

JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

Trends in Japanese Labor-Management Relations

by Hiroyasu Kawamoto, Nippon Keidanren

Although some labor unions existed illegally in Japan prior to World War II, a new law was enacted immediately after the cessation of hostilities in 1945 that guaranteed the rights of workers to organize, bargain collectively and act collectively in labor disputes. It also provided for immunity from civil and criminal codes within the scope of fair labor dispute actions and protection from unfair labor practices.

By 1947, membership in Japanese labor unions had expanded dramatically – some 45 percent of all workers were unionized. Not surprisingly, disputes over wage and steady employment issues began to erupt.

But as Japan's famed post-war economic recovery began to take off, three developments rocked the

country and had a profoundly salutary impact on labor-management relations.

The first occurred during the 1960s, when the Japanese economy shifted its primary energy source from coal to oil. Coal companies were hit hard by this conversion – coal production fell precipitously, leading to slashed profits and jobs, and labor disputes arose as a result of the rationalization of the domestic coal industry. A particularly bloody case unfolded at the Miike colliery of Mitsui Mining Co., Ltd. when the Miike Trade Union organized a 285-day strike over the dismissal of certain workers.

Alarmed by the upheavals which led to 100 injuries in Miike, Japanese labor union leaders reevaluated their aggressive approach to management, and gradually came to adopt a more constructive posture. Henceforth, improvements in productivity were jointly sought by labor and management, with the resulting profits to be negotiated among them. The 1960s Japanese economy began to boom.

The second phenomenon was the impact of the 1973 global oil shock on the Japanese economy. With inflation shooting up (by 6 percent in 1972, 16 percent in 1973, and 21

percent in 1974) as a direct result of rising crude oil prices, Japan's GDP began to sink, falling from 8 percent growth in 1973 to a negative 1.2 percent in 1974.

Faced with union demands to increase wages by 30 percent in 1974, Nikkeiren (the Japan Federation of Employers Associations) fought back with a campaign to win public support, instead of bargaining with the unions. It issued a statement setting forth three management principles:

- Although triggered by the oil shock at the beginning, Japan's inflation ("rampant price confusion") was caused by wage increases that exceeded labor productivity;
- In order to sever a vicious spiral of drastic wage-price increases, unions should forgo huge pay hikes;
- Wage increases should be confined to 15 percent in 1975 and a single digit increase in 1976.

The labor unions backed down and adopted a policy that essentially placed a higher priority on price stability and improved corporate management, rather than significant

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wage increases. It was thus that Japan avoided a near-crisis of economic stagflation.

The third development was related to finance. Following the 1985 Plaza Agreement to coordinate exchange rates, Japanese manufacturers were hit hard by the emergence of a powerfully valued yen and a weak dollar. The impact of the stronger yen wrenched Japan from an export-dependent to a domestic-oriented economy. Although wages continued to be an important factor, labor and management also discussed shortened work hours, unemployment matters, working conditions, a social security system for an aging society, and so on.

These three historical developments had a far-reaching effect on relations between Japan's labor leaders and management. Interaction between the two sides gradually transformed from a confrontational stance to one of cooperation and negotiation, and its agenda from one focused primarily on wages to a much wider-ranging collection of issues. A stable working relationship was born.

Characteristics of Labor-Management Relations

The most salient characteristic of the Japanese labor-management relationship is that many labor unions were established on a unified

company basis. In general, white- and blue-collar workers belong to the same labor union within their own company. Collective bargaining and the conclusion of labor agreements are conducted between labor and management within a single corporation.

A second characteristic is Japan's famed long-term employment system: most workers spend their entire careers in one company until retirement (generally around the age of 60).

And thirdly, most corporations have a seniority-based wage system in which age and length of employment are favored over other qualities.

As a result of those three elements, labor and management within a company have come to share joint interests. By working together to improve corporate performance, the continued existence, development and prosperity of the corporation are primary, and stable employment for workers and improvements in their working conditions naturally flow.

This common perspective encourages labor unions to actively cooperate in measures aimed at boosting productivity. Moreover, unions have a vested interest in dealing flexibly with changes in the type of duties expected of its

members or in overhauling the personnel system in accordance with changes in the management environment.

Springtime Labor-Management Negotiations

What labor unions call "the spring offensive" and management calls "springtime labor-management negotiations" is a mechanism truly unique to Japan.

Each spring, labor's "national center" and the labor unions of different industries cooperatively develop a proposed demand for wage increases and a "struggle schedule." The purpose of this exercise is to help weaker, regional labor unions leverage their power by including them in labor negotiations on a nationwide basis. It also seeks to standardize wage levels by pushing small- and medium-sized enterprises to meet the increases granted by large corporations. This system also enables corporate unions to push for improved working conditions through demands and collective bargaining.

The annual "spring offensive" exercises have positive effects on three levels:

- (1) Once a year, labor and management share a common understanding of Japan's economic situation and corporate per-

formance, which leads to flexibility;

- (2) During times of high economic growth, labor unions typically win wage hikes;
- (3) The wage floor has been raised to some extent within industries whose wages have remained at a low level.

2003 Springtime Negotiations

This year's springtime labor-management negotiations took place at a critical juncture in Japan's economy. At the end of the 20th century, like all countries, Japan was faced with the challenges of economic globalization, an information communications revolution, a rapidly aging society compounded by a falling birthrate, a heightened awareness of energy resource and environmental problems, and the rapid growth of China's economy.

Due to its long-lasting recession, realistic fears of a deflationary price spiral, and an increasingly difficult employment situation, Japan has no time to lose in finding its way to economic health.

But clawing back to economic rehabilitation is not easy. As a result of delayed structural reform, Japan's international competitiveness has deteriorated to the extent that the "hollowing out" of industries has created a truly serious situation that

may threaten the actual existence of the nation.

According to studies conducted by the Japanese Ministry of Economy, Industry and Trade (METI) and by the Cabinet Office, in 1991 the manufacturing sector's overseas production ratio (Japanese subsidiaries overseas versus domestic-based companies) was 6 percent. Just ten years later, that ratio more than doubled to 14 percent. And by 2006, it is expected to hit 16 percent. Experts believe that one-quarter of Japanese goods will soon be produced overseas.

Management Speaks Up

During the 2003 negotiations, Nippon Keidanren, the powerful Japanese business federation, said that production costs would have to be cut in order for Japan to regain and strengthen international competitiveness. It also recommended that wages be linked to worker productivity, the "nurturing of new businesses," and improvements in the development of new technologies, new goods, and new services.

Moreover, in view of the fact that Japan's wages are among the highest in the world and that the ratio of personnel costs to corporate added value has risen, Keidanren believes that wages should be based on international

competitiveness "Further increases in wage levels will be difficult and increases in base pay is out of the question. Indeed, pay freezes and a reconsideration of pay levels can be subject to negotiation between labor and management."

Not surprisingly, the Japanese Trade Union Confederation does not concur. Their expressed goal is to secure jobs and "maintain the wage curve," rather than advocating an across-the-board wage increase.

The outcome of the 2003 spring labor-management negotiations was predictable: most large corporations offered no increases in base pay and wage hikes averaging only 1.6 percent in Japan's 185 largest corporations – virtually the same agreement struck last year, and the lowest pay increases since the "spring offensives" began in 1956. Negotiations between medium and small enterprises will soon begin.

Five characteristics of this year's labor-management negotiations emerged:

First, due to Japan's prolonged business recession and intensifying competition, performance differences among industrial sectors and corporations have become pronounced. As a result, different wage

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rates are emerging between strong and weak companies.

Second, decisions were based on an overall personnel cost management assessment including recruitment, wages, bonuses/ lump sums, retirement funds, welfare benefits, etc.

Third, some troubled corporations were forced to implement cost-cutting measures such as reducing or freezing periodic wage increases, delaying the implementation of periodic pay increases, implementing lengthy pauses between wage hikes, and lowering legal requirements for overtime pay.

Fourth, in order to safeguard jobs but cut overall personnel costs, some corporations have experimented with shortened working hours and instituted "emergency work-sharing" measures.

Fifth, at last there has been some progress in moving Japanese companies from a seniority-based, periodic wage increase structure to a results-oriented system.

Future Directions

The spring offensive method of setting wages is near obsolete – the international competitive edge of many Japanese corporations has deteriorated, making further pay increases ever more difficult. Prices are in a deflationary trend, thereby

eliminating the rationale for regular pay increases. Finally, intensified competition has led to discrepancies in the performance levels of individual companies and industries. As a result, across-the-board pay increases have become a thing of the past.

Nippon Keidanren's Committee on Management and Labor Policy acknowledged the obvious in a December 2002 report. The report, which was widely distributed to corporate employers and labor unions at Keidanren seminars held in each of Japan's prefectures, made two forceful points:

- (1) The spring offensive, when Japanese labor unions demand that management treat all workers alike or face a strike, has come to an end, and
- (2) Changes in Japan's corporate culture and management should be addressed cooperatively every spring by labor and management, rather than in the context of an "offensive."

In light of management's increasingly uncertain environment and the increasingly diverse needs of workers, it is critical that labor and management fully appreciate the precariousness of the Japanese macroeconomy, overall employment situations, as well as in individual corporate environments.

Beyond this shared understanding, labor and management should discuss what is the most appropriate wage system and wage level for their company with an end to creating an appropriately diverse employment system, to revise the personnel/wage system which rewards age and length of service, and to structure a personnel/wage system. These reforms will result in working procedures that provide high added value.

Whether or not such labor and management can rise to this task will determine the rise or fall of Japan's corporations and its economy. ■

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Japan's Entertainment Industry

by Ronald A. Morse, UCLA

Cultural "Japanization?"
Emerging from the rubble of the lost decade of the 1990s is a new and convincing theory: that Japan's future competitive competence lies in its entertainment industry. Adherents to this theory are cautiously optimistic that digital pop will be a primary driver in Japan's longer-term economic recovery.

Many Japan-watchers have weighed in. Science-fiction author William Gibson argues that, "Japan is the global imaginations' default setting for the future." And Douglas Gray, in a *Foreign Policy* magazine (May/June 2002) article titled, "Japan's Gross National Cool" argues that Japan's global cultural influence is a new way to measure Japan's GNP. In his view, the process of global cultural "Japanization" has been going on for well over a decade.

Kimindo Kusaka, Chairman of the prestigious Tokyo Foundation, is the intellectual guru for this new theory of Japanese cultural superiority. A futurist in the Herman Kahn sense of the word, Kusaka believes that the Japanese still have an unsurpassed capacity for purposive, dedicated, and communal action. His theory about the entertainment industry was outlined in his book, *In*

the 21st Century, The World Will Become Like Japan (PHP Books, March 2002).

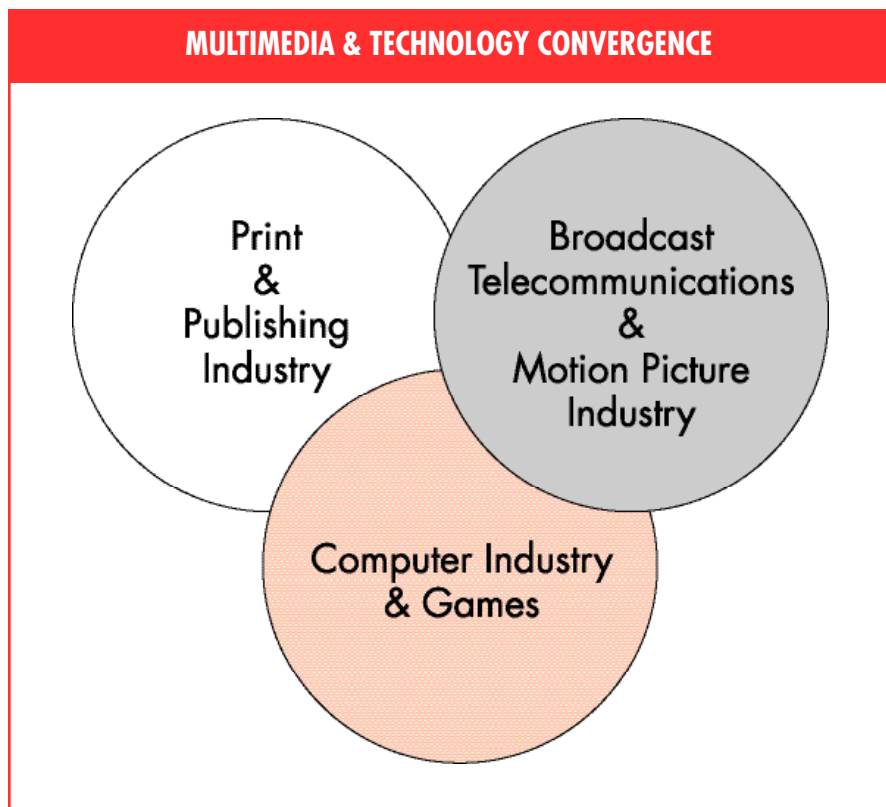
Squarely at the center of Tokyo's emerging formula for the entertainment marketplace is the convergence of digital technology, Japanese aesthetic sensibility, and the mass market for popular culture products. It is based on the synergy of media, entertainment, hardware industries, and merchandise marketing.

And this is precisely where the traditional consumer electronics

firms like Sony, through its acquisitions of CBS Records and Columbia Pictures, is headed. Sony believes that it has a comparative advantage in expanding on its solid manufacturing and hardware industries, the legacy of Japan's great successes in the 1980s. Though electronics products account for 63 percent of Sony's sales, it has rapidly expanded its fastest growing sectors – music, movies and games.

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MULTIMEDIA & TECHNOLOGY CONVERGENCE



Japan's Entertainment Industry

The global entertainment industry is big business. In revenue terms, it amounts to an annual \$400-500 billion for the United States. The Japanese electronics and IT industries (including consumer electronics, industrial electronics, and electronic components and devices) are a \$180 billion business. At 4-5 percent of GDP in both the United States and Japan, entertainment is about the same size as the black market economy (gambling, drugs, prostitution and tax evasion) in both nations.

'Tollywood' is Born

In the past, Hollywood had little to fear from the Japanese film industry: the US turns out almost 800 films a year compared to fewer than 300 produced in Japan. The American movie industry (accounting for 270,000 jobs and \$31 billion in business) is today five times larger than the Japanese film industry. Motion pictures have become America's fifth largest export.

The first serious indication of Tokyo's major new effort to combine media technologies with their cultural strengths in design and visual arts came with the *Nikkei Shimbun* announcement on January 28, 2003, that a billion dollar production complex will be built on the Tokyo waterfront.

This new "Tollywood" (Bombay as a film center is referred to as 'Bollywood' so logically, Tokyo should be 'Tollywood') will have 32 high-tech mega-studios with the capacity to do everything Hollywood can do, and even more. "Studio City," as this complex is to be called, is scheduled for completion by 2008.

"Does Japan's future competitive competence lie in its entertainment industry?"

In a now familiar pattern, the Japanese Ministry of Economy, Trade and Industry (METI), which has jurisdiction over industrial promotion and export strategy, is getting involved in this emerging sector. The Ministry's "Contents and Finance Committee" is coordinating public and private venture capital to ensure that "Studio City" and the entertainment sector is a success.

Japan's strengths lie in interactive digital gaming, the use of animation in digital entertainment, and the adaptation of the cell phone into a ubiquitous multimedia apparatus of ever-broadening applications. These industries, often based on interactive technologies, are fast outpacing traditional film and video

as rapidly growing sectors of the entertainment and communication economy even in the United States.

An important factor in assessing Japan's potential in the digital-pop market is its already-established presence with the three billion consumers of Asia. The Asian market is growing much faster and larger than other parts of the world

and Japan already has a commanding presence. In the computer and game industries, the Japanese are very strong. In print and publishing, the Japanese are strong in cartoons, comic books, and graphic novels — all of which are extremely popular in Asia.

The Digital-Pop Market

Annual revenue in manga and comics is large and growing in Japan. Manga account for 22 percent of all Japanese publications and are a \$6 billion industry. Some 150 million copies are sold outside of Japan.

Anime, an \$8 billion industry, is sometimes thought of as the animated motion picture version of manga. Japan provides 60 percent of the world's animation and the

Pokemon series alone is broadcast in 65 countries. The American market slice for anime is in the under 25-years of age category.

Music is a \$40 billion industry in Japan, the second largest after the US market.

And an additional \$15 billion worth of toys and character goods are also sold in Japan and \$30 billion worldwide.

Gambling, pachinko (pinball parlors, which are not considered to be officially gambling), and so-called life style industries are even bigger, accounting for a staggering \$644 billion a year. Pachinko alone (\$233 billion) is equivalent to the revenue of the top five auto companies or about one-third of the central government budget. For comparison, the total annual gambling income in Las Vegas, Nevada is only \$31 billion.

Worldwide sales of Japanese computer and video game software, consoles, and accessories were some \$20 billion in 2002, half of which was in the United States. Data released by the market research firm NPD Funworld set total dollar sales in the US at a record \$10.3 billion in 2002, a 10 percent increase over the 2001 figure of \$9.4 billion. US firms have captured 40 percent of this market.

Sony's PlayStation2 has emerged as the king of the consoles. Sony earned \$36 billion from video games between 1995 and 2002.

These games are a big industry for young people and US companies have only 40 percent of the U.S. market.

The trading-card craze among young children is largely a Japanese-fueled phenomenon, centered on Pokemon and Yu-Gi-Oh card sets. Konami's Yu-Gi-Oh generated \$69 million profit in 2002 and Sanrio's Hello Kitty had \$1 billion in sales worldwide.

But the Godzilla of these digital-pop market segments is Japan's \$130 billion cell phone market. With satellite communications, cell phones now have elaborate menu systems that can tap into the Internet and into corporate and banking web servers for text and picture information that was previously only available on a desktop PC or a full-sized laptop computer.

Japan's dominant cell phone company, NTT DoCoMo, has a \$40 billion business with 70 percent of the Japanese wireless market. Its i-mode wireless Internet service has 29 million subscribers in Japan. Foreigners are essentially locked out of this market – a classic Japanese monopoly (keitairitsu). NTT DoCoMo,

however, holds a 16 percent interest in AT&T Wireless and is making aggressive international acquisitions.

Japan's "New Economy"

The statistics reflecting the digital entertainment industry are impressive and the Japanese market share in some of these new industries is significant. The question is whether this emerging sector is powerful enough to propel the generally sluggish Japanese economy forward. It is too early to know the answer to this question yet, but the digital-pop arena seems to be where Japanese IT and software development is having its greatest impact. ■

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Heads Up On Hot Topics Affecting the US and Japan

KKC's monthly program featuring experts on breaking issues of importance to both countries.

"Japan, the US, and the Challenges Posed by Failing States" June 17, 2003

As the world's two largest economies, the US and Japan have a profound interest in curbing threats to global economic stability and peace. But these threats do not emanate from traditional or historic competitors, nor from rising powers such as China.

Rather, argued Banning Garrett, Director of the Atlantic Council's Asia Programs and Dennis Sherman, a Senior Fellow at the Atlantic Council and a retired senior vice president of ExxonMobil, the true danger comes from declining powers – weak, failing and rogue states that are largely non participants in the globalization process.

Garrett and Sherman explained that in the post-Cold War, post-September 11 world, "disconnected" failing states, such as Afghanistan, Somalia, Democratic Republic of Congo, and Sudan, pose the greatest danger to international peace, stability, and a healthy global economy for several reasons:

- These states, or terrorist organizations operating within them, seek to acquire and disseminate chemical, biological and even radiological and nuclear weapons;
- They provide havens, if not outright support, for terrorist

organizations that seek to act beyond the borders of the state, such as Al Qaeda;

- Many have regionally destabilizing civil conflict that draw in other powers or spill across borders. Countries emerging from, or are on the brink of conflict, include Angola, Bosnia, Sierra Leone, Zimbabwe, Liberia, Burundi, and Cote D'Ivoire.
- They disrupt economic growth and create an unfavorable climate for domestic and foreign businesses;
- They support religious extremism that often opposes globalization and supports terrorist actions against the US and other developed countries and against governments in pro-Western developing nations, and may seek to replace the government of the weak or failing state itself.
- And they serve as incubators for transnational threats, including crime, drugs, infectious diseases, and environmental damage.

As a result, the Garrett and Sherman argued, there is a "new fuzzy bipolarity between the world of order, prosperity, relative stability and the growing world of disorder, economic decline, and instability among those nations less connected with globalization."

Japan and the US have a vital interest in expanding working together and with other powers and international organizations to alleviate the immediate dangers posed by failing states and, more importantly, to find new approaches to integrating these states into the globalizing world. This task will require the input of the private sector, creativity, and government commitment. ■

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Keizai Koho Center (KKC) is an independent, non-profit organization designed to promote the understanding of Japan's economy and society at home and abroad. Its financial resources are derived entirely from the private sector.

KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

The views expressed in this newsletter are of the contributors and do not necessarily represent those of the Keizai Koho Center.