected from foreign competition. Regulations established after World War II when Japan was a developing country remained in place for many years after the economy attained an advanced stage of development. At one time, regulated interest rates were necessary to support the small banks that provided financing to small, local businesses; a domestic telecommunications monopoly was needed to build up a nation-wide telecommunications infrastructure; and a highly regulated motor vehicle inspection system was needed because of the low quality of Japanese cars. Much of Japan's problem today results from the fact that such regulation of the service sector did not change as companies and markets matured.

These problems are compounded by restrictions on entry (and exit) that limit competition. For example, permission is given to open new banking establishments only in locations that are served by few banks. This means that even if a bank could be very competitive in an area and push out inefficient competitors, the branch application will not be approved. It also reduces the pressure on existing banks to manage their business efficiently. In transportation, the government regulates the number of taxi licenses and airline routes. In utilities, deregulation of electricity generation began in March 2000, but the newly independent power producers may only sell to large-volume (more than 2,000 kw), high-voltage (above 20,000 V) users, not to small businesses and households.

Protection from Foreign Competition

Some service industries were both protected from foreign competition and closed to foreign companies. Inward foreign direct investment in Japan's telecommunications, construction, and transportation industries has been low relative to value added or employment (Table 11.10). Furthermore, the closed local distribution networks made it difficult for foreign companies to access Japanese consumers. With the advent of information technology, global logistics networks, and the Internet, however, it is no longer possible to continue maintain the service sector as a domestic market.

High Prices

One consequence of regulations that limit competition is that service industry prices are relatively high in Japan. For example, electricity costs more than 20 yen per kilowatt-hour in Japan compared to around 10 yen per kilowatt-hour in the United States. An *Economist* survey on Japan (1999) reported transport in Japan five times as expensive as in America and average warehouse rent ten times that in Britain. A report by Japan's Economic Planning Agency (EPA) compared the prices of certain basic services in Tokyo with those in other major cities around the world (Table 11.11). In most categories of personal services, including house rent, delivered pizza, movies, and golf fees, costs in Tokyo were significantly higher than in other cities.

Local telephone service in Tokyo appears to be relatively inexpensive (Table 11.11). For example, a local call from a public telephone in New York costs 25 cents, or about 30 yen, compared to only 10 yen in Tokyo. However, local telephone companies in the United States offer fixed rates for local calls. Moreover, Japan's lower cost for local telephone service is offset by higher prices for long distance service. In the United States major long distance carriers have rates as low as 10 cents per minute to any location in the country. In comparison in 1998, a three-minute call between Tokyo and Osaka during business hours cost 90 yen, after falling from 400 yen in 1988. Unlike the United States where fees are largely determined by the market, Japanese government policies make long-distance users subsidise local telephone service and NTT's fee structure is subject to approval by the Ministry of Post and Telecommunications.

The high cost of telecommunications is seen as the main obstacle to diffusion of the Internet in Japan. In areas where Internet service is provided through cable television companies subscribers pay about ¥6,000 per month for unlimited Internet use. Where access is through the telephone lines, however, the cost of using the Internet for two hours per day can amount to more than ¥12,000 per month because NTT charges on a per-minute basis even for local calls. To stimulate Internet usage, Japan needs to introduce flat-rate local telephone charges as well as to expand use of the cable television network.[1] In July 2000, NTT agreed to reduce the fee to connect to its network by 22.5 percent over three years. This will have a big impact on Internet use in Japan.

Traditional Management System and Service Sector Business Model

A second set of impediments to the service sector comes from the inability of the traditional management system to support service industries in an environment of globalisation and information technology. Here, management system refers to human resource management, corporate finance, corporate governance, and use of information technology (IT), all of which are key factors defining the competitiveness of companies in the service sector.

Local history, culture, and institutions all influence management systems. The distinctive characteristics of Japan's management system are attributed to cross-share holding among affiliated companies, main-banks, lifetime employment, and seniority-based wages (Table 11.12). This system worked well when the country was trying to recover from the devastation of World War II, but it is less suited to Japan's situation as an economic giant in a global market at the beginning of the twenty-first century. For example, cross-shareholding encourages internal investment to satisfy stockholder expectations of long-term appreciation. This was advantageous when Japan lacked technology, capital, and international competitiveness and it was effective in helping Japan to catch up with the advanced economies. But because cross-shareholding also lessens the pressure on companies to focus on shareholders' interests, return on equity for Japanese companies is low by international standards. Moreover, to compete effectively in the era of globalisation and information technology, Japanese companies need to choose business partners on the basis of particular strengths rather than because of their affiliation with a certain business group or *keiretsu*.

The traditional management system and management tools can no longer create value in Japan's service sector. The finance system based on bank borrowing does not serve the financing needs of start-up businesses because bank loans require collateral, which new companies lack, and because they are more costly than direct finance in the capital market. Japanese financial institutions have not provided enough resources to venture businesses in the way that the "angels" and venture capitals have in the United States. Lack of appropriate financing contributes to the paucity of new business start-ups in Japan.

The incentives of the lifetime employment system, including steady promotion and seniority-based wages, discourage workers from changing companies. Most of Japan's top college graduates still accept employment under traditional conditions at large companies. Although one-third of new hires change jobs within three years, job changers are at a disadvantage in terms of pension and promotion at their new companies.

Today, management practices are becoming standardised around the world, especially in finance, accounting, and use of information technology. The Internet allows consumers to compare services and prices easily, investors to move money globally, and multinational companies to act across national borders. Therefore, Japan's management system must be able to withstand competition from foreign-owned companies that have their own management systems and to be attractive and transparent to foreign customers and investors. Japan must adopt such management tools as information technology and merger and acquisitions to restructure the service sector so that it becomes more efficient and offers better value to consumers.

DEREGULATION AND RESTRUCTURING IN PROGRESS

The service sector in Japan is moving to become a driving force in the economy and to create new jobs to replace lost manufacturing jobs. Regulatory reforms and deregulation instituted by the government have brought some important changes in the markets of service industries. Other changes are taking place as a result of restructuring efforts by the private corporate sector.

Regulatory Reform and Deregulation

The Japanese government began deregulation in finance, telecommunications, and retail trade in the 1970s (Figure 11.1). During the 1990s deregulation increased competition from foreign firms in some service industries. Inward investment in retail and wholesale trade has remained steady at around ¥100 billion per year since 1989, but foreign companies have been entering the finance and insurance industry since the start of the Big Bang financial deregulation in 1998. Inward foreign direct investment in telecommunications is just beginning, as illustrated by the 1999 acquisition of IDC, one of Japan's new international carriers, by Cable and Wireless of the UK.

Entry of foreign firms already has brought enormous change to the service sector. In the retail industry, for example, the entry of one foreign company, Toys 'R' Us, changed the entire toy market, driving out traditional small toy shops, reducing toy prices, and expanding the number of items for sale. In finance, the entry of U.S. banks has improved services dramatically. For example after Citibank first introduced 24-hour ATM service it then spread throughout the industry. Automobile insurance premiums decreased about 30 percent in certain categories as a result of the entry of U.S. insurance companies such as American Home Direct that introduced detailed risk analysis and telephone sales in place of the traditional agency. U.S. telecommunications giant AT&T's

value-added services subsidiary, AT&T Jens Corporation, pioneered commercial Internet use in Japan with its Internet access, website facilities, and management and consulting services. It also offers low-cost (¥15 per minute) Internet phone services to subscribers anywhere in Japan. .

The deregulation of the service industries has benefited the Japanese public. The Economic Planning Agency calculated that from 1990 to 1998 deregulation generated ¥8.5 trillion per year in consumer surplus due to lower prices and greater demand (Table 11.13). A large portion of this amount came from the deregulation of the telecommunications industry. For fiscal 1998 alone, consumer surplus increased an estimated ¥1.9 trillion, equivalent to 2.3 percent of national income.

Corporate Restructuring

"*Risutora*"(restructuring) has become a buzzword in the Japanese business community. The basic strategic concept of Japanese companies today is to get rid of low-performing assets and put resources into promising businesses. For growth companies must strive to differentiate themselves from their competitors in terms of cost, quality, convenience, and flexibility. Innovation, M&A, and capital market financing are the keywords for the service sector's growth strategy. Over the past several years, Japanese companies have been restructuring in one of three ways: reducing costs and economising on resource use; becoming involved in M&As; and focusing on specific business domains.

Cost Reduction

In 1999, 15 major Japanese banks announced a 14-percent reduction in employment, a decrease of 20,000 employees. The Mizuho Financial Group, which was formed in 2000 with the merger of the Industrial Bank of Japan, Daiichi Kangyo Bank, and Fuji Bank, plans to cut 7,000 employees by 2005. In October 1999 the Sumitomo Mitsui Banking Corporation announced plans to reduce personnel by 9,300 and to close 260 domestic branches by March 2004.[2] Nomura Securities cut its staff by 660 employees by centralising back office operations during fiscal year 1999. In the retail industry, the venerable Mitsukoshi Department Store plans to cut employment by 600 through voluntary resignations.

Mergers and Acquisitions

M&As accelerated the change in industrial structure. M&A activity by Japanese corporations picked up considerably in 1999. There were 1,160 cases and the total disclosed amount was ¥6.7 trillion, twice the amount in 1998.[3] In two major deals of 1999, Japan Tobacco (JT) acquired RJR Nabisco and Renault acquired Nissan Motors. In telecommunications, AT&T and BT bought Nippon Telecom at a cost of ¥640 billion, UK's Cable and Wireless bought International Digital Communications (IDC) for ¥55 billion, and NTT bought Philippine Long Distance Telephone Company for ¥87.5 billion (Figure 11.2).

Other Factors for Change

Increased Foreign Ownership

As share prices have fallen during the long recession in Japan, foreign companies have come to view Japanese companies as affordable and they see this as an opportune time to build up their presence. By acquiring Japanese companies foreign firms gain access to an existing customer base and support network, which saves the time and expense of establishing these business foundations.

New Sources of Financing

The outlook for financing of Japanese start-ups improved with the November 1999 opening of MOTHERS (Market of the Highly Emerging Enterprises), a stock market for emerging companies. The financing situation for new businesses should improve further with the formation of a number of new private equity businesses. Mitsubishi Corporation, Marubeni Corporation, Mitsui Corporation, and Industrial Bank of Japan have each established private equity funds with foreign partners, including U.S.-based Ripplewood Holdings.

New Business Models

Overall, Japan's service sector must adopt new business models appropriate to the era of globalisation and information technology. Management must utilise IT, innovation, and performance-based human resource management. Efficiency is paramount to improving profitability, so firms must cut sales, general, and administrative expenses without skimping on customer satisfaction. Besides reducing costs, service firms need to develop customer-orientation, flexibility, and differentiated services in order to expand sales and maximise corporate value. In addition, they must improve accounting and corporate governance to assure transparency for investors. Japanese service industries should enhance their business capability. Domestic companies should tie up with the leading companies in the global market in order to obtain international competitiveness.

Japanese firms need to take the following steps to adapt to globalisation and the penetration of international management standards:

- sell off low-performing subsidiaries and assets
- introduce performance measurement and evaluation
- use the Intranet
- adopt corporate governance that emphasises ROE
- choose and focus business domain, customers, and regions
- give control to shareholding companies to facilitate business restructuring
- diversify financing
- support incubation of entrepreneurial firms
- use M&A.

Labour relations in Japan are diversifying under the influence of the recruiting and human resource management styles of foreign-owned companies. Some companies, such as Matsushita Electric Industrial, have introduced prepayment of retirement bonuses to young employees, and other companies, such as Park24, Japan's largest provider of metered hourly parking, have introduced stock option incentive systems to attract talented employees.

Successful Service Companies

Some Japanese service companies have been growing even during the prolonged recession. Eight service companies listed in the first section of the Tokyo Stock Exchange (TSE) averaged over 20 percent annual sales growth in the last three years (Table 11.14). Hikari Tsushin, a telecommunications agent, was the fastest growing company listed on the TSE from 1996 to 1998. Game software is also a growth industry. The hit game DragonQuest made Enix the fastest growing company in 1998. In addition, the IPO of Itochu Techno Science, the IT subsidiary of a long-established general trading company, surpassed the current total value of its parent. The stock prices of Softbank and its subsidiaries, which distribute and sell PC software and peripheral hardware equipment and provide network consulting, technical support, and systems integration, have been skyrocketing. In the field of e-commerce, Rakuten, a pioneering virtual shopping mall founded by a former Industrial Bank of Japan employee, is growing rapidly.

The main areas of growth in Japan's service industries involve advanced technology and entrepreneurial development of new businesses. For example, i-mode, NTT DoCoMo's wireless Web service launched in 1998, already has 10 million customers in Japan and the number is growing by 50,000 per day.[4] New business start-ups have initiated pervasive changes in some markets. For example, the market for international travel changed dramatically with the 1992 entry of H.I.S. Co., which specialises in discount air tickets and budget-oriented package tours. Domestic airfares have been falling since 1998 when newcomers such as Skymark Airlines and Hokkaido International Airlines (Air Do) began flying certain routes in Japan. Skymark's $119 one-way fare between Tokyo and Fukuoka was about half that of the existing "big three" Japanese airlines (Japan Airlines, All Nippon Airlines and Japan Air Systems).[5]

CONCLUSION: STILL MORE CHANGE NEEDED

Despite deregulation and corporate restructuring during the 1990s, the service sector cannot yet take over the driver's seat as Japan tries to become competitive in the global economy. In particular, only a few of Japan's service companies that operate in open, markets are profitable (Figure 11.3). A solid business model is required to make profits in an open market. For example, Seven-Eleven Japan has demonstrated high business performance due to its outsourcing strategy for logistics and information technology. As a premise to make Japanese companies competitive in open markets, all parts of the service sector need to become much more open.

Although the transportation and telecommunications industries and the utilities are relatively profitable in Japan, their high performance depends on restrictions to entry and other regulatory controls. Companies in these industries could not remain profitable if their markets were opened to foreign competitors. The distinction between companies that can create added value and those that cannot is widening the income differences among sectors.

High labour, land, transportation, and utility costs caused by government regulation continue to reduce competitiveness and restrain the service industries, but deregulation alone will not solve Japan's current economic problems. The creation of dynamic new businesses requires promoters, financial supporters, and technology. Information technology is a key to creating successful new service sector businesses. Human resource management is also critical. The seniority-based incentive system and the resulting immobility of workers mean that decision-makers in many Japanese companies tend to be old and inflexible to change.

From a Manufacturing to a Consumer Economy

To allow the service sector to create new jobs and revitalise the economy, the Japanese government should shift the focus of its policies from the supply side (production) to the demand side (consumption). The government should encourage foreign direct investment to stimulate change in other Japanese industries as it did in the retail trade and insurance industries. Weak protected domestic service industries drag down the whole economy, so Japan's markets must open wider to foreign companies to promote competition and restructuring in the service sector. In addition, the government should encourage the creation of new service industries through deregulation and contracting-out of government services.

Support for Restructuring

To encourage corporate restructuring in 1997 the government relaxed regulations against shareholding companies and share-exchange mergers and it changed the rules that govern M&As among listed companies. Also, the September 1998 introduction of asset-backed securities through special purpose companies diversified the financial instruments available to companies. To promote new business, the government must continue to revise the bankruptcy law and the rules for depreciation of information equipment and to work toward introducing a portable pension system and a system of tax preferences for venture businesses.

Reforming the employment system will also promote restructuring. The failures of the Long Term Credit Bank of Japan and Yamaichi Securities and the rescue of Nissan Motors by Renault showed that even large companies cannot succeed under the traditional employment system. Workers should be freer to move from company to company in order to learn and to spread state-of-the-art skills throughout the service sector. Deregulation of temporary workers and introduction of a portable pension would create a labour market infrastructure that allowed for greater mobility and higher employee motivation.

Notes

1. Recent introduction of Asymmetric Digital Subscriber Line (ADSL) is expected to reduce the cost of Internet provider service to around ¥6,000 per month for unlimited use. ASDL makes high-speed digital data transfer possible through ordinal metallic cable by use of high frequency.
2. Sakura Bank and Sumitomo Bank. Merger Agreement between Sakura Bank and Sumitomo Bank.

April 21, 2000.

3. *Nihon Keizai Shimbun*, 25 December 1999.

4. "Today Tokyo, Tomorrow the World!" *Fortune*, 18 September 2000.

5. http://www.embjapan.org/JapanNow/, February 1999.

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TABLE 11.1
Composition of Value Added and Employment by Sector in Japan, the United States, Germany, and the UK
(Percent)

	Share of Value Added				Share of Employment			
	Japan	U.S.	Germany	UK	Japan	U.S	Germany	UK
Manufacturing	24.3	17.0	23.6	18.5	22.0	16.1	23.7	18.7
Services	67.7	67.9	58.1	62.0	72.0	80.7	70.7	78.8
Construction	9.7	4.1	5.5	2.3	10.4	6.4	9.1	7.0
Wholesale & retail	12.2	15.7	8.9	13.4	22.5	20.7	17.4	20.2
Finance, insurance	5.0	7.8	5.2	2.1	8.8	11.4	10.4	14.3
Real estate	13.6	11.5	8.6					
Transportation & communication	6.6	5.8	5.0	7.2	6.3	5.9	5.4	6.4
Utilities	2.9	2.6	2.5	2.0	0.5	1.2	0.9	0.7
Other services	17.7	20.4	22.1	14.9	23.5	35.1	29.5	30.2

Source: Value added: Bank of Japan, *Comparative Economic and Financial Statistics Japan and Other Countries, 1999*. Employment: Bureau of Labour Statistics, U.S. Department of Labour; Bureau of Economic Analysis, U.S. Department of Commerce; and Ministry of Labour of Japan.

TABLE 11.2
Average Annual Growth Rates in Selected Advanced Economies, 1987-97
(Percent)

	Japan	United States	Germany	UK
GDP	3.0	5.1	6.3	5.8
Manufacturing	1.2	3.9	2.7	3.8
Finance and insurance	0.0	8.2	6.7	7.3
Transportation, storage, and communication	2.5	5.4	5.0	5.1

Source: Bank of Japan, *Comparative Economic and Financial Statistics Japan and Other Countries, 1999*.

TABLE 11.3
Value Added per Employee in Japan and the United States by Sector
(Million yen)

	Japan	United States
Total	7.7	7.6
Agriculture, forestry, fishing, and mining	2.7	7.4
Manufacturing	8.6	8.2
Services		
Construction	7.2	5.0
Wholesale & retail	4.2	5.9
Finance, insurance real estate	16.4	13.1
Transportation & communication	8.1	7.6
Utilities	45.0	16.4
Other services	5.8	4.5

Note: Converted at ¥120.99=US$1 average exchange rate for 1997.
Source: Bank of Japan, *Comparative Economic and Financial Statistics Japan and Other Countries, 1999*.

TABLE 11.4
Japan's Trade in Services, 1992-98

	Japan Receipts US$ billions	Japan Payments US$ billions	Japan Balance US$ billions	Japan Service Trade Balance/GDP %	US Service Trade Balance/GDP %
1992	49.07	93.03	-43.96	-1.18	1.54
1993	53.22	96.30	-43.08	-1.01	1.42
1994	58.3	106.36	-48.06	-1.02	1.40
1995	65.27	122.63	-57.36	-1.12	1.45
1996	67.72	129.96	-62.24	-1.35	1.85
1997	69.3	123.45	-54.15	-1.29	2.14

Source: *International Financial Statistics*, International Monetary Fund

TABLE 11.5
U.S.-Japan Trade in Strategic Business Services
(Billion US dollars)

		1994	1995	1996	1997
Computer services	Imports from US	18.1	17.7	29.0	28.8
	Exports to US	2.0	2.2	2.7	4.1
Management consulting &	Imports from US	6.2	6.8	10.0	14.0
public relations	Exports to US	1.7	2.8	3.5	5.0

Source: OECD *Strategic Business Services*, 1999, p.138

TABLE 11.6
World Competitiveness Yearbook Rankings for Japan, 1999

Competitiveness factor	Japan's rank out of 47
Overall	16
Input factors	
Science and technology	2
People	13
Infrastructure	20
Internationalisation	21
Government	23
Finance	25
Management	26
Domestic economy	29
Selected individual factors	
Cost-of-living comparisons	46
Companies and the government	46
Tourism receipts	46
Financial institution transparency	46
Public sector contracts	47
Immigration law	47
Creation of firms	47
Entrepreneurship	47

Source: IMD, *The World Competitiveness Yearbook 1999*.

TABLE 11.7
Internet Usage in Selected Countries

	% of population
US	37
Canada	36
North Europe	33
Australia	31
UK	15
Germany	10
Japan	10
France	8

Source: Henry et al., U.S. Department of Commerce, *The Emerging Digital Economy II,* 1999.

TABLE 11.8
Volume and Composition of Electronic Commerce Transactions in Japan and the United States, 1998 and 2003

	1998		2003	
	Japan	**U.S.**	**Japan**	**U.S.**
Volume of transactions		¥ billion		
Business-to-consumer	65	2,250	3,160	21,300
Business-to-business	8,620	19,500	68,400	165,300
Share of e-commerce		%		
Business-to-consumer	0.02	0.4	1.0	3.2
Business-to-business	1.5	2.5	11.2	19.1

Note: Exchange rate US$1 = ¥120

Source: Ministry of International Trade and Industry.

TABLE 11.9
IT Share of Private Machinery and Equipment Investment, Japan and United States, 1990 to 1997
(Percent)

	1990	1991	1992	1993	1994	1995	1996	1997
Japan	7.3	7.3	6.8	8.6	10.4	12.4	12.5	12.5
United States	13.3	14.3	16.4	17.1	18.6	22.9	28.3	33.9

Source: Ministry of Posts and Telecommunications, *White Paper on Telecommunications, 1998.*

TABLE 11.10
Inward Foreign Direct Investment by Industry, 1989-98
(100 million yen)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Manufacturing	1,561	2,283	2,577	2,081	1,836	2,054	1,412	3,111	2,674	3,126
Services (non-manufacturing)	2,296	1,763	3,319	3,225	1,750	2,273	2,284	4,595	4,108	10,278
Telecommunications	32	30	136	63	32	30	53	21	33	168
Construction	11	13	31	0	1	4	1	0	3	14
Wholesale & retail	732	1,065	1,073	1,554	1,005	1,135	679	1,664	996	1,759
Finance & insurance	235	159	1,203	190	40	687	1,001	273	1,616	4,569
Services	186	384	737	1,067	240	374	491	2,360	888	3,181
Transportation	64	18	35	25	51	8	12	10	4	61
Real Estate	904	35	94	307	107	32	16	265	482	416
Other	132	59	11	18	274	3	32	2	87	111
All Industries	3,857	4,046	5,896	5,306	3,586	4,327	3,697	7,707	6,782	13,404

Source: Ministry of Finance

TABLE 11.11
Comparison of Service Sector Prices in Selected Cities, 1998

(Tokyo = 1.00)

	New York	London	Paris	Berlin	Geneva
Electricity	0.68	0.81	0.94	0.97	1.11
Transportation	0.92	1.19	0.96	1.03	1.09
Local phone call	1.12	0.94	1.06	1.25	1.03
House rent	0.72	1.02	0.70	0.88	0.66
Delivered pizza	0.75	0.96	0.69	0.40	0.85
Golf fees	0.19	0.24	0.36	0.29	0.38
Movie	0.56	0.70	0.55	0.47	0.76
Haircut	1.08	0.58	0.80	0.72	1.19

Note: Similar, not identical, items are chosen in each city. Exchange rates are from IMF *International Financial Statistics*, annual average for 1998: US$1 =¥130.90 yen, £1= ¥216.83, 1FFr = ¥22.19, 1DM = ¥74.39, 1SFr = ¥90.29.

Source: Economic Planning Agency of Japan, *Price Difference Survey*.

TABLE 11.12
Increase in Consumer Surplus Attributed to Deregulation

(100 million yen)

	Cumulative to Fiscal 1998	Increase from previous year	
		1997	1998
Domestic telecommunications	38,555	8,530	8,222
International telecommunications	2,623	169	141
Domestic air transportation	3,575	1,997	737
Automobile registration and inspection	6,122	1,005	424
Electricity	17,138	1,258	6,816
Oil products	14,492	2,122	2,182
Stock brokering	3,185	1,185	509
Gasoline	132	0	51
Total	85,822	15,266	19,082

Note: Includes only industries accumulating over ¥10 billion in consumer's surplus. Other examples include ¥3.1 billion consumer surplus generated through deregulation of the taxi business.

Source: Economic Planning Agency, "Economic Impact of Recent Deregulation", January 2000.

TABLE 11.13
Characteristics of Management Systems in the United States, Germany, and Japan

	United States	Germany	Japan
Dominant ideology:	Free enterprise liberalism	Social partnership	Techno-nationalism
Political Institutions:	• Liberal democracy • divided government • interest group liberalism	• Social democracy • weak bureaucracy • corporatist legacy	• Developmental democracy • strong bureaucracy • reciprocity between state and firms
Economic institutions:	• Decentralised, open markets • Un-concentrated, fluid capital markets • antitrust tradition	• Organised markets • tiers of firms • dedicated, bank-centred, capital markets • certain cartelised markets	• Guided, closed, bifurcated markets • bank-centred capital markets • tight business networks • cartels in sunset industries
Corporate governance	• Short-term shareholding; • managers highly constrained by capital markets; • risk-seeking, financial-centred strategies	• Managerial autonomy except during crises; • little take-over risk; • conservative, long-term strategies	• Stable shareholders; • network-constrained managers; • take-over risk only within network; • aggressive market-share-centred strategies
Corporate financing	• Diversified, global funding; • highly price sensitive	• Concentrated, regional funding; • limited price sensitivity	• Concentrated, national funding; • low price sensitivity
Independent board oversight of management	Limited	Formally, limited; informally, can be extensive, especially in crisis	Extensive
Monitoring by financial institutions	Weak	Strong	Moderate, but can be strong in crisis
Monitoring by non-financial shareholders or affiliates	Weak	Moderate	Strong
Monitoring by individual shareholders	Weak	Weak	Can be strong
Hostile take-overs	Common	Rare	Rare
Inward direct investment	Liberal; no constraints	Liberal; tacit constraints	Resistant; formal and informal constraints
Outward direct investment	Broadly supportive Manufacturing, finance, services	Neutral Manufacturing, wholesale trade	Selectively supportive wholesale trade

Source: Doremus et al. *The Myth of the Global Corporation*, pp.17, 58, 76,and 140.

TABLE 11.14
Service Sector Growth Companies

	Average growth 1996 -1998 %	1998 Growth rate %	1998 Sales ¥
Hikari Tsushin	87.7	30.8	159,619
Fuji Soft ABC	43.4	22.6	44,005
Shoko Fund	42.4	34.5	83,186
Konami	32.8	40.0	100,779
Bell System 24	29.4	25.0	33,871
Daimei	25.8	53.8	143,191
Hokuyo Bank	22.3	71.4	107,363
Mini Stop	21.4	21.0	37,573
Enix	6.7	105.6	24,395
Itochu Techno Science	NA	21.3	149,798

Source: Corporate data of individual companies.

FIGURE 11.1
Deregulation Measures Affecting Japan's Service Sector

	Measure	Date Adopted		Impact
Air transport	• Routes that can be served by more than one airline increased.	1986	→	Increased competition
	• Regulation of airfares and restrictions on entry relaxed	1996	→	New carriers
			→	Lower fares
			→	Discount fares
Construction	• Regulation of standards and inspection relaxed		→	Increased construction
Corporate restructuring	• Business laws changed	1997	→	Holding companies allowed
			→	Increased merger & acquisition activity
			→	Exchange of shares
			→	Corporate split-up
Electric utilities	• Competitive tenders required	1995	→	New pricing system
	• Cost calculation method changed			
	• Entry to production partially liberalised	2000	→	Independent power supplier for industrial users
Insurance	• Business entry liberalised	1996	→	Lower prices
	• Commissions on fire and auto insurance rates liberalised	1998	→	Greater variety of products
Banking	• Interest rates and services liberalised	1993	→	Diversified interest rates and services
	• Foreign exchange transactions liberalised		→	24-hour ATM service
		1998	→	Telephone/Internet banking
	• Cross-entry liberalised	1999	→	Entry to financial business from other sectors
Securities brokering	• Commissions on equity transactions liberalised	1998	→	Diversified commissions
			→	Internet transactions
Tele-communications	• Monopoly on local service and domestic and international long distance services reduced and then terminated	1985	→	New entrants
			→	Foreign entrants
			→	Lower prices
	• Tariff and business entry liberalised			
	• Equipment lease abolished			
	• NTT and KDD privatised			
Wholesale/Retail Distribution	• Establishment of large stores, opening times, and closing days liberalised.	1990s	→	More large stores, discount stores
			→	Longer hours
	• Retail distribution of liquor gradually relaxed	1989	→	Increased competition
	• Retail price maintenance on cosmetics and general medicine removed	1997	→	Lower prices
	• Construction of gas stations liberalised	1990	→	Increased competition
	• Restrictions on petroleum import lifted	1996	→	Increased competition

Source: Nomura Research Institute and OECD, *Regulatory Reform in Japan.*

FIGURE 11.2
Major Japan-related M&A Activity in 1999

Type of Purchase	Acquirer	Acquiree	Price ¥ billion
Foreign acquisition of Japanese company	AT&T (U.S.) and British Telecom (U.K.)	Japan Telecom	220
	Cable & Wireless (U.K.)	International Digital Communications (IDC)	55
	General Growth Properties Group	Daiei Ala Moana Shopping Centre (Hawaii)	97
Japanese acquisition of foreign company	NTT	Philippine Long Distance Telecommunication Company	87.5

Source: *Nihon Keizai Shimbun*, 25 December 1999.

FIGURE 11.3
Current Situation of Japan's Service Industries

	Closed Market	**Open Market**
High Performance	**Transportation** **Telecommunications** **Utilities**	**Only a few companies** **(Orix, Seven -Eleven)**
Low Performance	**Real Estate** **Other Services**	**Finance & Insurance** **Wholesale & Retail Trade**

Note: Market openness is based on the amount of inward foreign direct investment. High performance industries are those with a 1998 profit rate hi gher than the 2.4 percent for manufacturing.
Source: Nomura Research Institute.