

Lecture: Contemporary Economic History of Japan

No. 24

4-3 Big Merger and Capital Liberalization

Winter Semester, 2004

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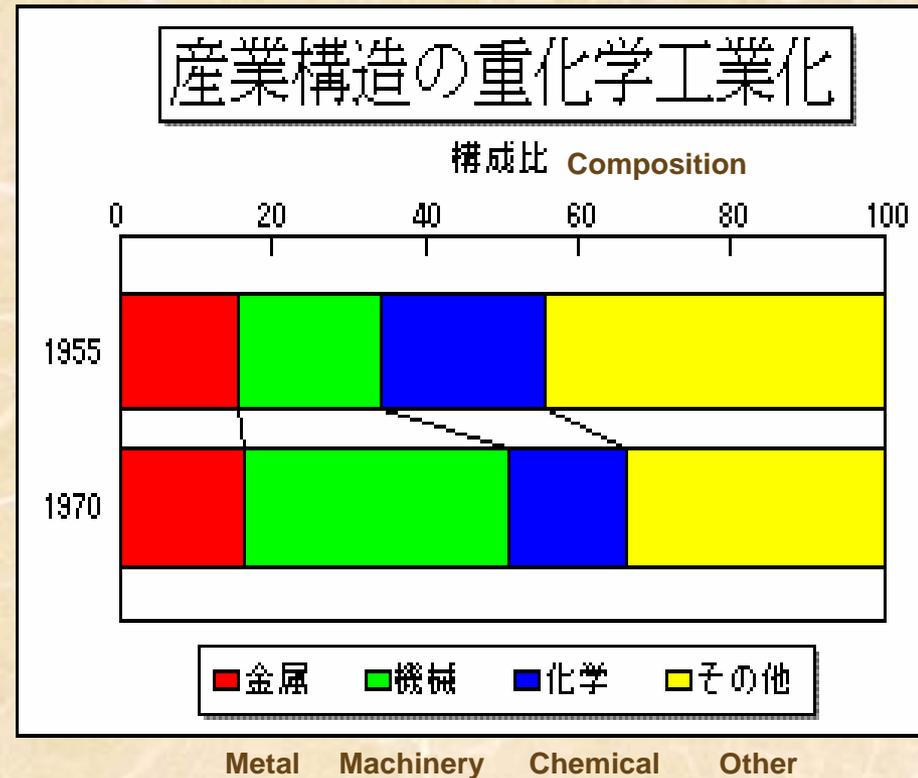
4-3 Big Merger and Capital Liberalization

1. Transition to Open Economic Structure

- Significance of the high economic growth
Under the high economic growth rate:
 - ① Heavy chemical industrialization of the industry structure (46.6% in 1950, 59.9% in '60, 62.0% in '70) advanced;
 - ② Mass consumption society was formed;
 - ③ Transition to an economic structure that was open on an international basis became possible.

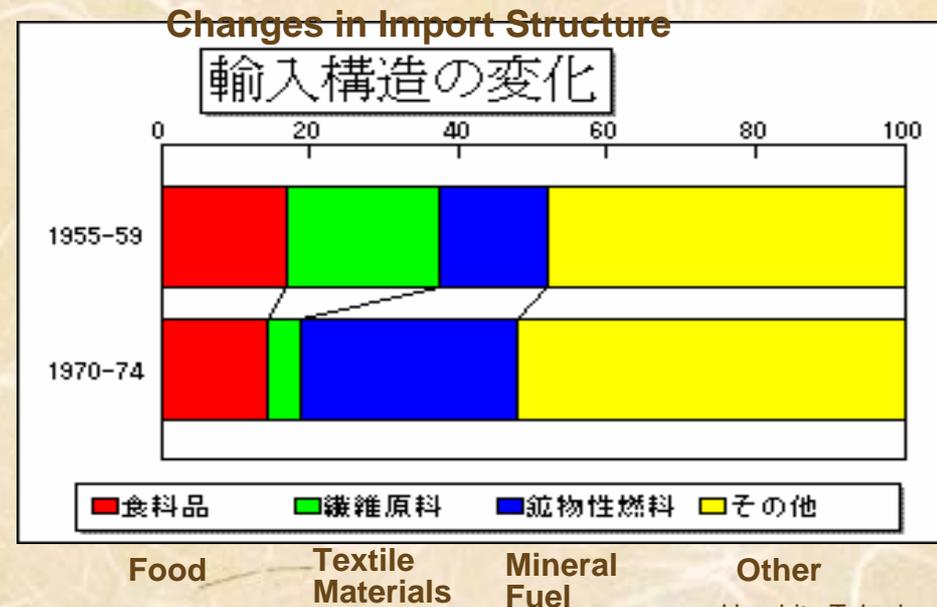
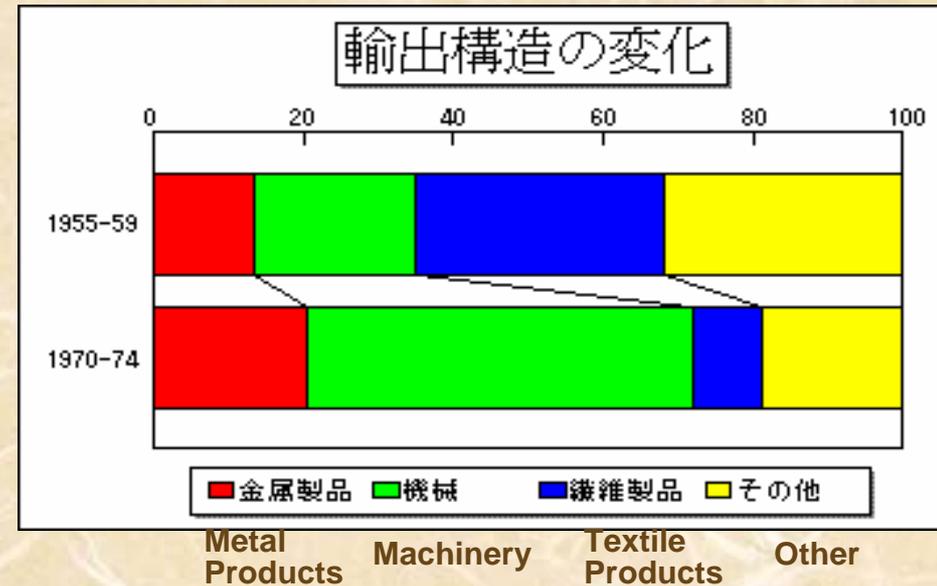
- More specifically, such traditional type of heavy industries as steel and shipbuilding upheld, as well as the production of petrochemicals and automobiles, and home electric appliances represented by television expanded rapidly.
- As for these, latest equipments were built based primarily on technologies imported from overseas, which raised the industries to the level where they could compete with developed industrial countries in international markets.
- In consequence, regarding Japanese industrial structure and trade structure, by the progress of machinery industry, the ratio of heavy chemical industrialization went up, and;

Heavy Chemical Industrialization of Industry Structure



Changes in Export Structure

- As for trade, in the area of exports, textile goods diminished, and replacing them as the main export force were metal and machinery, particularly the fabricated machinery typified by automobile.
- Corresponding to this situation, the importation of textile materials decreased, and mineral fuel, i.e. petroleum, came to hold the central place in imports. Thus, the trade structure changed to that of a developed-country model with importing primary articles such as raw materials and fuel, and exporting industrial products.



8-19 Automobile Production and Export by Major Countries (Unit: 1000 cars)

	Japan	U.S.	Germany	France
1955	69	9,204	909	725
60	482	7,905	2,055	1,369
65	1,876	11,138	2,976	1,642
70	5,289	8,284	3,842	2,750
75	6,941	8,982	3,186	3,300
77	8,514	12,695	4,104	4,006
1955	1	389	404	163
60	39	323	983	556
65	194	341	1,527	638
70	1,087	486	2,104	1,525
75	2,678	864	1,653	1,938
77	4,353	951	2,128	2,267

Japan Automobile Industry Association, *Automobile Statistical Chronology*, annual ed. Production in the table's upper half; Export in the lower half.

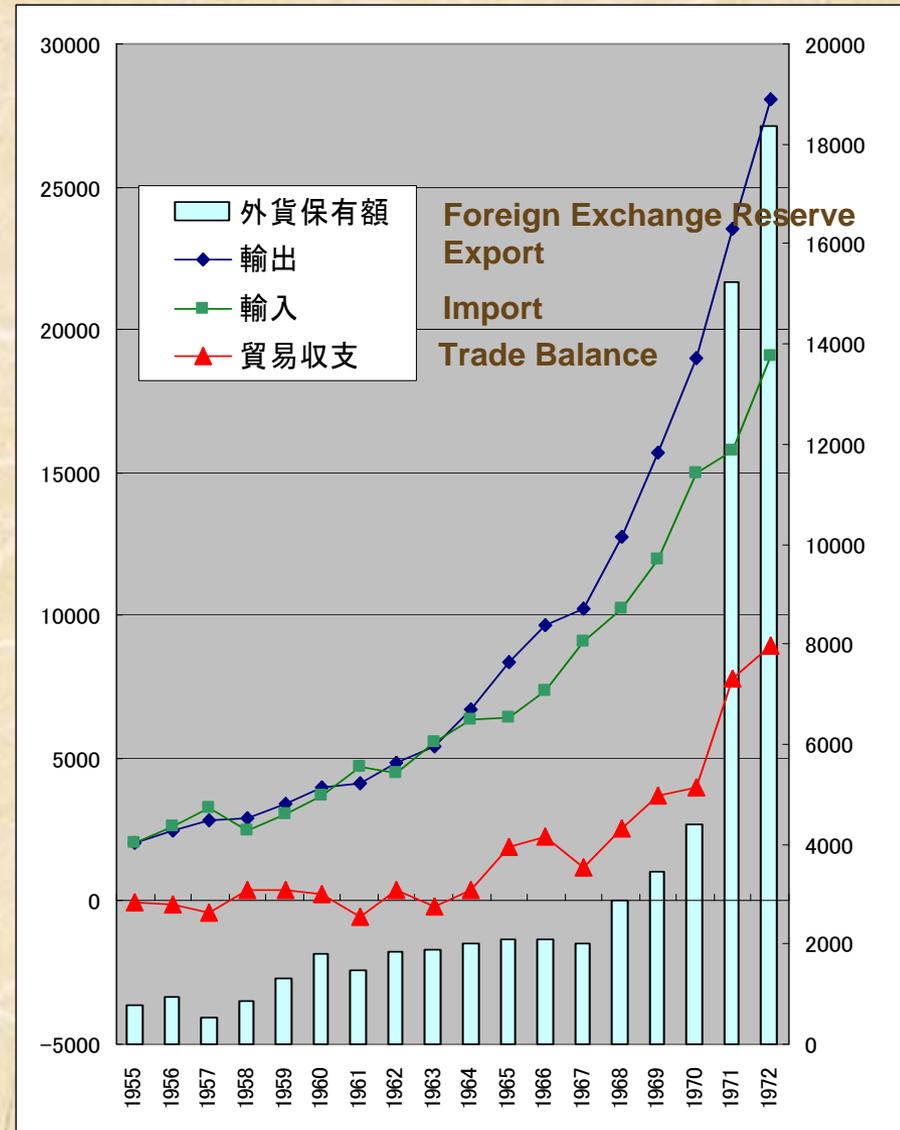
8-20 NC Ratio of Machine Tool

	1970	1975	1977
Volume of Shipments	1451 Units	2,128	5,110
JPN			
U.S.	1,901	3,991	3,752
NC Ratio	0.6 %	2.2	3.9
JPN			
(Shipment) U.S.	1.0	1.8	1.8
Order Entry	17.9	25.0	30.6
(JPN)			
Total Machine Tool Lathe of above	23.5	34.4	48.1

MITI, *Machinery Industry Statistical Year Book*, and Yamaichi Securities Research Institute, *Industrial Statistics 1978-9*

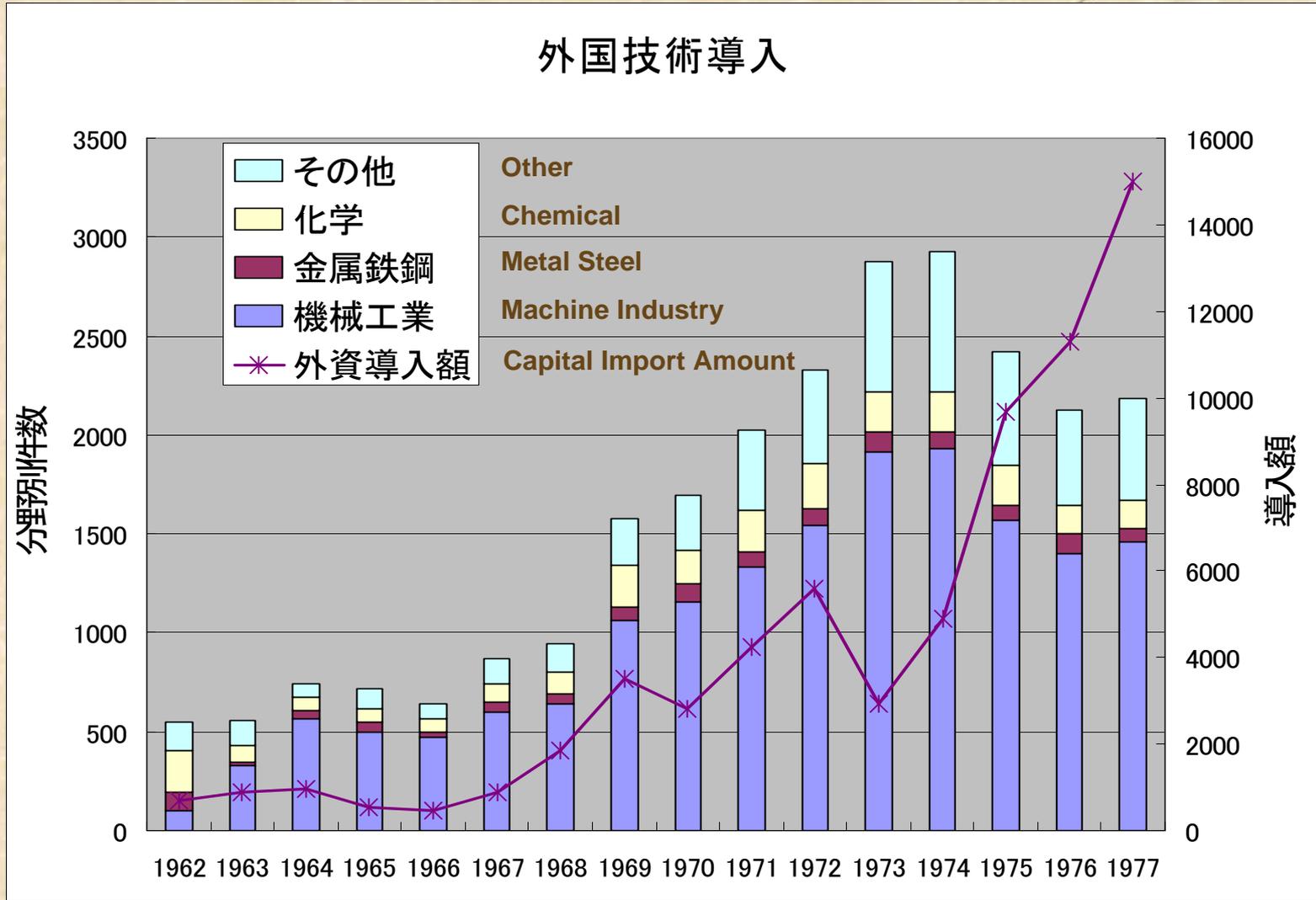
- Corresponding to these changes, the liberalizations of trade and foreign exchange were promoted in the 1960s and the liberalization of the capital import became a political challenge.
- The transition to an open economic structure attained this way indicated that Japanese industries possessed an enough competitiveness in world markets, and that the maintenance of a protectionist policy became unnecessary. It can be said that the international position of Japan enhanced that much.
- Needless to add, it was not that everybody had confidence in a development under the high growth. That a law to promote designated industries got drawn out, which aimed at strengthening an international competitiveness, primarily by MITI in the first half of the '60s, exemplifies that certain people considered there was an uncertainty about the liberalization, and that a preventive measure had better be prepared for Japanese industries and corporations not to be swallowed down by overseas gigantic companies, so as to respond to the liberalization of the capital import purported as the "2nd Black Ship". But this law was not established.

- After the recession of 1965, 1967 became a year to symbolize changes in Japan's external relations.
 - Firstly, this year or later, Japanese international trade balance has moved into the black regularly, and an uncertainty about the foreign currency resolved, and
 - Second, the government decided on the basic policy on liberalizing capital transaction and laid out a plan to develop the liberalization in stages.
- With the conversion to IMF Article-8-nation and the accession to OECD in '64, liberalizing the capital market was unavoidable.



- Up to then, Japan had put strict regulations for a foreign capital to establish a corporation within the country and to acquire securities of domestic corporations.
- Even for establishing a joint venture through technology import from an overseas corporation, strong limitations were imposed on a foreign capital not to acquire the shares in excess of 49%.
- As the government cast aside this principle in '67 and decided on a basic liberalization of the capital market, the new issue was how to deal with the transition to this open structure. The transition to an open economic structure meant a full exposure to the “threat of foreign capital.”
- The restricted business categories were 19 including banking. In the 5th stage of the liberalization or later, non-liberalized categories were agriculture, forestry and fisheries industry, mining industry, petroleum industry, leather and leather goods manufacturing industry, retail industry.

Foreign Technology Importation



Progress in Capital Liberalization

	New Corporate Establishment			Acquisition of Existing Firm's Stock		
	No. of Non-Liberalized Category	No. of 50% Liberalized Category	No. of 100% Liberalized Category	1 Foreign Investor	Overall Foreign Investors	
					Unrestricted Category	Restricted Category
Before 1st Stage	All Categories			5% & Below	15% & Below	10% & Below
1st Stage: 7/67		33	17	7% & Below	20% & Below	15% & Below
2nd Stage: 3/69		160	44	7% & Below	20% & Below	15% & Below
3rd Stage: 9/70		447	77	7% & Below	25% & Below	15% & Below
Liberalization of Auto: 4/71		453	77	7% & Below	25% & Below	15% & Below
4th Stage: 8/71	7	Basis	228	Under 10%	Under 25%	Under 15%
5th Stage: 5/73	5		Basis	100% Liberalized with Conditions		

8-30 Export Share of Countries of the World (Unit: %)

	1962	1965	1970	1975
Developed Nations	77.5	78.8	80.8	74.4
U.S.	16.9	16.0	15.1	13.5
E C	38.5	39.1	39.9	37.0
UK	9.2	8.3	6.9	5.5
W. Germany	10.7	10.8	12.1	11.3
France	6.0	6.1	6.4	6.2
Other Western Europe	8.9	9.6	9.9	9.8
Other Developed Nations	13.2	14.1	15.9	14.1
Japan	4.0	5.1	6.8	7.0
Other	9.2	9.0	9.1	7.1
Developing Nations	22.5	21.2	19.2	25.6
Oil Export Nations	6.4	6.8	6.5	13.8
Other	16.1	14.4	12.7	11.8

8-32 Transit of Foreign Currency Reserve by Country (Unit: US\$ 100 Million)

	Developed Nations	(U.S.)	(Japan)	(W. Germany)	Oil Producing Nations	Nonoil Producing Nations	Total
1965	591	155	21	71	29	85	705
66	605	149	21	80	31	90	727
67	612	148	20	82	35	97	744
68	633	157	29	99	37	108	778
69	625	170	35	71	41	120	785
70	749	145	44	136	50	139	928
71	1,071	122	152	186	84	158	1,314
72	1,263	132	184	232	109	216	1,588
73	1,401	144	122	337	145	296	1,842
74	1,385	159	135	299	470	324	2,179
75	1,398	162	128	310	565	313	2,276
76	1,488	187	166	324	657	432	2,577
77	1,805	193	228	325	754	531	3,090

Bank of Japan, *International Comparative Statistics*, annual ed.

Same as prior

(Unit: %)

	Japan's Export	Partner's Import	Japan's Import	Partner's Export
U.S.	20.2 (1)	11.8 (2)	20.1 (1)	8.9 (2)
Canada	2.1 (15)	3.5 (3)	4.3 (6)	6.5 (2)
Australia	3.1 (8)	17.6 (2)	7.2 (4)	29.2 (1)
Indonesia	3.3 (6)	31.0 (1)	5.9 (5)	44.1 (1)
Singapore	2.7 (11)	16.9 (1)	0.7 (25)	8.7 (3)
Malaysia	1.0 (25)	20.1 (1)	1.2 (20)	14.5 (2)
Thai	1.7 (18)	31.5 (1)	1.3 (19)	25.6 (1)
Philippines	1.8 (17)	28.0 (1)	1.9 (13)	37.9 (2)
Taiwan	3.3 (7)	30.4 (1)	1.4 (17)	13.2 (2)
Korea	4.0 (4)	33.4 (1)	2.3 (10)	25.4 (2)
China	4.0 (3)	31.2 (1)	2.6 (9)	22.3 (1)
Hong Kong	2.5 (13)	20.9 (1)	0.4 (33)	6.4 (4)
India	0.8 (28)	8.1 (3)	1.1 (21)	10.3 (3)
Iran	3.3 (5)	16.0 (1)	8.6 (3)	18.0 (1)
Kuwait	0.7 (34)	17.1 (1)	3.5 (7)	25.7 (1)
Saudi Arabia	2.4 (14)	16.0 (2)	10.6 (2)	14.8 (1)
Liberia	4.6 (2)	5.4 (...)	0.0 (86)	2.6 (...)
South Africa	1.6 (20)	11.1 (4)	1.6 (15)	12.4 (2)
Brazil	1.7 (19)	9.3 (4)	1.5 (16)	7.8 (3)
W. Germany	3.0 (9)	2.4 (8)	2.0 (12)	1.1 (23)
UK	2.6 (12)	2.8 (13)	1.4 (18)	1.6 (18)
USSR	2.9 (10)	4.4 (...)	2.0 (11)	3.5 (...)

8-33 U.S. Balance of Trade with Japan (Unit: Million Dollars)

	Export to JPN	Import from JPN	Balance with JPN	Trade Balance
1960	1,341	1,149	197	4,546
61	1,739	1,055	684	5,461
62	1,415	1,358	57	5,637
63	1,697	1,498	199	5,259
64	2,009	1,768	241	7,013
65	2,080	2,414	△ 334	5,255
66	2,364	2,963	△ 599	3,786
67	2,699	2,999	△ 300	4,083
68	2,954	4,054	△ 1,100	1,000
69	3,490	5,888	△ 1,398	1,279
70	4,652	5,875	△ 1,223	△ 3,263
71	4,055	7,261	△ 3,206	△ 1,465
72	4,941	9,064	△ 4,123	△ 5,879
73	8,312	9,645	△ 1,333	△ 2,193
74	10,679	12,268	△ 1,589	△ 1,712
75	9,565	11,268	△ 1,703	11,512
76	10,144	15,504	△ 5,360	△ 5,680
77	10522	18,623	△ 8,101	△ 26,654

In parentheses are rankings. Calculated from Statistical Office of UN, *1975 World Trade Annual*, 1977, Statistical Department in Prime Minister's Office, *International Statistical Directory*, 1978 ed., MITI, *Trade White Paper*, 1976 ed.

JETRO, *Overseas Market White Paper*, annual version

(Source) Yoshio Ando *Japanese modern economic history handbook second edition* p.172

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2. Big Merger

- Against such a background, spate of mergers were planned or actually executed among influential large corporations. And that meant a restructuring of the postwar industrial structure which was formed through the breakup of companies by dissolution of Zaibatsu and the Elimination of Excessive Concentration of economic power law. The move was intended to unmake a competitive structure of the market, which was built on the basis of the antimonopoly law as the fundamental philosophy, by business consolidations.
- Specifically, 3 companies affiliated with Mitsubishi Heavy Industry concluded a merger agreement in '63. Regarding this case, it is said that a Mitsubishi-affiliated business group made a judgment for the split three firms to consolidate so as to form a **new Mitsubishi Heavy Industry** which could improve the competitiveness, wherefrom Mitsubishi Corp. and Mitsubishi Bank primarily played the role of mediation and enacted the merger. Subsequently around 1967, Oji and Yawata/Fuji started showing moves toward mergers (see the chronology): In Mar. '68, Oji-affiliated 3 companies signed on for a merger (unrealized), and as if to heel this, the **consolidation issue of Yawata and Fuji**, former Nippon Steel's affiliates, was uncovered.

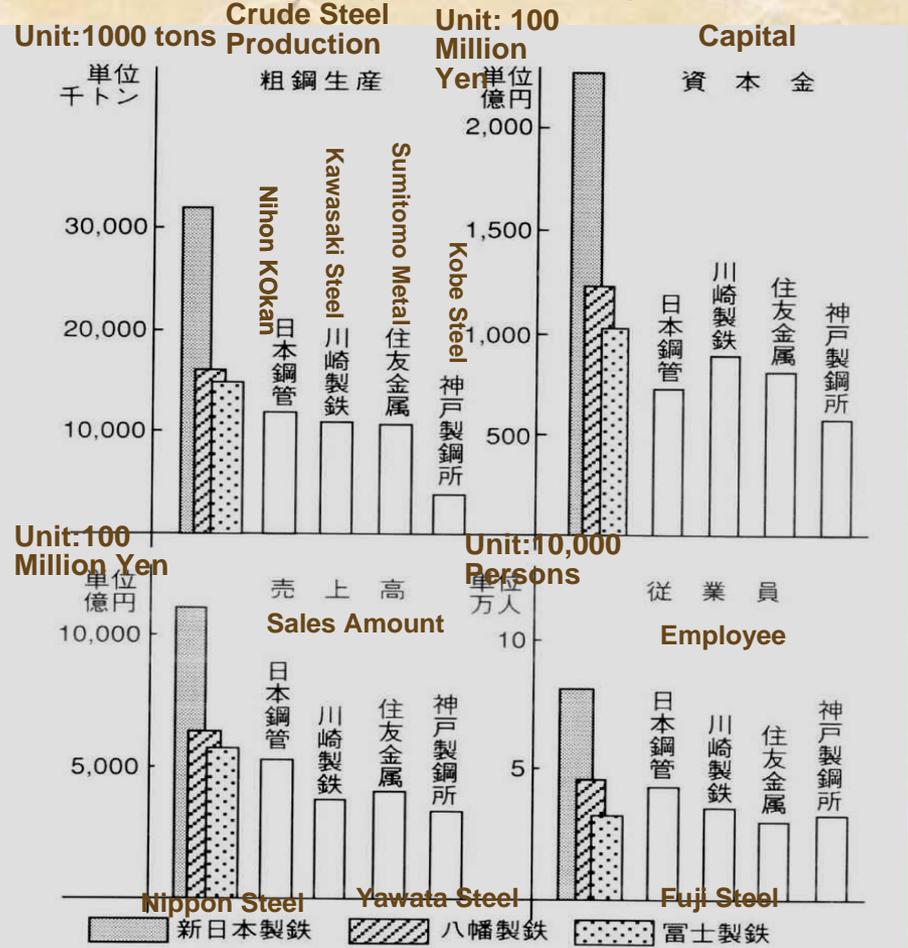
- The reason for big mergers was a crisis awareness that, due to the liberalization of the capital market, Japanese corporations with a weak external competitiveness would lose out in the competition with foreign companies and end up being acquired.
- Main corporate mergers:
 - **Apr. '64 : Shin Mitsubishi Heavy Industry merged with Mitsubishi Nippon Heavy Industry/Mitsubishi Shipbuilding**
 - **Apr. '65 : Kobe Steel with Amagasaki Steel**
 - **Apr. '66 : Toyobo with Kureha Spinning**
 - **Aug. '66 : Nissan Motor with Prince Automobile**
 - **Aug. '67 : Fuji Steel with Tokai Steel**
 - **Oct. '68 : Nissho with Iwai Sangyo**
 - **Oct. '68 : Toyo Koatsu with Mitsui Chemical Industry**
 - **Apr. '69 : Kawasaki Heavy Industry with Kawasaki Aircraft/Kawasaki Vehicle**
 - **Jun. '69 : Sumitomo Machinery Industry with Uruga Heavy Industry**
 - **Oct. '69 : Nichibo with Nippon Rayon**
 - **Mar. '70 : Yawata Steel with Fuji Steel**

Biographical Sketch of Big Merger Progression

- **Oct. 28, '63: Mitsubishi's 3 heavy industries (Mitsubishi Nippon, Shin Mitsubishi Heavy Industry, Mitsubishi Shipbuilding) concluded merger agreement**
- **Apr. '64: Converted to IMF Article 8 nation**
- **Jun. 1, '64: Mitsubishi Heavy Industry formed**
- **Jun. '67: Cabinet council decided on principle on liberalization of capital transaction**
- **Mar. 1, '68: Oji-affiliated 3 firms (Oji Paper, Jyujō Paper, Honshū Paper) concluded merger agreement**
- **Apr. 17, '68: Mainichi Shimbun scooped "Yawata/Fuji merger"**
- **May 1, '68: Two presidents Nagano/Inayama made formal announcement on merger in Apr. '69.**
- **Jun.15, '68: Antimonopoly-policy advisory panel organized by 90 economists voiced protest against mergers**
- **Jul-Aug. '68: Intensive discussion by Special Committee of Industrial Structure Council, which ultimately concluded, "Big mergers are necessary."**
- **Oct. '68 : Fair trade commission began its investigation**

- Feb. 24, '69: Fair trade commission verbally informed two sides of its preliminary review result to unofficially announce that the merger could lead to an infringement of the antitrust law with respect to 4 items.
- Mar. 12: Both sides submitted their countermeasures
- Mar. 24: Fair trade commission began its formal probation
- May 7: The commission admonished its denegation on the merger, which both parties refused.
- Jun.19: Formal judicial proceedings begun (the first-ever case of a merger plan brought to a judicial process)
- Oct. 30: The commission delivered its decision: Merger decided formally.
- Mar. 31, '70: New Nippon Steel Co. established

- Apparently it was to distort a competitive structure but was approved conclusively.
- The process, however, constituted a strong restriction on the corporate behavior, hence disabling the firm's pursuit of share expansion any further.



注：八幡・富士の従業員数は昭和45年3月1日現在, それ以外は44年末時点。

出典：『通商産業政策史』第10巻, p179。

● 図13-2 新日鉄発足時の主要企業比較

Note: Employee for Yawata and Fuji are as of Mar. 1, 1970, while ones for all others are of the end of 1969.

Source: *History of Trade and Industrial Policies*, Vol. 10, P.179

Diagram 13-2 Comparison of Major Companies at Time of Nippon Steel Inauguration

(Source) Haruhito Takeda *Case File of Japanese Economy* p.284

8-18 Status of Strip Mill Installation in Major Countries

			1960	1965	1971	1975
Hot Strip Mill	Total	JPN	7	13	21	23
		U.S.	39	40	46	46
		Germany	2	6	7	7
		USSR	...	9	16	16
		Total	77	115	150	157
	Continuous	JPN	2	5	11	11
		U.S.	21	23	29	29
		Germany	1	2	2	2
		USSR	...	5	9	9
		Total	31	45	68	69
Cold Strip Mill	Total	JPN	23	48	68	70
		U.S.	100	121	137	137
		Germany	5	26	31	35
		USSR	...	12	13	14
		Total	188	332	424	442
	Tandem	JPN	5	11	18	21
		U.S.	57	84	79	79
		Germany	1	8	7	13
		USSR	...	7	10	10
		Total	79	145	175	187

Same as prior. Totals include other various countries.

8-17 Steel Technology Level of Major Countries

		1960	1965	1971	1975
Coke Ratio (kg/MT.)	JPN	619	507	478	443
	U.S.	749	656	630	611
	Germany	826	668	559	497
	USSR	723	619	574	546
	Total	—	3	17	30
Large Blast Furnace (units)	JPN	—	0	1	5
	U.S.	—	0	0	6
	Germany	—	0	0	6
	USSR	—	10	17	27
	Total	—	13	41	89
LD Rate (%)	JPN	11.9	55	79.1	82.5
	U.S.	3.4	17.4	48.2	61.6
	Germany	2.5	19.1	55.8	69.3
	USSR	3.8	3.8	17.2	24.6
	Total	—	...	5.6	31.1
Continuous Cast Rate (%)	JPN	—	...	3.8	9.1
	U.S.	—	...	8.3	24.3
	Germany	—	2.1	8.3	24.3
	USSR	—	...	4.3	6.9
	Total	—	...	4.3	6.9

Steel Statistics Council, *Steel Statistical Directory*, annual version.

3 Fruiting of Mass Consumption Society

- Changes in occupation composition during the high growth period:
Ratio of persons engaged in primary industry:
 - **1950: 48.3% (40.2%, males)**
 - **60: 32.6% (25.7%)**
 - **70: 19.3% (15.0%)**
- The rapid growth prompted a social transmigration of population from primary industry to secondary or tertiary industries. In that respect, the scarcity of labor rose to the surface into the '60s, and, in keeping with an increase in productivity on the basis of technological innovations in the manufacturing sector, the increase rate of nominal wages soared, which led to an enhancement of a substantial living standard

- Real personal consumption expenditure per capita increased from 90,000 yen of 1955 to 126,000 yen in '60, 184,000 yen in '65, and further to 270,000 yen in '70: 50% rise every 5 years. Along with these changes, the proportion of food and drink expenses in personal consumption outlay dramatically decreased from 51.5% of '55 to 43.1% in '60, 37.7% in '65, and down to 34.3% in '70.



(Source) Sony co., Ltd.

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- Accordingly, a mass consumption society was borne with a small income disparity where a majority of people recognized themselves as a “middle class.”
- Most of the incremental disposable income headed for the purchase of consumer durables, and amid a favorable circle where an increase in the production of durable consumer goods could afford to secure an expansion in employment, the growth pattern of the economy changed its nature from that of “an investment inviting another investment” to the one sustained by an expanding domestic demand like personal consumption.
- According to Mr. Hiroshi Yoshikawa, another condition also served the purpose: with a trend toward the nuclear family upholding, the demand for consumer durables per se increased outpacing the income growth or the transmigration of population.



(Source) Japanese exposition commemoration mechanism



写真提供：UR都市機構

(Source)JR Urban mechanism
A housing development of KANAOKA



Industrial Junk

Image provided by Saitama pref.

Because of circumstances of copyright processing,
we omit the picture ;
“Tokyo with smoggy sky”.



Yokkaichi Pollution

Image provided by Yokkaichi city