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

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1. Introduction

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

The share of manufactured goods imports has been increasing rapidly since 1985. The increase in the imports of manufactured goods is closely associated with the transformation in

distribution and production system within Japan. The products imported from foreign countries do not go directly to consumers or to final users. They go through distribution channels of traders, wholesalers and retailers, and considerable amount of value is added to the products in this distribution process. Therefore, the structure of distribution system 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 inter-firm transactional relations 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. This trade talk is different in character from the earlier trade talks. The focal point of discussion were the business practices and regulation inside Japan. The specific issues examined in the SII negotiations were the various types of practices in the Japanese distribution system, regulations such as Large-scale Retailer Law, regulation and tax system on land that cause high real estate prices, and so called "keiretsu" transactions such as stocks cross-holding and exclusive business relations. Although the SII negotiations were between Japan and the United States, the topics in the SII agenda were virtually important in examining trade between Japan and Asian countries.

The purpose of this paper is to examine the relation between the domestic economic structure and the pattern of Japan's

imports. We consider both the imports of final consumption goods and intermediate goods, since the mechanism behind the imports of these two types of goods are somewhat different. It is not easy to approach to this issue by a general theory or by an empirical study covering various industries. We rather take a very micro approach. We choose a particular industry for a case study. The industry we choose is textile industries, and in particular wool textile industry, which has many of the features 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 inter-firm 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 discussions in this paper is restricted to the case of wool textile industry, the results obtained from such a case study do provide some insights on more general cases. We mention these general insights at various places.

The rest of this paper consists of the following sections. Section 2 provides some basic data on the structural change of the pattern of Japan's imports from Asian countries. Section 3 then explains the basic structure of the wool textile industry and its trade pattern. In this section we also discuss the factors which make it difficult for Asian goods to have good access to the Japanese market. Section 4 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 5 provides brief concluding

remarks.

2. 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 the total imports. Table 1 shows the shares of manufactured goods imports of 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 the low level of the share of the manufactured goods imports of Japan reflects the so called "processing trade" character of Japan.

Table 2 takes 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 in this period. Although many kinds of goods are involved behind this change in the share, we can recognize the increase in the import of manufactured goods by examining the trends of imports of several goods. In Figure 1 we show the trends of imports from Asian countries of such goods as textiles and apparels, automobile parts, and electric parts. We can see that the imports of these goods have increased substantially in the 1980s.

The types of the commodities we pick up in Figure 1 can be classified into two categories; one is final consumption goods

and the other is intermediate goods. For both types, the domestic economic structure is important to determine the amount of imports. In the case of final consumption goods, the structure of distribution system is a crucial factor, and in the case of intermediate goods the domestic production system and inter-firm transactional relations are crucial factors.

3. Production and trade structure of wool textile industry and the factors that become barriers to import.

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

Figure 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. The upstream of this industry starts from raw wool material production which are a typical agricultural sector. After raw materials come yarn production, fabric making, apparel making and distribution process. In this vertical chain various transactions are conducted and the way these transactions are conducted affect 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, it becomes imports of raw wool materials. Japan may import yarn, fabrics or final apparel products. In these cases we observe manufactured goods imports. Trade pattern can often be more complicated. There are cases where yarn and fabrics are produced within Japan, and fabrics are sent to other Asian countries for cutting and sewing and final products are re-imported to Japan.

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

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

For the transactions of yarn and fabrics, quality of the products often become crucial factor. Table 3 compares the amount 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 products are much lower than the corresponding figures in cotton and knitted products industry.

The interview we have made provided us with some reasons for the low share of imported intermediate goods. Figure 3 shows rough numbers about the vertical value added structure of high quality men's suits based on our field study.¹ Material costs are a very small portion of the final retail price. The share of yarn cost is less than 3%, and the share of fabric costs less than 7%. Under this costs structure, a small change in material cost does not mean much for the price of the final products. More important is the quality of the intermediate goods (yarn and fabrics). If there is any damage of the material, the final product will lose its whole value; in other words, poor quality of intermediate goods becomes a bottleneck of the whole production process.

The quality of the intermediate goods (yarn and fabrics) are not restricted only to the quality in the usual sense as discussed above. Design and fashion trends is also crucial. Product differentiation is quite important in yarn sector. Fashion trends change quite frequently. According to our interview, about 60% of the sales of a leading Japanese wool yarn producer is not the products in the standard classification. In other words, they are special products. The company also put great emphasis on the introduction of new products every year. Fashion trends are an important factor determining the demand

pattern of 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 new yarn and the production of yarn. There are very few cases that the Japanese firms go abroad for yarn production. A Japanese producer operating in Asian countries such as Malaysia are producing only less expensive basic products.

A similar phenomena can be observed in the transactions between fabric producers and apparel makers. Designing is an important activity for 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 of special relation without any public exhibitions.

The importance of quality factor and coordination between buyers and sellers make the imports of these intermediate goods difficult. In order to keep good communication and cooperative coordination, the geographical distance and long-term relation have significant importance.²

Coordination between apparel makers and retailers are not simple either. The relation is not that of simple buying and selling. Due to various reasons such as dead stock risks, externalities of sales effort of the retailers to apparel makers, and necessity of information exchange, various kinds of complicated transactional relations have emerged in the distribution system. The pattern of transactional relations are different depending on the types of retailers. It is not

possible to discuss all the major cases.³ So, we restrict our discussion here to the case of traditional department store, which has many of the characteristics of a 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 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 may be returned to the wholesaler. A considerable number of sales clerks working inside department stores are not employees of the development store but assigned to these retailers from 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 manufacturers is a natural product of marketing of a wide range of products inside limited floor space. In addition, such a system cannot be founded only on contract and is nurtured by long-term business relationship. When distribution relied on the long-standing relationship between retailer and wholesaler/manufacturer, products from overseas find access difficult. Even when high-quality products can be produced at low costs in Asia, retailers are not attracted into increasing

imports with enthusiasm unless retailers can enjoy the same type of services as the one provided by domestic manufacturer/wholesalers. The manufacturer or the wholesaler may procure such products in Asian countries and channel them through established routes. We can observe these cases. Very expensive European brand products are imported in this route. However, the makers may harbor much resistance to shifting procurement to other countries due to its heavy commitment to manufacturing.

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

The size of imports affects the costs of retailers in the following way. One is dead stock risk; if the retailers buy the same type of goods in a large amount, the dead stock risk will become larger. The retailers will rather prefer to order by a small amount and adjust the order by observing market demand. The second is inventory costs. Japanese retailers prefer to make the amount of inventory as small as possible. The reductions of dead stock risk and inventory costs were made possible traditionally by coordination between manufacturers and retailers. The so called "just-in-time" delivery system is a method 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 system when they are not located

in a short distance, and just-in-time delivery system is based on a small-lot delivery, which is difficult for imported products. The spread of just-in-time delivery system in the Japanese distribution system makes it difficult for Asian products to penetrate into the Japanese market.

4. Domestic structural change and access to the Japanese market

We have seen the factors which become barriers to import 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.

4-1. Structural changes in the distribution system

For the import of final products to increase, the structure of domestic distribution becomes a critical factor. As we discussed briefly in the previous section for the case of department stores, retailing activities have close relations with the way the products are purchased. Therefore, changes in the distribution system have significant influences on the accessibility of Asian products to the Japanese market.

The key element for better access of Asian products (apparel products) is the size of imports. If a retailer can sell the

same goods by large amounts, there is more room for enjoying inexpensive Asian goods. The system of Japan does not have a structure for importing the same goods by large amounts. As we discussed for 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 initiatives for purchasing Asian goods. So called "just-in-time" delivery system also made it difficult for foreign goods to penetrate into the Japanese market.

In the level of wholesalers, there are also some reasons for them to have difficulties in buying Asian apparel goods. The average size of the Japanese wholesalers are quite small. The small size of the Japanese wholesalers are a result of small sizes of the retailers. The Large-Scale Retail-Store Law restricted entry of large scale retail stores. Other factors such as population structure and transportation system are also important, on which we make some comments below. Therefore, the wholesalers are not in a position to enjoy scale economies importing inexpensive foreign products.

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

An example of this adjustment in the Japanese distribution system to inexpensive Asian goods is a rapid growth of direct

marketing business. The strength of direct marketing business exists in its good access to all consumers through mail networks. Thus, direct marketing business is in a position to sell a large numbers of 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 towards Asian products. The traditional distribution channels are not in a good position to import these products by large amounts, since they have relatively small number of retail shop outlets. Even the largest retail chain store in Japan do not have so many stores as those in the United States. The Large-Scale Retail-Store Law was the most important barriers to the expansions of the number of the stores.

Perhaps, more important factors behind the structural changes in the Japanese distribution system are domestic originated factors. One of the major elements that triggered the changes in distribution is urbanization, that is, concentration of 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 30 minutes) covered by retail shops. The spread brought greater specialization of retail marketing in various forms. This is in stark contrast to "one-stop shopping" characteristic that retailers possessed in the older distribution system to satisfy general consumer needs.

A typical new-type retailers growing rapidly under this

structural change in the commerce range are the so called chain specialty stores. The distinctive characteristics of apparel specialty chain stores are limited range of products and opening of identical (both in business scale and product variety) outlets in shopping building adjacent to railway stations, shopping malls, and roadside sites. They often have hundreds of shop outlets all around the nation. In this way the store chain strives to achieve scale economies. Each of outlet is not necessarily large. But even when each store is small, the large number of such outlets generate 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 to 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 shop outlets. By increasing the number of shops, large scale retail shops will be in a better position to enjoy scale economies of mass purchases and mass sales.

4-2. Coordination of production networks

Another important phenomena in the structural changes of the Japanese distribution system is various types of vertical integration by retailers towards upstream directions. Specialty retail chains and big national chain stores, which are in a

position to utilize scale economies of mass merchandising, do not stop at the level of just buying commodities from Asian countries. They are moving to the direction of organizing a production network.

Figure 4 shows how boy's trousers sold in a apparel specialty chain store is manufactured in Asian countries.⁴ The textile was purchased in China, and dyed and pressed in Japan. Accessories were produced in Hong Kong. These materials were brought to Thailand for cutting and subsequently to Vietnam for sewing. The finished merchandises were inspected in Thailand and marketed in Japan.

The geographical scope of production that involved many countries denotes the diversity of Asian countries in wages and labor characteristics. There is no capital flows behind this transactions; that is, Asian producers in this production network are under independent ownership from the Japanese retailer. This type of coordination of production initiated by retailers are widely observed in various kinds of commodities. Naturally, some companies set up plants in Asian countries, which involves direct investment and intra-firm trade.

The case in apparel distribution applies to trade and production of other consumers goods as well as intermediate goods. In Figure 1, a drastic rise was seen in imports of such products as textiles, electric and auto parts. In the food and sundries business, the growing market share of GMS (general merchandise store) operating on a national scale has made many companies avid importers of Asian products. Shift from conventional procurement routes via wholesalers to development

of product import from Asian nations is believed to accelerate in this area as well.

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

Nonetheless, the production network that had concentrated in a single geographical area in the past has begun to spread outside Japan and into other parts of Asia. The expansion of manufacturing provides the advantages of the low labor cost in parts procurement but at the same time an impediment in maintaining intimate business relationships which are 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 moving automobile, electrical machinery, and other assembly-based industries away from Japan and to build networks extending into all parts of Asia. Increased direct investment in Asia is a reflection of these movements. The rise in 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 in change is a major factor affecting Japan's Asian trade.

In light of the current situation, examination of

distribution and business among affiliated companies in the SII takes hold special meaning. Future developments in trade between Japan and other Asian countries (as well as the world at large) is closely connected to how distribution and manufacturing in Japan will change.

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

5. Concluding remarks

The imports of Asian goods by Japan have increased considerably since the yen appreciation 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 the total imports have risen from the level of around 30 % in the mid-1980 to the level of 50 % in the end of the 1980s.

The domestic structure of distribution network and intermediate transactions have also changed significantly in the course of this import expansions. In fact, the change in import pattern and the change in the domestic distribution networks have a lot of things to do with. As we have examined by a case of wool textile products, there is a long vertical chain of firms

from upstream level of raw materials to downstream level of distribution in many industries. There are a large number of firms involved in each of these vertical chains. 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 distribution networks and the transactional relations of intermediate goods affect considerably the way Japan imports Asian goods.

We have seen that Large-Scale Retail Store Act, by which expansion of branches by big chain stores were retarded, became a barrier to imports from Asian countries. The reason why Large-scale Retail Store Act has been an import barrier is rather complicated. As we have explained in this paper, the transactional relations of the traditional retail stores with domestic wholesalers/manufacturers in apparel products is quite different from the transactional relations between chain store type of retailers and producers. In the former, retail stores rely on wholesalers and manufacturers on such services as just-in-time-delivery, dead stock risk sharing, the provision of various information on the products and the like. The transactional relations in this case is far from a simple buying and selling transactional relations. It is not easy for Asian goods to penetrate into this complicated transactional relations even though these goods have strong price competitiveness. In the case of chain stores, the situation is very different. Since the chain stores can enjoy economies of scale due to the fact

that they can sell a large amount for each good (so called mass merchandizing), these retail stores depend less on upstream on such services as just-in-time delivery and risk sharing.

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

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Footnotes

1. Suites of a price 75000 yen is not inexpensive products in the Japanese market, but they are not the most expensive ones. Most of imported European brands cost more than 100,000 yen.

2. There are a growing literature on this issue. See, for example, Williamson [1985] and Hart and Holmstrom [1987]. Itoh [1989] discusses this issue in the context of the Japanese distribution system.

3. See Itoh [1991] on this issue.

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

Table 1 The share of manufactured goods imports
to the total import of various regions (Unit: %)

	Japan	USA	E C	excluding intra EC trade
1970	30.3	68.0	61.6	46.8
71	28.6	70.0	61.4	46.0
72	29.6	70.8	62.0	46.6
73	30.6	67.4	60.9	45.6
74	23.7	57.4	55.5	39.1
75	20.3	55.8	56.7	41.2
76	21.5	54.1	57.5	41.6
77	21.5	60.7	58.5	43.2
78	22.5	56.8	61.5	48.1
79	26.0	54.0	60.6	47.3
80	22.8	56.8	58.2	43.5
81	24.3	57.4	55.8	41.2
82	24.9	62.6	57.0	42.5
83	27.2	66.3	58.8	45.8
84	29.8	71.0	59.4	47.0
85	31.0	76.5	61.0	48.6
86	41.8	80.7	69.4	59.5
87	44.1	79.6	71.9	63.4
88	49.0	81.5	—	—
89	50.3			
90	50.3			

measured by dollar values

Source: White paper on International
Trade and Industry (Various Years)

Table 2 The ratio of the import of manufactured goods to the total import of Japan by each area (%)

year	the U.S.	E C	N I E s	A S E A N
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

(sources) Japan Trade Statistics of Ministry of Finance

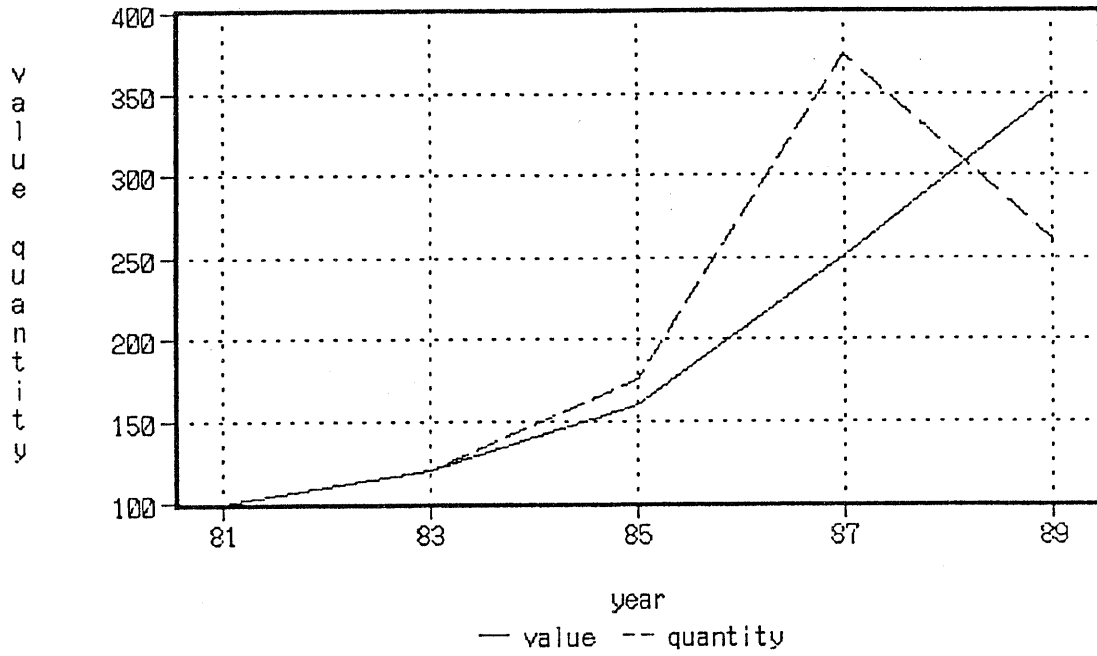
Table3

		Domestic production	Import	
			Value(million ¥)	Quantity
Wool for textiles	Yarns(t)	82,048	10,448	4,839
	Fabric(thousand m 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

Data: Year Book of Textiles Statistics

(Ministry of International Trade and Industry) 1989

1.knitted and crocheted good(import)
based year=81



2.other apparels
based year=81

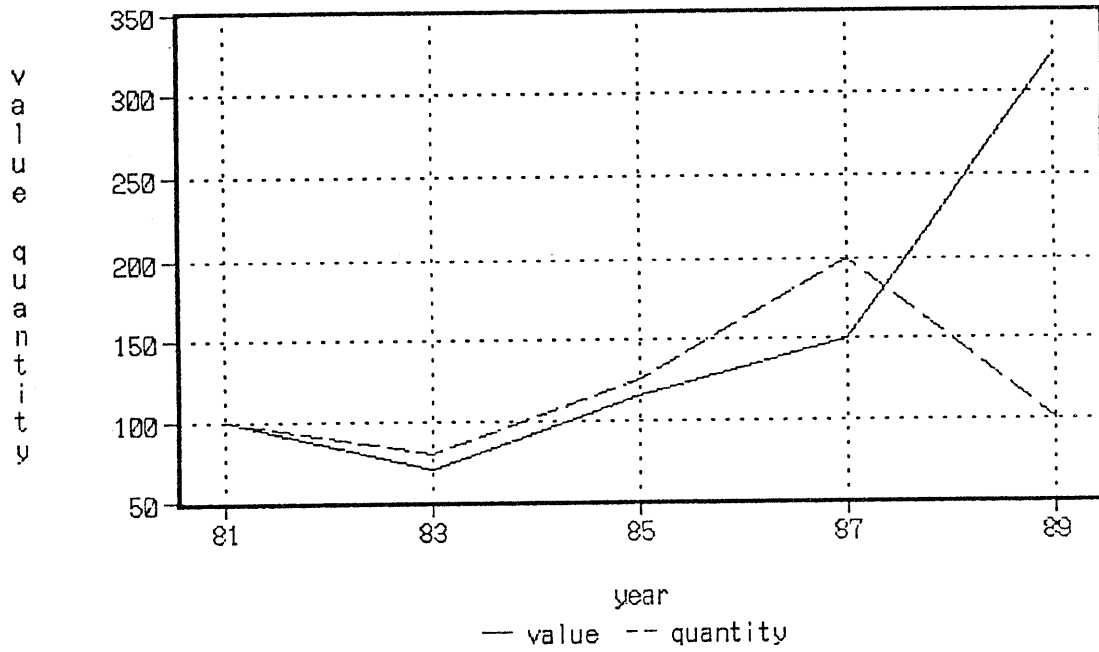
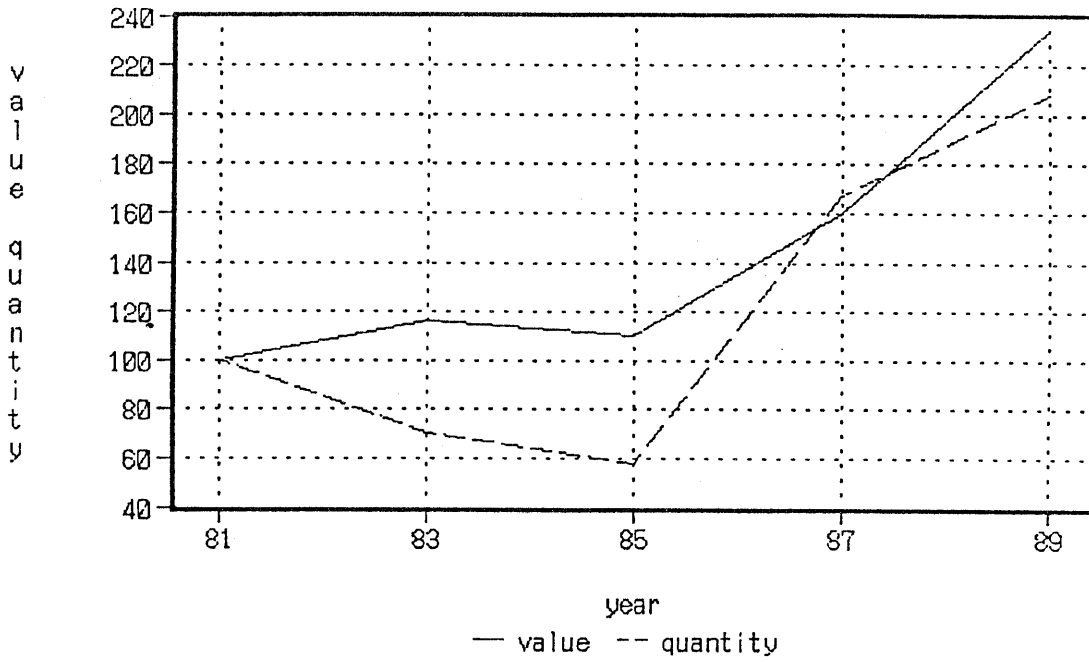


Figure 1-A Imports from Asian Countries (Examples)

3.electrical equipment2
based year=81



3.electrical equipment2 (switches, fuses, lighting arresters etc.)

4.motor vehicles (parts and accesories)
81=100

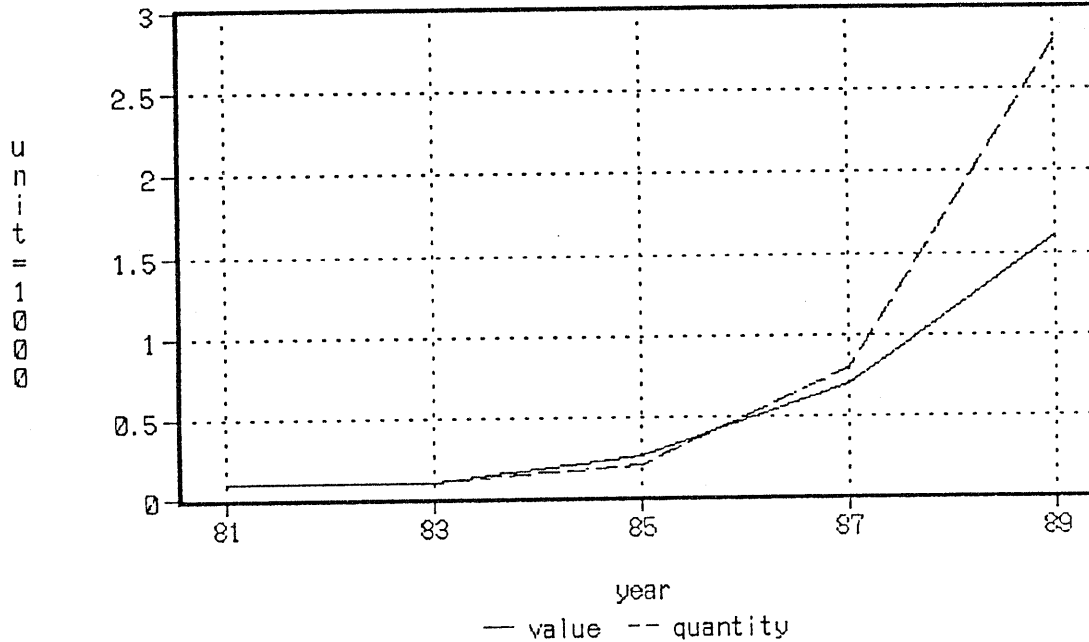
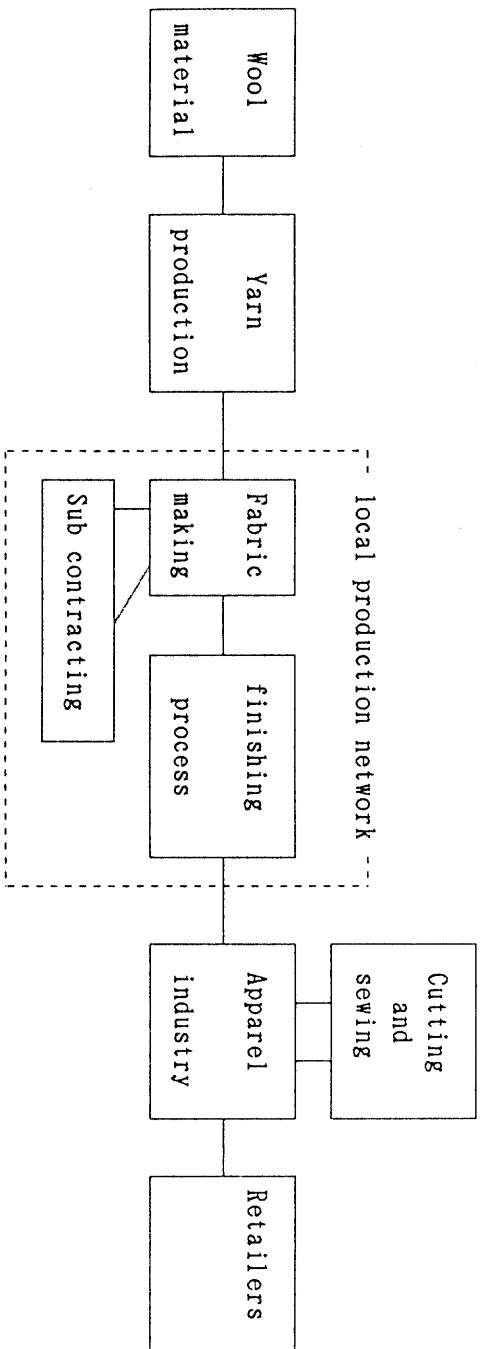
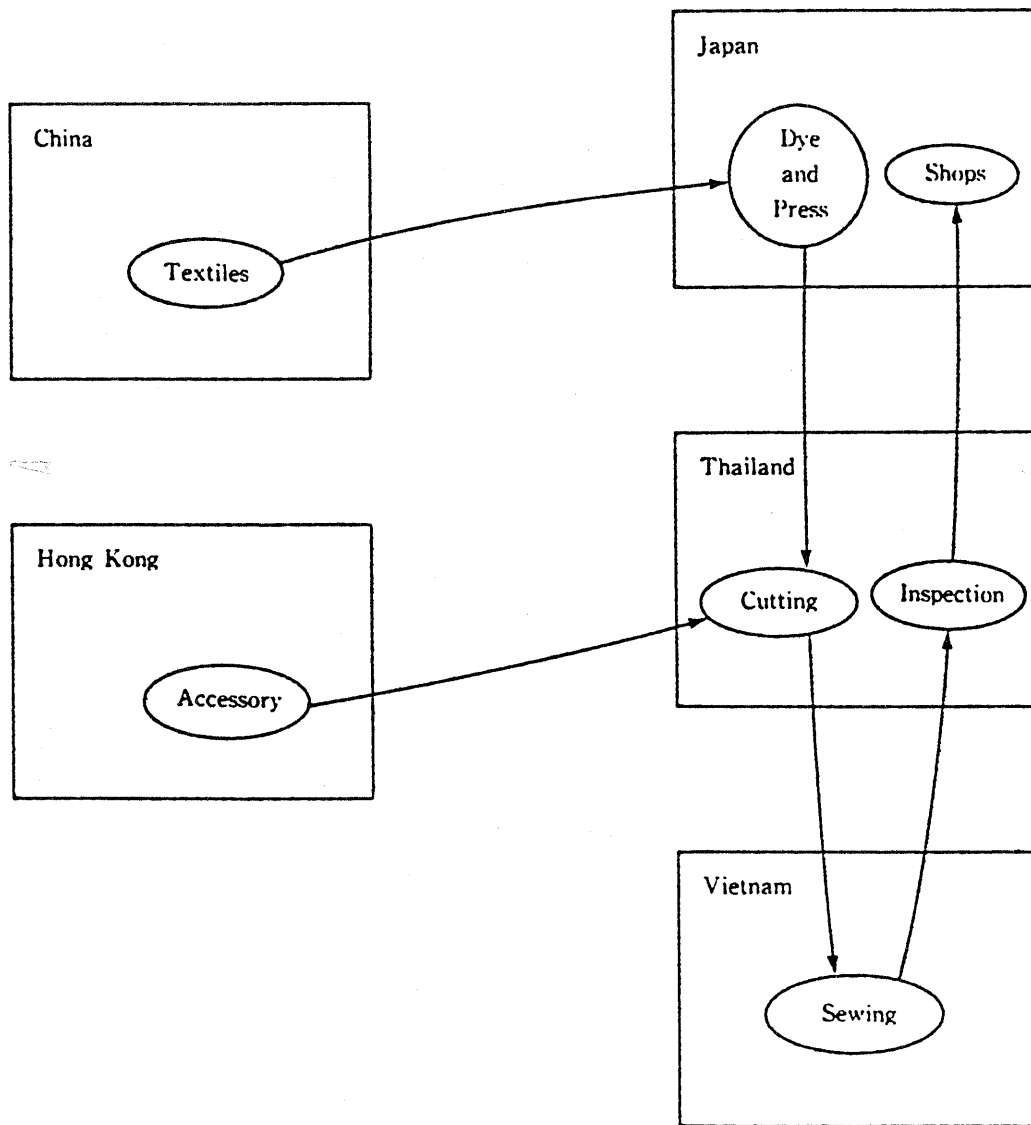


Figure 1-B Imports from Asian Countries (Examples)



An Overall Picture of Wool Textile Industry

Figure 2



The production route for toddlers' trousers

(Figure 3)