

# Myths and reality in the Japanese economy

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It is anybody's guess how the Japanese economy will fare in 2014. Will the uptrend over the last year or so gather pace despite the consumption tax hike in April? Will the government set about full-blown economic reform? How much impact will the scaledown in U.S. monetary easing affect Japan?

For investors and corporate managers who have to make day-to-day decisions amid this fog, it is essential to continually reassess the conventional wisdom. In that spirit, I take up a few economic myths that one often hears about Japan and its economy:

## 1. Japan's *genba* are in excellent shape

People in Japan have long had faith in *genba*, literally "production sites," where plant workers are thought to be on a never-ending quest to refine manufacturing methods and improve quality. Nowhere is this faith stronger than among line workers themselves.

But having embraced the notion that their workers are superior, many manufacturers have allowed plants to go their own way. Some have grown insular and hidebound. They are unable to meet the changing needs of the marketplace or to restructure operations or product lines according to economic conditions.

This resistance to change has serious implications for business, as recent food mislabeling scandals have shown. In many cases, food processors adopted a "see-no-evil" approach to the rules. The management allowed mislabeling to go unchecked, effectively covering up the malfeasance.

The lesson is that even the best production workers can go astray without continuous and clear guidance from management and the follow-up to make sure its wishes are carried out.

## 2. Small and medium-size enterprises are the backbone of Japan's economy

Japan has a vast army of small and medium-size enterprises, and they account for a large share of the country's employment. The government believes that SMEs face many disadvantages in competing with large companies, and that they generally struggle to make ends meet. Policymakers respond by propping up small companies with credit guarantees, loans, subsidies, training for business owners, information technology assistance, and by encouraging them to pass along to customers the cost of consumption tax hikes.

But in fact, SMEs are a varied lot. Some are forward-looking and compete well with large companies, others eke out an existence on the margins. The SME myth is politically tinged dogma that



glosses over these differences and encourages the government to give small companies more carrot and less stick. This myth encourages policymakers to focus on politically connected companies with conventional business models, to the detriment of venture businesses that hope to become big one day.

## 3. Japanese consumers are exceptionally demanding

Japanese consumers are often said to care about the smallest details when it comes to quality. One hears tales about "claimers" – customers who constantly complain about products

and services, causing headaches for the companies that serve them.

Consumer electronics companies, for example, in a quest to satisfy their most demanding customers, invariably include a thick manual with their gadgets. Remote controls for TVs and DVD players are crammed with buttons, when many people would be happy with something simpler. Compare Japanese consumer electronics with products from overseas, such as Apple's iPhone. It is clear Japanese manufacturers have lost sight of what most consumers want. Japan's engineering-driven manufacturers can not see the forest for the trees.

Returning to the food safety issue, many producers continue to play up a related myth – that domestic food is safer – while taking advantage of consumer ignorance to mislabel products. When these incidents come to light, buyers feel betrayed.

## Question everything

Myths take hold when people abandon critical thinking. We must adopt a healthy skepticism toward companies and their political backers. To avoid disillusion, we must seek reliable data and factual evidence instead of leaning on comforting myths.

This attitude of skepticism has wider applications. Economic bubbles, for example, grow when large numbers of people succumb to the myth that asset prices will keep rising forever. There was a time when Japanese people believed that banks could never fail and that nuclear power was inherently safe. The willingness of people to suspend their disbelief wreaked havoc that victims have still not recovered from.

For the new year, Japan would do well to take a hard look at its cherished myths and the damage they can do.

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