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Access to the Japanese Market by Asian Countries: A Case Study of the Wool Textile Industry

Motoshige Itoh and Kaori Hatanaka

The industrial structure and trade pattern of Japan have been undergoing substantial changes since 1985. The appreciation of the yen since the Plaza agreement is an important factor inducing these structural changes. Not only has the amount of imports increased substantially, but the content of imports has also changed drastically. In spite of the fact that Japan had experienced large changes in its terms of trade several times during the postwar period, the share of manufactured goods imports had remained quite stable (at low levels) until 1985. Japanese imports had been dominated by primary goods.

The share of manufactured goods imports has been increasing rapidly since 1985. This increase is closely associated with the transformation of the distribution and production system in Japan. Products imported from foreign countries do not go directly to consumers or to final users. They go through distribution channels—through traders, wholesalers, and retailers—and a considerable amount of value is added to the products in the process. Therefore, the way in which the distribution system is structured has a significant effect on the way goods are imported. Similarly, imports of intermediate goods are affected by the production structure within Japan and by the interfirm transactions therein. Of course, there is also a reverse relation. The growth of Japan-Asia trade becomes a driving force in altering these domestic structures.

The Structural Impediments Initiatives (SII) talks between Japan and the United States that were held from 1989 to 1990 were important in this respect. These trade negotiations were different in character from earlier talks. The focal points of discussion were business practices and regulation inside Japan. The specific issues examined in the SII negotiations were the various types of

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practices in the Japanese distribution system, regulations such as the Large-Scale Retail-Store Law, land-regulation and tax systems that cause high real estate prices, and so called *keiretsu* transactions such as the cross-holding of stocks and exclusive business relations. Although the SII negotiations were between Japan and the United States, the topics on the SII agenda are important to any examination of trade between Japan and other Asian countries.

The purpose of this paper is to examine the relation between Japan's domestic economic structure and the pattern of its imports. We consider imports of both final consumption goods and intermediate goods since the mechanisms behind the importation of these two types of goods are somewhat different. This issue cannot be easily approached by means of a general theory or an empirical study covering various industries. Rather, we take a very micro approach. We choose a particular industry for a case study. The industry we choose is the textile industry—in particular, the wool textile industry, which has many of the features that we are interested in. Both intermediate goods (such as raw materials, yarn, and fabrics) and final consumption goods are traded across the border in this industry. Thus, the structure of the distribution system in Japan, the interfirm relations in the transactions of intermediate goods, and the way goods are produced affect the pattern of trade in this industry.

Although most of the discussion in this paper is restricted to the wool textile industry, the results obtained from such a case study do provide some insights into more general cases. We mention these general insights at various places.

The paper continues as follows. Section 8.1 provides some basic data on the structural change of the pattern of Japan's imports from other Asian countries. Section 8.2 then explains the basic structure of the wool textile industry and its trade pattern. In this section, we also discuss the factors that make it difficult for Asian goods to obtain ready access to the Japanese market. Section 8.3 then discusses the structural change in the domestic Japanese economy that will affect the market accessibility of the Asian products to the Japanese imports market. Section 8.4 provides brief concluding remarks.

8.1 Some Facts

One of the most important changes in the trade pattern of Japan since 1985 is a drastic increase in the share of manufactured goods to total imports. Table 8.1 shows the shares of manufactured goods imports of some major industrial countries. A large portion of Japan's imports consists of primary goods, and manufactured goods imports are only a small portion. It is commonly believed that that low level of manufactured goods among Japan's imports reflects the so-called processing-trade character of Japan.

Table 8.2 shows the decomposition of the share of manufactured goods imports to each exporting country. We can confirm that the shares of the manufactured goods imports from Asian countries have increased substantially during this period. Although many kinds of goods are involved in this change,

Table 8.1 The Share of Manufactured Goods Imports to Total Imports of Various Regions (%)

	Japan	U.S.	EC	Excluding intra-EC Trade
1970	30.3	68.0	61.6	46.8
1971	28.6	70.0	61.4	46.0
1972	29.6	70.8	62.0	46.6
1973	30.6	67.4	60.9	45.6
1974	23.7	57.4	55.5	39.1
1975	20.3	55.8	56.7	41.2
1976	21.5	54.1	57.5	41.6
1977	21.5	60.7	58.5	43.2
1978	22.5	56.8	61.5	48.1
1979	26.0	54.0	60.6	47.3
1980	22.8	56.8	58.2	43.5
1981	24.3	57.4	55.8	41.2
1982	24.9	62.6	57.0	42.5
1983	27.2	66.3	58.8	45.8
1984	29.8	71.0	59.4	47.0
1985	31.0	76.5	61.0	48.6
1986	41.8	80.7	69.4	59.5
1987	44.1	79.6	71.9	63.4
1988	49.0	81.5
1989	50.3			
1990	50.3			

Source: *White Paper on International Trade and Industry* (various years).

Table 8.2 The Ratio of Imports of Manufactured Goods to Total Imports of Japan by Each Area (%)

	U.S.	EC	NIEs	ASEAN
1985	55.2	84.2	57.8	9.2
1986	60.7	85.5	62.3	12.6
1987	56.1	85.7	66.2	15.7
1988	56.0	86.3	72.9	20.4
1989	58.3	86.1	75.5	25.8
1990	62.0	88.1	73.4	26.1

Source: Trade statistics from the Ministry of Finance.

we can demonstrate the increase in the importation of manufactured goods by examining the trends of the importation of several goods. In figure 8.1, we show the trends of imports from Asian countries of such goods as textiles and apparel, automobile parts, and electrical equipment. We can see that imports of these goods have increased substantially in the 1980s.

The types of commodities we pick up in figure 8.1 can be classified into

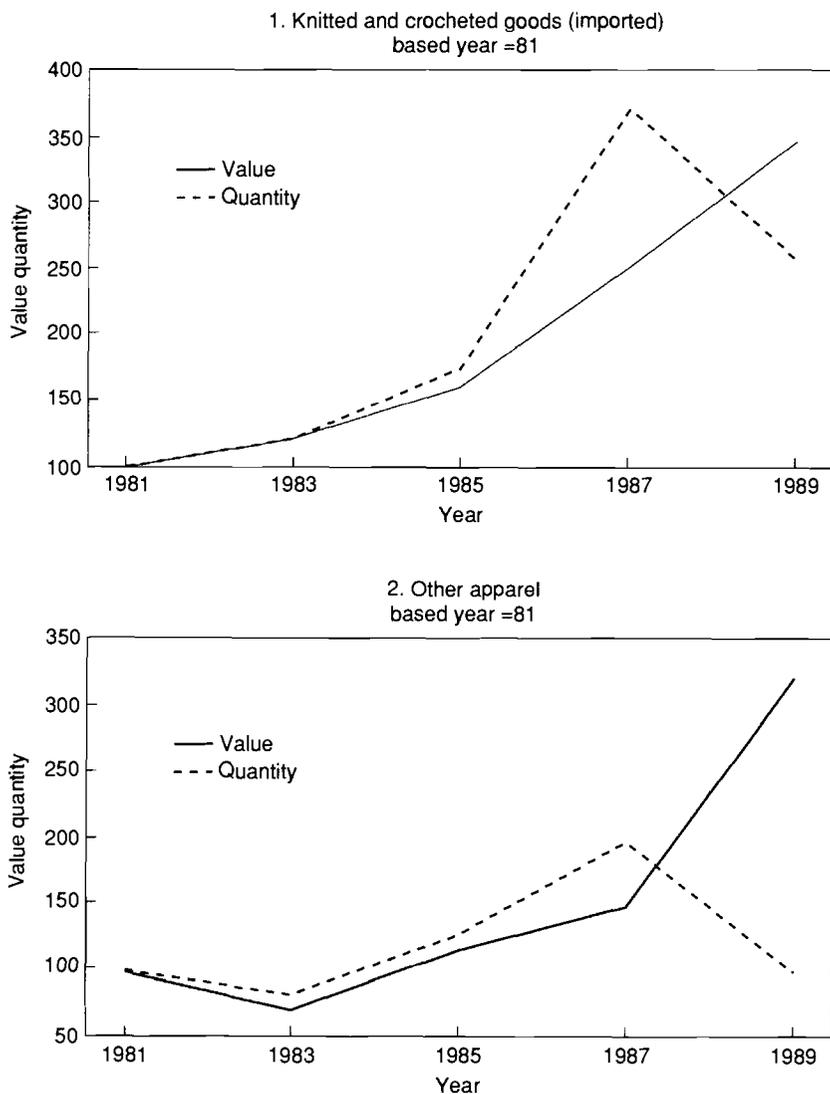
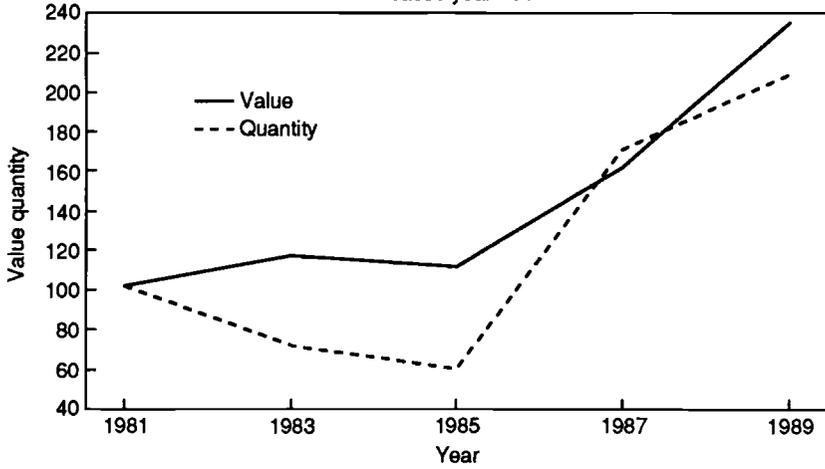


Fig. 8.1 Imports from Asian countries

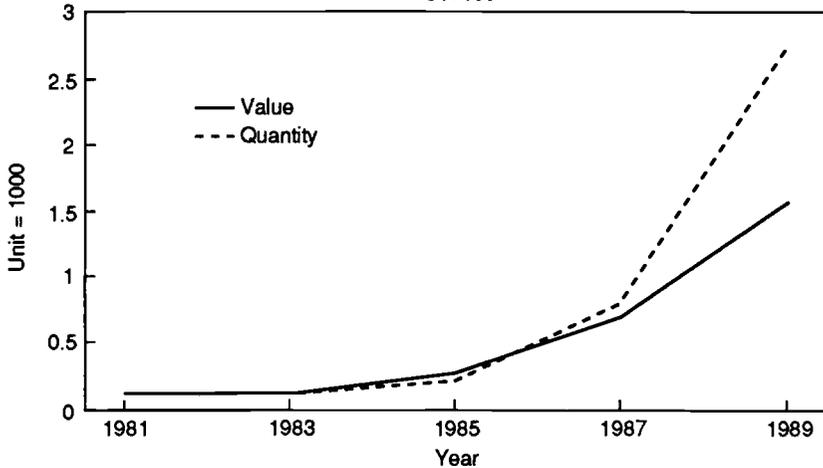
Note: Electrical equipment (panel 3) includes switches, fuses, lighting arresters, etc.

two categories—final consumption goods and intermediate goods. For both types, the domestic economic structure is important in determining the amount of imports. In the case of final consumption goods, the structure of the distribution system is a crucial factor, and, in the case of intermediate goods, the domestic production system and interfirm transactions are crucial factors.

3. Electrical equipment
based year =81



4. Motor vehicles (parts and accessories)
81=100



8.2 Production and Trade Structures of the Wool Textile Industry and the Factors That Become Barriers to Imports

In order to make the point clear that production structure and distribution channels are important factors in determining the pattern of Japan's imports, we examine the production and trade patterns of wool textile products. The wool textile industry has many of the features that are important for the issue of market access.

Figure 8.2 is a rough overall picture of this industry. One of the characteristics of this industry is that there are many firms involved in each stage of production. This industry begins with raw wool materials production, which is a typical agricultural sector. After raw materials come yarn production, fabric making, apparel making, and the distribution process. Along this vertical chain, various transactions are conducted, and the way in which these transactions are conducted affects the pattern of international trade.

We can think of various patterns of international trade in this industry. If raw materials are imported directly to Japan and all other processes are conducted within Japan, the trade pattern becomes that of imports of raw wool materials. Japan may import yarn, fabric, or apparel. In these cases, we observe manufactured goods imports. But the trade pattern can often be more complicated. There are cases where yarn and fabrics are produced within Japan but the fabrics are then sent to other Asian countries for cutting and sewing, with the final product being reimported to Japan.

If the transactions of any of these intermediate goods are simple ones, that is, if the quality of the products is homogeneous, if complicated coordination between sellers and buyers is not necessary, and if transport costs are not large, then a simple logic of comparative advantage determines the pattern of trade at each stage. The production of goods at each stage will be conducted at the place where the production cost is the lowest.

However, there are various factors that make it difficult for the above-mentioned simple international division of labor to be realized. Among these factors, the following three are the most important: the first is the quality of the intermediate goods; the second is the delicate coordination between sellers and buyers that is required to achieve high-quality final products; and the third is transport costs including not only shipping costs but also, and more important, the costs resulting from the difficulty of matching demand and supply. Let us discuss these three factors in more detail.

For transactions of yarn and fabric, the quality of the product often becomes a crucial factor. Table 8.3 compares the amounts of imports, exports, and domestic production of wool yarn and fabrics with those of cotton and knitted products. The share of imported wool yarn used for domestic production of wool fabrics and the share of imported wool fabrics used for domestic production of apparel are much lower than the corresponding figures in the cotton and knitted products industry.

We have conducted interviews that have provided us with some explanation of the low share of imported intermediate goods. Figure 8.3 gives some rough numbers for the vertical value-added structure of high-quality men's suits that are based on our field study.¹ Material costs represent a very small portion of the final retail price, as do the cost of yarn, which is less than 3 percent, and

1. Suits priced at 75,000 yen are not inexpensive products in the Japanese market, but they are not the top of the line either. Most imported European brands cost more than 100,000 yen.

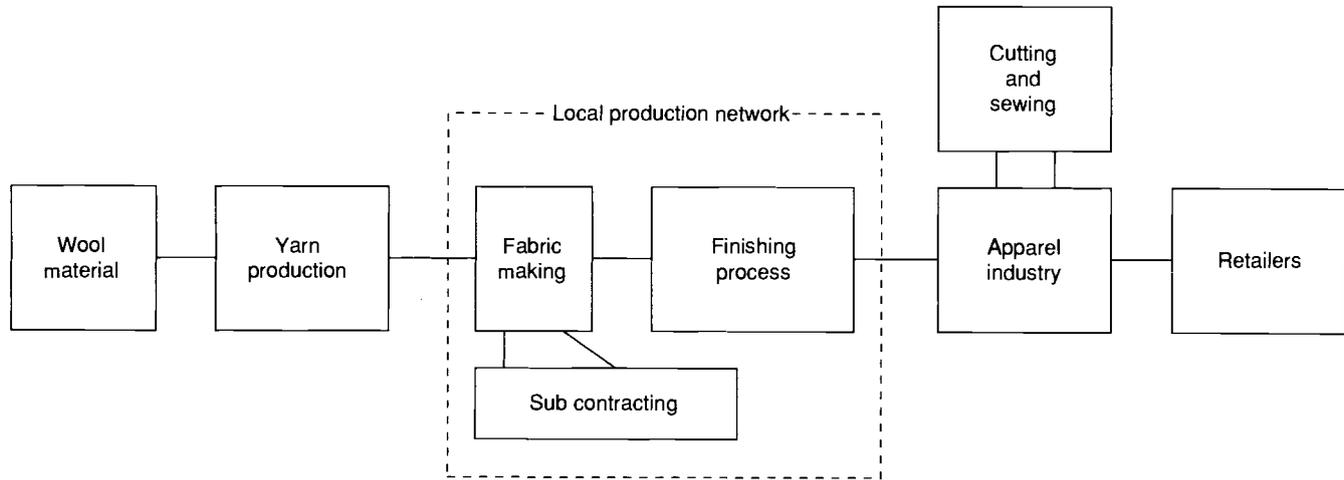


Fig. 8.2 An overall picture of the wool textile industry

Table 8.3 Trade and Domestic Production of Textile Products

	Domestic Production	Import	
		Value (million ¥)	Quantity
Wool for textiles:			
Yarns (<i>t</i>)	82,048	10,448	4,839
Fabric (thousand <i>m</i> ²)	295,975	46,260	23,590
Cotton:			
Yarns	459,160	79,848	208,881
Fabrics	1,914,634	80,716	798,084
Wool for knitting:			
Yarns	36,066	1,858	1,066
Fabrics	55,016	19,344	9,340

Source: Ministry of International Trade and Industry, *Year Book of Textiles Statistics, 1989*.

Note: For yarns, *t* = tons; for fabric, *m*² = square meters.

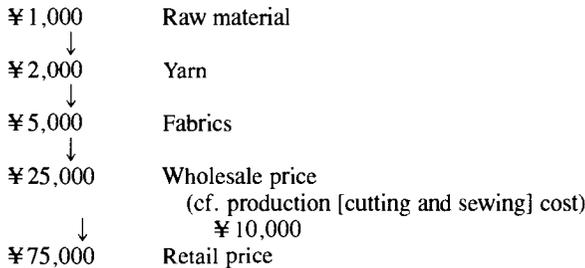


Fig. 8.3 The value-added structure of men's suits

the cost of fabric, which is less than 7 percent. Under this cost structure, a small change in material cost does not mean much for the price of the final product. More important is the quality of the intermediate goods (yarn and fabric). If there is any damage to the material, the final product will lose its whole value; in other words, poor-quality intermediate goods create a bottleneck in the whole production process.

The quality of the intermediate goods (yarn and fabric) is not restricted simply to quality in the usual sense, as discussed above. Design and fashion trends are also crucial. Product differentiation is quite important in the yarn sector. Fashion trends change quite frequently. According to our interview, about 60 percent of the sales of a leading Japanese wool yarn producer come from products not in the standard classification. In other words, they are special products. The company also puts great emphasis on the introduction of new products every year. Fashion trends are an important factor determining the demand pattern for yarn. Therefore, there are various kinds of interactions, such as information exchange and coordinated research on demand

trends among yarn producers, fabric producers, and apparel makers, during the process of designing and producing new yarn. There are very few cases in which Japanese firms go abroad for yarn production. A Japanese producer operating in Asian countries such as Malaysia is producing only less expensive basic products.

A similar phenomenon can be observed in the transactions between fabric producers and apparel makers. Design is important to fabric producers. They supply new designs every year, and new design products are the main source of their profits. It is often the case that the best products are sold to apparel companies with whom they have a special relation, without any public exhibition.

The importance of quality and of coordination between buyers and sellers makes the importation of these intermediate goods difficult. In order to maintain good communication and cooperative coordination, the geographic distance and a long-term relation are important.²

Coordination between apparel makers and retailers is not simple either. The relation is not that of simple buying and selling. Owing to various reasons, such as dead stock risks, externalities of sales effort of the retailers to apparel makers, and the necessity of information exchange, various kinds of complicated transactions have emerged in the distribution system. The pattern of transactions differs depending on the type of retailers involved. It is not possible to discuss all the major cases.³ So we restrict our discussion here to the case of the traditional department store, which has many of the characteristics of the typical traditional Japanese distribution system.

The distinctive feature of department stores is the diversity of products kept in a relatively small number of shops. To secure such diversity of products in one store, the retailer must seek the cooperation of the wholesaler and the manufacturer (wholesalers and manufacturers are often the same companies in apparel products). For this reason, products sold at a department store may be placed on consignment sale (with the wholesaler responsible for accepting unsold items), or they may be returned to the wholesaler. A considerable number of salesclerks working inside department stores are not employees of the store but are assigned to these retailers by the manufacturers or the wholesalers. The prices are also often defined by the manufacturer/wholesaler. To put it in extreme terms, the department store is very much a space-leasing business.

The system of division of labor between the retailer and the manufacturer is a natural result of marketing a wide range of products in a limited floor space. In addition, such a system cannot be founded only on a contract basis but must instead be nurtured as a long-term business relationship. When dis-

2. There is a growing literature on this issue. See, e.g., Williamson (1985) and Hart and Holmstrom (1987). Itoh (1991b) discusses this issue in the context of the Japanese distribution system.

3. On this issue, see Itoh (1991a).

tribution relies on a long-standing relationship between retailer and wholesaler/manufacturer, products from overseas find it difficult to obtain access. Even when high-quality products can be produced at a low cost in Asia, retailers are not inclined to increase their imports unless they can enjoy the same type of service as provided by domestic manufacturers/wholesalers. The manufacturer or the wholesaler may procure such products in Asian countries and channel them through established routes. For example, very expensive European-brand products are imported in this way. However, the makers may harbor great resistance to shifting procurement to other countries owing to the heavy commitment to manufacturing.

Finally, let us briefly mention transportation costs. By *transportation costs* we mean not only shipping costs but also the costs of matching supply and demand. In our interviews with people in the business, the importance of the size of the shipment was often emphasized. When importing from Asian countries, it is necessary to import the same type of goods on a large scale.

The size of imports affects the costs of retailers in the following ways. The first is dead stock risk. If retailers buy the same type of goods in large amounts, the dead stock risk will become larger. Retailers prefer to order a small amount and adjust the order after observing market demand. The second is inventory costs. Japanese retailers prefer to maintain as small an inventory as is possible. The reduction of dead stock risk and inventory costs was made possible traditionally by coordination between manufacturers and retailers. The so-called just-in-time delivery system is a way to minimize the amount of inventory in the hands of retailers. However, it is not easy for sellers and buyers to organize just-in-time delivery systems when they are not located close to one another, and a just-in-time delivery system is based on small-lot delivery, which is difficult for imported products. The spread of the just-in-time delivery system in the Japanese distribution system makes it difficult for Asian products to penetrate the Japanese market.

8.3 Domestic Structural Change and Access to the Japanese Market

We have seen the factors that become barriers to the importation of foreign products. We next consider what kind of structural changes are necessary for these barriers to be removed and whether these changes are actually taking place in Japan.

8.3.1 Structural Changes in the Distribution System

If the importation of final products is to increase, the structure of domestic distribution becomes a critical factor. As we discussed briefly in the previous section in the case of department stores, retailing activities are closely related to the way that products are purchased. Therefore, changes in the distribution system will have a significant influence on the accessibility of Asian products to the Japanese market.

The key element if Asian (apparel) products are to achieve better access is the size of imports. If a retailer can sell goods in large amounts, there will be more room on the market for inexpensive Asian goods. However, the Japanese system has no structure by means of which goods can be imported in large amounts. As we discussed in the case of department stores, the dependence of retail stores on wholesalers or manufacturers for dead stock risk taking, pricing, and other services made it difficult for retailers to take the initiative in purchasing Asian goods. So-called just-in-time delivery systems also made it difficult for foreign goods to penetrate the Japanese market.

There are also reasons why wholesalers have difficulty buying Asian apparel goods. The average size of Japanese wholesalers is quite small. This small size is a result of the small size of retailers. The Large-Scale Retail-Store Law restricted the entry of large-scale retail stores. Other factors such as population structure and the transportation system are also important, and we will comment on these points below. Therefore, wholesalers are not in a position to enjoy scale economies importing inexpensive foreign products.

As regards this point, there are some important structural changes that have emerged in the Japanese distribution system in recent years. The price gap between Japan and other Asian countries that has become marked since the appreciation of the yen has some influence on the Japanese distribution system. Distribution structure is transforming in order to pave the way for the access of inexpensive Asian products.

An example of this adjustment in the Japanese distribution system to inexpensive Asian goods is the rapid growth of the direct marketing business. The strength of the direct marketing business lies in its ready access to all consumers through the mail. Thus, the direct marketing business is in a position to sell large numbers of the same goods. Some of the most successful direct marketing companies in Japan are heavily concentrated in the sales of such goods as less expensive underwear, socks, and stockings, for which mass purchase and mass sales are easy. This new distribution channel is heavily biased toward Asian products. The traditional distribution channels are not in a good position to import these products in large amounts since they have a relatively small number of retail outlets. Even the largest retail chain stores in Japan do not have as many stores as those in the United States. The Large-Scale Retail-Store Law was one of the most important barriers to the increase in the numbers of stores.

Perhaps more important factors behind the structural changes in the Japanese distribution system are domestic. One of the major elements that triggered the changes in distribution is urbanization, that is, the concentration of the population in urban areas and advances in transportation spearheaded by motorization. These two elements expanded the commerce range (such as the number of consumers who can reach a shop in thirty minutes) covered by retail shops. The spread brought greater specialization of retail marketing in various forms. This is in stark contrast to the "one-stop shopping" character-

istic that retailers possessed in the older distribution system to satisfy general consumer needs.

A typical new-type retailer growing rapidly under this structural change in the commerce range is the so-called chain specialty store. The distinctive characteristics of apparel specialty chain stores are a limited range of products and the opening of identical (both in business scale and in product variety) outlets in buildings adjacent to railway stations, shopping malls, and roadside sites. These specialty chain stores often have hundreds of outlets all around the nation. In this way, the store chain strives to achieve scale economies. Each outlet is not necessarily large. But even when each store is small, the large number of such outlets generates efficiency of scale in procurement. Business scale aids in reducing the store chain's risks in dead stock and merchandise procurement stock. This feature contrasts sharply with the case of department stores discussed in the previous section.

The recent deregulation of the Large-Scale Retail-Store Law will accelerate this structural change. It now becomes much easier for large-scale retail shops to expand their outlets. By increasing the number of shops, large-scale retail stores will be in a better position to enjoy scale economies of mass purchases and mass sales.

8.3.2 Coordination of Production Networks

Another important structural change taking place in the Japanese distribution system involves the vertical, upstream integration of retailers. Specialty retail chains and big national chain stores, which are in a position to utilize scale economies of mass merchandising, do not stop at just buying commodities from other Asian countries. They are moving in the direction of organizing a production network.

Figure 8.4 shows how toddlers' trousers sold in an apparel specialty chain store are manufactured in Asian countries.⁴ The fabric was purchased in China and dyed and pressed in Japan, and accessories were produced in Hong Kong. These materials were next brought to Thailand for cutting and then to Vietnam for sewing. The finished merchandise was inspected in Thailand and marketed in Japan.

Such a scope of production involving many countries denotes the diversity of Asian countries in wages and labor characteristics. There is no capital flow behind these transactions; that is, Asian producers in this production network are independently owned. This type of coordination of production initiated by retailers is widely observed in various kinds of commodities. Naturally, some companies set up plants in Asian countries, which involves direct investment and intrafirm trade.

The case of apparel distribution applies to the trade and production of other

4. This is a case involving cotton products, not wool products.

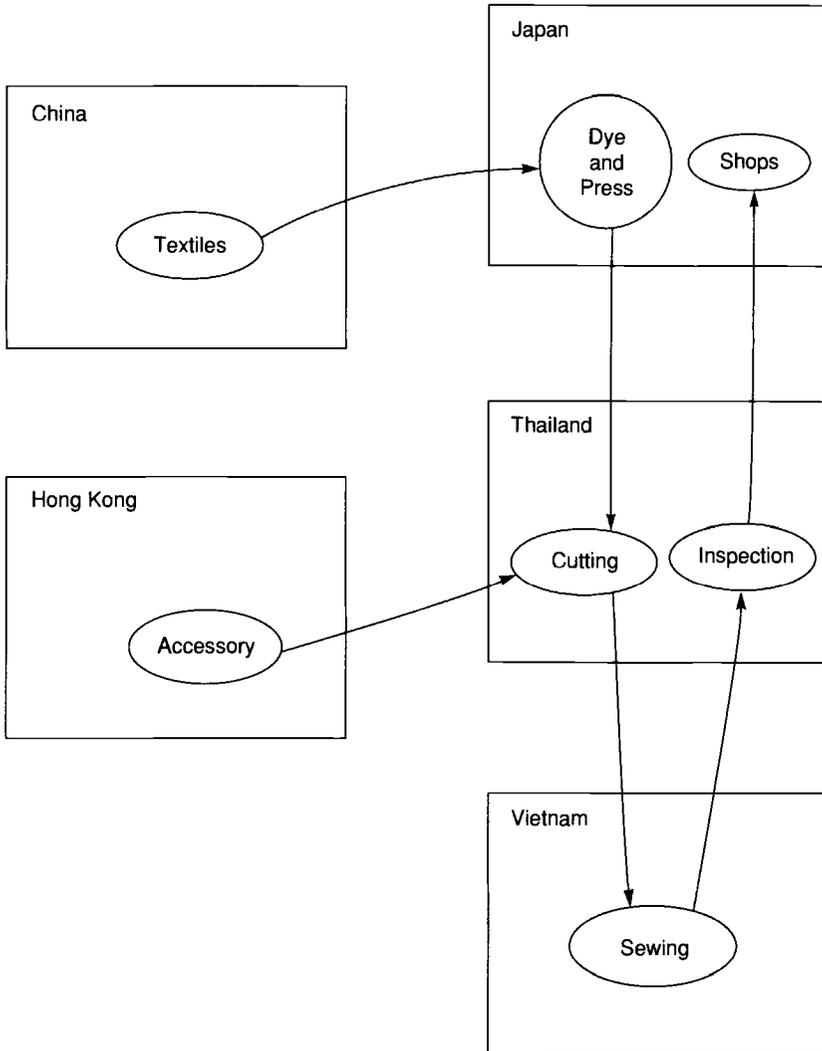


Fig. 8.4 The production route for toddlers' trousers

consumer goods as well as intermediate goods. In figure 8.1 above, a drastic rise was seen in imports of such products as textiles and electrical equipment and auto parts. In the food and sundries business, the growing market share of the general merchandise store operating on a national scale has made many companies avid importers of Asian products. The shift from conventional procurement routes via wholesalers to the development of product importation from Asian nations is believed to be accelerating in this area as well.

The concurrent transformation of domestic trading patterns and Asian trade is occurring in the production and distribution of various types of machinery and parts. Typified by auto parts procurement, the automobile industry grew by sustaining physical proximity and close business ties between manufacturer and parts maker. Production systems such as the *kanban* (just-in-time) system were founded on these continuing business relations.

Nonetheless, the production network, which has been concentrated in a single geographic area in the past, has begun to spread outside Japan into other parts of Asia. The expansion of manufacturing provides the advantage of low labor cost in parts procurement but also the impediment of maintaining intimate business relationships, which are best realized with proximity. The presence of high-quality and inexpensive labor in other Asian countries is magnifying the positive element and minimizing the negative.

These developments are causing automobile, electrical machinery, and other assembly-based industries to bypass Japan and build networks extending into all parts of Asia. Increased direct investment in Asia is a reflection of this outward movement. The rise in the parts trade shows the same structural change in consumer goods distribution mentioned earlier. Both were strictly domestic systems but have undergone major structural transformations. The speed of change is a major factor affecting Japan's Asian trade.

In light of the current situation, an examination of distribution and business among affiliated companies in the SII takes on special meaning. Future developments in trade between Japan and other Asian countries (as well as the world at large) are closely connected to how distribution and manufacturing in Japan will change.

It must be noted, however, that these structural changes did not take place because of the SII. It is more likely that they are the product of changes in the Japanese consumption structure and of the price gap with rest of Asia. The SII talks appear to be following the path paved by the changes.

8.4 Concluding Remarks

The imports of Asian goods by Japan have increased considerably since the appreciation of the yen of 1985. This change in imports is reflected not only in the aggregate amount of imports from Asian countries but also in the change in the contents of Japan's imports. As we have already mentioned, the share of manufactured goods imports in total imports has risen from a level of around 30 percent in the mid-1980s to 50 percent at the end of the 1980s.

The domestic structure of the distribution network and intermediate transactions has also changed significantly in the course of this import expansion. In fact, the change in import pattern and the change in the domestic distribution networks are interrelated. As we have seen in the case of wool textile products, and as is true with many industries, there is a long vertical chain of

firms from raw materials upstream to distribution downstream. There are a large number of firms involved at each link in the chain. Thus, even for those products that are imported from abroad, there are still some domestic firms involved either in production (when imported goods are intermediate goods) or in distribution (when imported goods are final consumption goods) before the goods reach the final consumers. Thus, the structure of the distribution network and interfirm transactions affect considerably the way Japan imports Asian goods.

We have seen that the Large-Scale Retail-Store Act, by which the expansion of big chain stores was retarded, became a barrier to imports from Asian countries. The reason why the act has been an import barrier is rather complicated. As we have explained in this paper, the transactions between traditional retail stores and domestic wholesalers/manufacturers of apparel products is quite different from the transactions between chain-store-type retailers and producers. Traditional retail stores rely on wholesalers and manufacturers and on such services as just-in-time delivery, dead stock risk sharing, the provision of various information on the products, and the like. Such relations are in this case a far cry from simple buying and selling. It is not easy for Asian goods to penetrate this complicated network, even though their goods are priced to be strongly competitive. In the case of chain stores, the situation is very different. Since chain stores can enjoy economies of scale because they can sell large amounts of each good (so-called mass merchandising), they depend less on the wholesaler/manufacturer and on such services as just-in-time delivery and risk sharing.

We can learn from our case study how import activities are related to domestic interfirm transactions and the structure of distribution networks. It is thus vital for any discussion of market access to examine the domestic market structure. In Japan, there still remain various barriers in the distribution network. But we can also observe many changes in the domestic market that will accelerate the expansion of imports.

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Comment Chong-Hyun Nam

As was discussed at length in a earlier session this afternoon, a larger question that relates to Motoshige Itoh and Kaori Hatanaka's paper is that the extent of import penetration of manufactured goods into Japanese markets is not only exceptionally low but also not increasing. For example, between 1975 and 1986, the average import penetration ratio for manufactured goods, which was measured as a percentage share of imports in apparent domestic consumption (= production + imports - exports), rose from 7.0 to 13.8 percent in the United States and from 24.3 to 37.2 percent in Germany but declined from 4.9 to 4.4 percent in Japan (Takeuchi 1990, 103).

An important question is why Japan imports so little. Apparently, Japan has the lowest import barrier as far as formal tariff or nontariff barriers (NTBs) are concerned among the major industrial nations. Therefore, the answer must be sought elsewhere. Many argue, for example, that Japanese institutions, legal frameworks, and business customs are all biased not only against consumers vis-à-vis producers but also against imports vis-à-vis domestically produced goods, constituting the so-called informal barriers to trade. Most frequently cited forms of informal barriers to trade include, for example, administrative guidance, customs procedures, technical barriers (such as product standards, testing and certification requirements), and the complicated distribution system. No one knows, however, how important each one is in accounting for the low import penetration ratio into the Japanese market.

This paper addresses the importance of the distribution system as an actual and potential barrier to imports in Japan. It is based on a case study of the wool textile industry at a micro level and illustrates very well how the Large-Scale Retail-Store Law has prevented large-scale distributors, at both the wholesale and the retail levels, from being established. The paper also points out that, as a consequence, manufacturers often merged with wholesale distributors and that retailers often became too small to bear the risk of ending up with dead stock. This often led to a kind of vertical collusion between wholesalers and retailers, which tended to maximize joint profits. Under these circumstances, it appears that there is little room for foreign suppliers to penetrate the Japanese market unless foreign suppliers or importers develop their own distribution channels inside Japan.

This paper does not, however, give any indication of the degree of restrictiveness of the distribution channels for foreign imports, that is, the extent to which those channels limit imports. This will depend on the price-raising effects of the distribution system on imports and supply and demand responses to price changes. An international comparison of markups at each stage of the distribution channel for both imports and domestically produced goods would therefore be useful.

At any rate, I am glad to learn that the Large-Scale Retail-Store Law has recently begun to be dismantled in Japan. Nonetheless, the reform process may be a very slow one, mainly because it will be very much subject to economic, political, and social interactions in the country and because the tradition cannot change overnight. However, the reform process can be accelerated if foreign competition is allowed into the distribution system itself. This would require opening up distribution business to foreign investments. Are there any serious obstacles to that now? Perhaps this is an issue that is being discussed at the moment at the U.S.-Japan Structural Impediments Initiatives (SII) talks. Certainly, many developing countries, particularly newly industrializing economies, have a keen interest in the outcome of the reform plan.

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Comment Tan Eu Chye

Motoshige Itoh and Kaori Hatanaka's paper is of great significance for developing countries interested in penetrating the Japanese market, providing as it does a greater understanding of the difficulty involved in gaining significant market access into Japan. A number of factors that determine market access that I would regard as structural factors have been identified by Itoh and Hatanaka. These are factors beyond the traditional tariff and formal and informal nontariff barriers and exchange rate policies that ought to be looked into if one intends to address the issue of market access. These structural factors could restrict trade more than tariff and nontariff barriers do.

Nonetheless, the purpose of the paper—to examine the relation between the domestic economic structure and the pattern of Japan's imports—could have been better served by studying a number of industries rather than the wool textile industry alone. So would the overriding issue of the paper—access to the Japanese market by Asian countries—have been better dealt with by an analysis of both tariff and nontariff barriers in Japan that considered them separately from other structural factors. An estimation of the extent of changes in tariff and nontariff barriers since 1935 would have been especially useful, as it would have enabled a broader range of goods to be taken into account. Such an estimation could then have been supplemented by a computation of the import trade intensity index of Japan and market penetration ra-

tios in order to gauge the extent of improvement in access to the Japanese market.

At any rate, the paper does indicate that access of Asian developing countries' products to the Japanese market is gradually improving with a proliferation of direct marketing activities, the deregulation of the retail system, urbanization, the mushrooming of chain speciality stores, and the increasing resort to global subcontracting. These recent developments, as mentioned by Itoh and Hatanaka, coupled with growing environmental concerns and the aging Japanese population, would in my opinion augur well for the industrial development of Asian developing nations.