

Center on Japanese Economy and Business  
Annual Report 2001–2002



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## **Center on Japanese Economy and Business**

Columbia University established the Center on Japanese Economy and Business as an integral part of the Graduate School of Business in April 1986 under the direction of Professor Hugh Patrick. The central mission of the Center has been to enhance understanding of the Japanese and Asia-Pacific economies and their business, financial, and managerial systems. This is carried out through programs of research, teaching, public discourse, and policy analysis. An important focus is on Japan's international economic and business relationships in bilateral, Asia-Pacific regional, and global contexts. The relationship between United States and Japan is key. As they are the world's first and second largest national economies, they share global leadership responsibilities for the international economic system and are involved in multifaceted, profitable, and at times contentious economic and business interactions.

The Center on Japanese Economy and Business focuses on five related areas: research; training and curriculum development; public affairs programs for business, government, and academia; scholarly and professional exchanges; and development of library and computer-based data resources. The results of the Center's programs are disseminated through its publications and academic and public policy conferences and seminars. The Center has become widely recognized as the preeminent academic institution in the United States in its area of activities. Its core faculty members are Japan specialists drawn from Columbia's Business School, Economics Department, Law School, Political Science Department, and School of International and Public Affairs. The Center maintains close ongoing relations with scholars, business leaders, and government officials in the United States, Japan, and other Asia-Pacific economies.

In addition, the Center serves as the U.S. liaison office for the Pacific Trade and Development Conference Series (PAFTAD), for which Professor Patrick serves as chairman of the International Steering Committee. Together with the East Asian Institute, the Center oversees the Asia-Pacific Economic Cooperation (APEC) Study Center at Columbia University.

The success of the Center's comprehensive activities is due to its core faculty and its able team of administrative and program staff and to the funding provided by corporate donors, foundations, and other external as well as University sources. In the coming years the Center will continue to strive to provide the best program of its kind at any business school or university in the world.

## **Letter from the Director and the Associate Director for Research**

This has been another very busy, good year for the Center, as the following pages describe. These activities reflect the Center's dedication to increasing understanding of the Japanese economy and its business financial systems in domestic, Asian, and global contexts. The Center's program of research, public discourse, and training both on Japan, and in conjunction with Columbia's APEC Study Center, of the Asia-Pacific region as a whole have never been more important, especially in these somewhat difficult times.

The last three annual reports have included short essays on the profound, though excruciatingly slow transformation of the Japanese economy. That discussion continues this year in a separate section titled "The Director's Perspective: Japan's Economy," which follows.

With the addition of Gerald Curtis, Burgess Professor of Political Science at Columbia and an outstanding specialist on Japanese politics and its political economy, the Center now has an outstanding cadre of core faculty.

The appointment as associate director for research of David Weinstein, Shoup Professor of the Japanese Economy, has further strengthened the Center's research program. The challenge and the opportunity are both to support and to build upon the research activities of individual scholars at Columbia by developing, over time, several large projects involving a community of scholars. Planning is currently under way with several Japanese scholars to consider good solutions to Japan's ongoing economic problems. While publication is always the main scholarly objective, we anticipate such projects will also generate international policy conferences and symposia over time. To develop potential projects and to meet some of the Center's corporate sponsors and friends, we went together to Tokyo in late May and early June.

The Center's accomplishments and planned activities are possible only through the commitment and intelligent energy of the faculty and staff directly involved, and the generous financial support provided by foundations, Japanese and American corporations, and individuals. The Corporate Sponsorship Program of annual contributions has been vital in ensuring the Center's ongoing momentum.

We deeply thank all our supporters.

Hugh Patrick David Weinstein

## **Director's Perspective on Japan's Economy:**

### *Another Disappointing Year, but the Long-Run Transformation Proceeds*

#### Introduction

Japan's economic performance and economic policy actions this past year have once again been disappointing. The economy slid into mild recession, its third in the past decade; and unemployment rose and deflation persisted. Even more dismaying has been the persistence of the same major macro, financial, and structural problems that have plagued Japan for some years now—inadequate aggregate demand, huge nonperforming loans, corporate excess capacity and low profitability, unemployment, slowness to engage in substantial structural reforms, and so on.

Perhaps the greatest disappointment has been in the hope, perhaps unrealistic, that Prime Minister Koizumi would successfully address these and other major economic issues. While the Koizumi government has made modest progress in some structural reforms, such as public corporations and the postal service system, the overall results have been disappointingly limited. In retrospect, Prime Minister Koizumi did not set the right priorities in September 2001 and has yet to articulate a clear, concrete set of measures to implement a comprehensive structural reform program. This has been due in large part to the ongoing gridlock between the reformers and those supporting the status quo within his own Liberal Democrat Party (LDP). Given the decline in his poll ratings, though still relatively high, it seems unlikely that Prime Minister Koizumi will be able to exercise strong leadership on his own initiative, except in response to a crisis.

That said, Japan is very different from what it was a decade ago—institutionally, politically, and even in its mind set. My colleague Gerald Curtis has characterized the 1990s not as the lost decade, but as the watershed decade, in which the cumulative effect of many changes, some seemingly small, will be profound. Corporations continue to restructure, focusing more on core competencies and profit-making. Important legal and accounting reforms have been legislated and are being implemented, including a new Commercial Code, mark-to-market rules for financial assets, consolidated balance sheets, greater disclosure and more severe auditing procedures, and the establishment of holding companies with consolidated tax filing. The political system has changed substantially: there are now single-member districts; the LDP has lost majority control, forcing it into coalitions with other parties; and local party representatives now vote to select the LDP president.

Nonetheless, the economic cost of the 1990s has been substantial in terms of gross domestic product (GDP). If the economy had grown over the past decade at the 1980s annual average growth rate (3.7 percent) rather than its actual eleven-year average for 1992–2002 of 0.7 percent, Japan's GDP would be 43 percent higher today. Even at 2.5 percent growth, GDP would be 24 percent higher. The only industrialized economy with a worse growth performance in an eleven-year period since 1945 is Switzerland.

Key issues in the coming months are whether the government's unlimited guarantee of demand deposits will come to an end as scheduled on April 1, 2003; how strong and sustained the current economic recovery will be; to what degree U.S. economic growth will be maintained given the mid-summer blows to confidence and stock prices; whether the yen will weaken again or strengthen further against the dollar;

what will happen in the political arena to Prime Minister Koizumi and his economic policy; and whether some financial or other crisis may occur, with all the turbulence that implies.

### Ongoing Transformation

This review builds on my essays on the Japanese economy in the previous three Center Annual Reports. In them I considered the current performance and near-term problems and prospects, and placed them in the context of the fundamental transformation of the Japanese economy over the past decade and for the coming decade.

Such transformations are never smooth. Japan is moving fundamentally from the more regulated and particularistic postwar economic system to one that is much more competitive and market based. The transformation has various dimensions. Agriculture has long been a negligible share of output and employment, manufacturing is declining gradually, and services are steadily increasing. Production continues to shift from labor-intensive to capital and skilled labor-intensive, high-tech activities in manufacturing and especially in services, where Japanese relative productivity has been extraordinarily low compared to other OECD countries. As domestic investment opportunities weaken over time, Japan is evolving from a high saving, high-investing, and low-consuming economy to a medium-investing economy in which the share of saving must decrease and the share of consumption rise. Eventually, Japan's financial system will evolve from its bank deposit and lending base to a more diversified financial structure in which commercial paper, bonds, mutual funds, and other capital market financial instruments will become more important. Labor markets, adjusting most slowly of all, will become less segmented and more flexible. Demographic change may not have much economic impact for the next ten years, but after that it will become increasingly important. Those over 65 are becoming a steadily larger share of the population. On the other hand, the younger generation will embody new lifestyles, values, and technological capabilities to utilize the Internet and other attributes of information technology.

In successive sections I consider Japan's current economic recovery and near-term prospects; its persisting financial system fragility; its most fundamental macroeconomic structure problem, namely, its continuing huge excess saving; four alternate scenarios for the coming decade; potential major shocks; and Japan in the international economy, particularly in relationship to the United States and to China.

### Economic Recovery, But How Far?

Early this year, the Japanese recession hit bottom, and thus far cyclical recovery has moved ahead quite well. Inventory adjustment has taken place, export demand has increased, machinery orders are up, and industrial production has risen. There are some signs that consumer and business confidence is improving. However, the current consensus forecast of late July is that GDP calendar 2002 growth will be slightly negative. Economic performance will be slightly better for calendar and fiscal 2003 beginning next April. As one businessman producing for the nondurables consumer market said to me, plus 1 percent growth is a lot better than minus 1 percent growth. But 1 percent growth is an unsatisfactory performance, relative both to the still immense supply-demand gap of output and to Japan's longer-run recovery and sustained growth potential. It does not mean that economic conditions in Japan are good; they are just no

so bad as in 2001. Many negatives remain—persistent deflation, lack of aggregate demand, and the public's lack of confidence in the economy and its economic leadership. Exports, a major cause of the current recovery, will be slowing due to the recent weakening of the dollar. The employment situation has worsened and is unlikely to get much better in the coming year. The year-on-year decline in employment has been about a million persons; while the registered unemployment rate rose, many young people delayed entering the labor force, and many workers losing jobs simply withdrew from the labor force. Summer 2002 bonus payments were 4.5 percent less than last year's, marking the first decline in three years. And, as is discussed below, the banking and life insurance industries remain fragile. The Japanese economy may recover somewhat cyclically, but it remains structurally weak.

The government's unwillingness to address Japan's fundamental economic problems means that growth in 2003, and probably for several years to come, will continue to be substantially below its potential rate. While quarterly business expectations improved substantially according to the June Tankan survey, with the difference between manufacturers' positive and negative responses rising to -18 percentage points from -38, and nonmanufacturing from -22 to -16, the reality is that neither indicator is positive yet. The medium and small firm (Shoko Chukin) survey shows a similar pattern. This is no time for the re-emergence of complacency simply because short-term economic indicators have become less negative.

#### Financial System Fragility Persists

One of the biggest disappointments has been the government's lack of political will to tackle financial system problems. The most important instance, both substantively and symbolically, is the bank nonperforming loan (NPL) problem. The government was able to avoid, or at least postpone, a financial crisis prior to the March 31 annual settling of accounts for financial institutions and most corporations, but fundamental problems persist. These include the fragility of bank capital; the steady weakening of life insurance companies, coupled with their double gearing with related major banks (each provides capital and lends to the other); and the scheduled final termination of the government unlimited guarantee of ordinary bank deposits on April 1, 2003.

The government's three basic financial system principles, implemented by the Financial Services Agency (FSA), are to continue to pursue financial reform, to avoid financial crises, and to refrain from injecting any further government funds as bank capital. In normal times these principles are compatible, but these are not normal times. The government cannot solve the NPL problem, the key to bank reform, without providing more funds, directly or indirectly. The government is now prepared to inject funds to make possible the successful merger and consolidation of weaker local and regional banks, for which the ending of the unlimited deposit guarantee is particularly threatening. However, the seven major banks continue to be the major problem.

While these banks technically well meet the minimum risk-weighted 8 percent capital adequacy requirements, the quality of their bank capital is problematic, even if their nonperforming loan projections and loss provisions are accurate. Of the major bank core capital base of ¥17.5 trillion (\$152 billion, 115 yen per dollar), ¥8.4 trillion is based on deferred tax assets against presumed future profits and ¥6 trillion on preferred shares owned by the government and due to be redeemed. Even so, the greatest problem

continues to lie in the estimates and projections of nonperforming loans. Furthermore, this is after the massive bank write-offs of some ¥81.5 trillion (\$709 billion) since 1992, including ¥9.7 trillion (\$84 billion) this past year (fiscal 2001); the major bank write-offs alone amounted to ¥7.7 trillion, almost double their previous year's write-offs of ¥ 4.3 trillion. Significantly, the banks' estimated cumulative new NPLs since 1993 were even greater—¥89.8 trillion—than loan losses taken or provisioned against.

The estimates of bank nonperforming loans continues to be controversial. Following a tightening of FSA regulations and the spring special inspections, and because of the recession and deflation-induced new nonperforming loans, bank estimates of their NPLs totaled ¥43.2 trillion (\$376 billion) as of March 30, 2002; the major bank NPLs stood at ¥28.4 trillion. These figures, accepted by the FSA and thereby official, are surely a lower bound according to private analysts, whose estimates range between ¥100 and 250 trillion. A June study by Ernst & Young of NPLs in various Asian economies estimates those for Japan's banking system to be \$1.2 trillion (¥138 trillion). While substandard, most NPLs are backed by collateral to some degree; nonetheless, potential losses could devastate bank capital and eventually almost surely will, unless new capital is injected.

Bank capital is subject to two further risks. One is a decline in the market value of the shares banks hold in other companies, an amount considerably larger than their own capital. Under the mark-to-market rule, banks have to subtract from capital any losses over the yearly period (and of course add any gains). As of mid-summer, the Japanese Nikkei stock index had declined some 15 percent from its March 30 level; a Nikkei of 9,500, a recent low, implies a bank portfolio loss of some ¥3.5 trillion. This bodes poorly for the coming September bank semi-annual statements unless the Nikkei recovers.

The second risk is the danger of possible further life insurance company collapses. The life insurance companies have been caught in a squeeze between the interest rates earlier guaranteed to policyholders and the much lower yields they are able to earn on their assets. Seven companies have already been forced into bankruptcy. Major banks have provided the equivalent of capital and made loans to affiliated life insurance companies, which in turn have subscribed to bank preferred shares and subordinated bonds. Each is at risk of the failure of the other. The government's Financial System Council is now studying the possibility of reducing yield guarantees on existing insurance contracts, essential for the survival of many of the remaining life insurance companies.

The future of Japanese banks appears bleak even in the near term. The major banks forecast net business profits of ¥ 3.7 trillion for fiscal 2002 and anticipate bad loan disposals of only ¥ 2.5 trillion. So long as deflation and very slow economic growth persist, bank profits probably will not be sufficient to cover loan losses, and banks will weaken further. Even when deflation ends, until interest rate spreads widen, banks cannot generate substantial profits. More importantly, banks still lack a strong credit culture, i.e., the ability and willingness to differentiate interest rates on loans by borrower creditworthiness. At the operating level, loan officers presently seem to be risk averse, preferring not to make loans rather than to raise interest rates on small- and medium-sized corporate borrowers. Importantly, bank management have a strong personal incentive not to dispose of NPLs at the pace and in the amounts needed because that will require the injection of government funds, the political quid pro quo being that they will lose their jobs.

The bank NPL problem can only be solved soon by the injection of government funds, directly as capital or indirectly by the Reconstruction and Collection Corporation's purchase of the NPLs. Essentially, this means the replacement of private debt with government debt, with some degree of write-off by banks coming from profits and stockholder equity. However, not only bank management but many politicians are reluctant to take such actions because of strong public sentiment against bailing out bankers and banks, thereby seeming to reward poor performance rather than simply protecting depositors.

The other side of the NPL coin is what to do about the borrowers, namely, the weak but very large companies unable to service their bank loans. In many respects their restructuring or liquidation, while essential, creates more fundamental problems: laid-off workers; disposal of assets; and the writing off of the NPLs (debt forgiveness, debt-equity swaps), which will severely hurt the creditor bank balance sheets. The loan exposure of individual banks to major clients is huge. It was difficult enough for creditor banks to absorb the losses in restructuring their loans to Daiei, the troubled nationwide retail store chain, early this year. Banks cannot afford to finance the restructuring of a half-dozen or so of these clients at the same time, which is why the banks and the FSA persist in an incremental, sequential, drawn-out approach.

#### The Pay-off Dilemma

The most immediate, and portentous, financial issue is whether the government will maintain its scheduled ending of an unlimited guarantee of ordinary demand deposits on April 1, 2003. The Japanese have invented a somewhat strange term, the pay-off, for the complete termination of the government's unlimited guarantee of bank deposits and the return to the pre-1996 deposit insurance limit of ¥10 million (about \$87,000) per account holder. The unlimited guarantee of time deposits ended as scheduled on April 1, 2002, and went relatively smoothly. Holders of large deposits (more than ¥ 10 million) increased their demand deposits by 49 percent while reducing time deposits, at small cost because of the miniscule interest rate on time deposits. Large deposits as of March 30, 2002, constituted 52 percent of bank total deposits of ¥ 501 trillion (\$4.35 trillion), and 58 percent of them were ordinary demand deposits.

Prime Minister Koizumi and other politicians have been facing an unpalatable choice between delaying the pay-off further or facing the real risk of a banking crisis, as depositors move funds out of financially weak banks, especially smaller but politically powerful local and regional banking institutions. Each choice has substantial political and economic costs. Koizumi has evidently postponed financial reform once again by opting for a new system of unlimited guarantees of certain deposit accounts for settlement (transactions) purposes. This opens up a potentially huge loophole. While the details are now being negotiated, settlement accounts, currently used by corporations, may well be extended to individuals, even though there is little economic rationale. It is unclear whether banks will be allowed or required to charge a fee ("negative interest rates") for these accounts. They should.

Reactions to delaying the pay-off once again are mixed. It is an implicit recognition by the government of the fragility of the financial system and failure of financial reform policies. Among analysts of Japan's economic and financial situation, many take this as further damaging the credibility of government policy. Some recognize it as the

pragmatic lesser of two evils. Polls indicate the public wants some delay in the full implementation of the pay-off, another indicator of their lack of confidence. To what extent this will be negative news for bank shares in the stock market and for Koizumi will be determined in the coming months.

#### Japan's Fundamental Macro Problem: Excess Saving

Put simply, excess private saving is the fundamental cause of Japan's current extraordinary macroeconomic situation of inadequate aggregate demand, deflation, unprecedented monetary ease with zero short-term interest rates and excess liquidity, a continuing general government budget deficit on the order of 6 percent annually, and a gross government debt in excess of 140 percent of GDP (though most is held by the government and government-related institutions). The excess of private domestic saving over private domestic investment is one of Japan's most important structural problems; it shows up as lack of aggregate demand and a huge saving-investment gap. Once this gap ends, all other macroeconomic difficulties will become considerably easier to handle.

Unfortunately, Japan's stimulative monetary and fiscal policies have been insufficient; the gap has simply been too large. And, given the decline in profitability (return on assets) and future growth prospects, business investment is likely to be a substantially smaller share of GDP in the future than in the past—a share more like that seen in comparably wealthy industrial countries in the West. The Japanese GDP structure has to shift from its high-saving, high-investment, and low-consumption pattern to moderate saving and a higher share of consumption to accommodate a more moderate investment rate. Reduction of barriers that currently inhibit effective competition, greater market flexibility, and other deregulatory and structural reforms will increase business investment opportunities, and in the long run the household saving rate will continue to decline. However, all that takes time; it is one important element of Japan's ongoing economic transformation.

How can a country save too much? After all, saving is a constructive, beneficial activity. It finances investment, a basic source of wealth creation. Individuals and household save out of income to buy a house, to finance their consumption in retirement and old age, and for a variety of other specific needs. Corporations save out of profits to invest in profitable new projects and other productive activities. In an expanding economy corporations typically invest more than they save, utilizing the savings of individuals transferred through banks and the capital markets.

These are all good activities, so why and when can a nation's saving be excessive? The answer: when the nation's savings become so large relative to investment opportunities that the saving cannot be utilized productively. How can an economy close this saving-investment gap? The first way is to increase profitable investment opportunities by deregulation, structural reforms, and ongoing R & D. Structural reform is essential for long-run growth, but it does not provide the necessary quick fix for recovery from recession. It will not soon end the now huge gap between potential demand and actual supply capacity and probably never can.

A second approach is for the government to provide aggregate demand stimulus through fiscal expansion and easy monetary policy. This is the route Japan has quite naturally pursued over the past decade, although somewhat reluctantly, slowly, and awkwardly, with various policy errors. Nonetheless, the gap between saving and

investment became so large that this aggregate demand stimulus, while substantial, has been inadequate to do more than ameliorate a very difficult situation. In the very long run, though later than some project, continuously increasing debt will become a severe burden.

In principle, there are two other ways in which an economy may resolve its excess savings dilemma. One is to reduce saving by slowing GDP and income growth. That has been Japan's "solution" for the past decade, as already noted. This is an unsatisfactory outcome because of its huge economic and social costs. It reflects major misperceptions and an unwillingness to tackle real economic problems, by both government and corporate policymakers.

Conceptually, the remaining solution is for Japan to export its savings to countries where they can be better invested. The economic mechanism for this involves an increase in net exports and the balance of payments current account surplus, representing Japan's net investment in foreign assets. Suppose Japan's saving-investment gap is now on the order of 8–10 percent of GDP: the size of the government budget deficit plus the additional investment (or consumption) demand required to restore a growth rate of 2–3 percent. If Japan were a small economy, such as Singapore or Taiwan, it could run a current account surplus that large without any political backlash.

However, Japan is not a small economy; it is huge. Its recent current account surplus of 2–3 percent is internationally acceptable and desirable for Japan, both as a demand stimulus and as the accumulation of foreign assets to cash in much later when domestic saving rates decline and retirement needs increase. However, to generate a current account surplus of, say, 6 percent of GDP (much less 8–10 percent), Japan would have to increase sharply exports of its competitive goods (cars, electronics, steel, ships, machinery) and even goods now not particularly competitive; the yen/dollar and yen/euro exchange rates would have to depreciate sharply. Such a huge net export growth would not be politically acceptable to the United States or the European Union; their own industries would suffer too much. So, as a large economy Japan cannot export its way out of its structural problems without generating massive retaliation, even though in the short run, recent net export growth on the order of 3.5 percent has sparked the current economic recovery.

## Solutions

What are the solutions to the excess saving gap if healthy growth is to be restored? They combine policies aimed at the immediate twin problems of deflation and insufficient aggregate demand, the intermediate problem of supply-side structural reforms to create better resources allocation and new profitable business investment opportunities, and the long-run problem of increasing the share of consumption in GDP in order to sustain healthy demand.

In the short run, Japan must carry out further aggregate demand stimulus in order to get the economy back on its normal growth path and to restore business, employee, and household confidence. Only sustained economic growth will produce the conditions whereby Japan's long-run economic objectives can be achieved. Certainly, continued and even greater monetary stimulus by the Bank of Japan should be the policy until deflation has come to an end and growth is restored. However, under present circumstances monetary policy alone is not sufficient. Short-term fiscal stimulus is essential. Given the

historic tendency for wasteful, pork-barrel (political) spending on public works, tax cuts will probably be more effective, as Prime Minister Koizumi has recognized in his recent ¥1 trillion tax cut proposal, even though it is too small. Over time, as one element in the long-run adjustment process, Japan's tax base must be increased.

Structural reforms are essential to enhance business opportunities and create a more competitive environment, but their economic impact takes time. The key to future growth is to make investment more productive and profitable, not simply to raise its share in GDP. For more than a decade Japan has devoted about 15 percent of GDP to business investment, substantially more than the United States, but has little to show for it. Japan can generate economic growth of 2–3 percent annually with a much more efficient pattern of business investment that requires a smaller share of GDP.

Thus, in the long run the structure of national expenditure will have to shift somewhat from business investment to household consumption, with a reduction in the private saving rate. It is unclear how rapidly the household saving rate, which peaked in the mid-1970s and declined until leveling off in the 1990s, will continue to decline as the population ages. It is also difficult to predict the future corporate saving rate from profits. One implication for tax policy during this adjustment process is that Japan consider shifting from consumption taxes to capital (assets) taxes in order to reduce the incentive for households to save, and to exempt corporate dividend payments from their income taxes in order to encourage greater pay-outs to shareholders, thereby reducing corporate saving and increasing to some degree the consumption of dividend recipients.

#### Alternate Scenarios for the Coming Decade

All this sounds well and good but probably is unrealistic. What Japanese economic policymakers should do and what they actually will do, given political calculations, has been dramatically different over the past five years. Nonetheless, eventually, perhaps gradually, they will have to confront more directly the macro, structural, and political issues looming over them.

I consider here four alternate economic scenarios for the coming decade, of which two assume gradual change, and two assume a sufficiently serious shock as to bring about substantial changes in economic policy and performance much more quickly. They are the muddling through (“wishful thinking”) scenario in which gradual changes eventually lead to improved economic performance and GDP growth of 2 percent or so; the muddling along (“setting sun”) scenario, of gradual decline or very little fundamental improvement, with the economy growing about 1 percent at best; the constructive shock scenario, in which a shock forces major changes in economic policies so as to promote structural reform and increased aggregate demand, and moves the economy onto a growth path of 2–3 percent; and the disastrous shock scenario, in which a shock leads to policymaking disarray and results in little economic improvement or even decline.

One has to be careful on terminology. The economy will inevitably suffer a series of modest shocks in the gradualist scenarios, but not sufficiently large to substantially alter policy quickly. Analogously, we need to distinguish between small crises and major ones. A major crisis by definition will bring about major policy changes. The media use the term “collapse” too frequently. A bank may collapse, but the banking system will not; and certainly the Japanese economy will not collapse.

This is not the place to go into a detailed consideration of each of these scenarios. Like all projections, any evaluation is to some degree subjective. I rank their likelihood as first, constructive shock, second, muddling through, third, muddling along, and lowest, disastrous shock. My optimism is based on Japan's long-term fundamentals, which will reassert themselves. These include a coherent, stable society of ambitious people; high educational attainment; high R&D activities and capabilities; a willingness to sacrifice; a (now too) high saving rate; and good entrepreneurship and management.

### Potential Major Shocks

I consider here three likely sources of major shocks: Japanese domestic financial markets; the Japanese political arena; and further dollar depreciation resulting in significant yen appreciation.

### Financial Crises

Any of several specific events could trigger a financial crisis sufficient to force the government to break out of its economic policy gridlock and significantly change its economic policies. One would be investor perception that a major bank, probably not one of the top four but one of the other three or even a major regional bank, has become so weak that it is likely to collapse. Bearish selling of its shares would push its stock price down sufficiently that its depositors and other creditors would flee. Another cause could be a shift of depositors' funds from weaker banks on a large scale.

If the government maintains its earlier decision to withdraw completely the deposit unlimited guarantee as scheduled on April 1, 2003 (as discussed above), this could trigger such a crisis very soon. But so too could the de facto delay. It depends on the degree of negative market perceptions and responses regarding the lack of financial reform and Koizumi's leadership. To prevent bank runs and a panic, the government would have to activate its crisis management plan to inject capital directly or indirectly, take over bad loans, and possibly nationalize several banks (politically the least attractive alternative). Such events would trigger a comprehensive strong attack on all major bank nonperforming loan problems; this in turn would require further government capital injections and, equally importantly, the restructuring or liquidation of the large ailing companies with nonperforming loans. The government itself could initiate this process in order to solve the bank nonperforming loan problem, but Prime Minister Koizumi missed that opportunity in early fall 2001; this action would now require either great political courage or a deep sense of financial crisis that has yet to be manifested.

While not likely, another possible financial event would be a sudden shift in public expectations from deflation to unacceptably high rates of inflation. The Bank of Japan has appropriately generated a huge liquidity overhang in the financial system, reflected both in the extraordinarily low interest rate structure (zero interbank overnight rates) and some ¥11 trillion or more in excess liquidity deposited by banks and other financial institutions in the Bank of Japan in addition to bank required reserves of some ¥4 trillion. A major policy objective is to overcome persistent deflationary expectations.

Suppose expectations—for whatever reason—shifted suddenly from deflationary to inflationary. In the short run that would be beneficial. Households and corporations would shift out of cash and deposits. Asset prices would rise, including real estate. The exchange rate would depreciate. Purchases of goods and services would rise dramatically.

While this would be wonderfully beneficial if inflationary expectations were small, a shift to high inflation expectations would be very disruptive. Interest rates would rise sharply and impose large capital losses on banks and other private holders of Japanese government bonds and other longer-term fixed interest rate financial assets. Problems could arise from the sudden nature of these changes, the turmoil they produced in financial and other markets, and the slowness and ineptitude of government policy responses.

Another financial event, also not likely, would be widespread and extensive loss of confidence in the yen by Japanese households, financial institutions, and foreign institutions, which would generate a massive flight from the yen into foreign currency-denominated assets or gold. This would precipitate a very large, market-based decline in the yen-dollar exchange rate (say to 180 or 200). Exports would rise sharply. Negative foreign reactions would be very strong. The government would be under great pressure to undertake the economic and other reform measures necessary to restore confidence in the yen and to placate the United States, the European Union, China, and other Asian economies.

### Political Change

Second, public dissatisfaction with the political status quo and the ongoing economic policy gridlock could well manifest itself in a rejection of the Liberal Democratic Party in the summer 2004 Lower House elections and the likely collapse of the LDP.

In any scenario the political landscape is likely to change a great deal over the next ten years, probably even more than it has in the past decade. But the nature and form of political change is uncertain, and stories can be told to support either “constructive crisis” or “disastrous crisis” scenarios. Various groups of reform-oriented, middle-of-the-road politicians might coalesce into a stable new majority party, which would implement the economic, social, and political reforms that are so crucial to Japan. This is the political version of the “wishful thinking” scenario. There are (at least) two other possible political outcomes. One would be a shift to more conservative politicians and politics. They might combine continued protection of vested interests and increased government pork-barrel expenditures with a major expansion of military expenditures. Another scenario would be political fragmentation into many small, competing political parties, resulting in political and policy stasis.

### External Shocks

A third possibility is an external shock. The weakening of the dollar and the U.S. stock market in early summer and significantly slower-than-expected recent economic performance (second quarter GDP growth of only 1.1 percent annually) has raised the possibility that the U.S. engine for global growth might stall in coming months, and the United States might even undergo a double-dip recession. That would be bad news for all economies, including Japan’s. However, the likelihood of a severe, extended U.S. recession, and even deflation, is very low.

Japan’s most likely external shock is a sharp further depreciation of the dollar and appreciation of the yen. It is important to distinguish between near-term movements and longer-term trends. In late July 2002 the yen had appreciated some 13 percent to about

115 yen/dollar from its spring low. Current fundamentals are pushing for both a weak yen and a weak dollar. Market forces weakening the dollar have been global and stronger than those of yen weakening. It is unclear how the yen-dollar exchange rate will move in coming months.

In the longer run, however, it seems unlikely that the U.S. current account deficit in its balance of payments, projected to be above \$475 billion (4.5 percent of GDP) in 2002 and to rise further in 2003, is sustainable. As U.S. economic performance moderates and its asset markets remain less attractive, foreigners are likely to become less willing to provide their savings to the United States. A trade-weighted further decline of the dollar of 10–15 percent would probably be necessary to reduce the U.S. current account deficit to 2–2.5 percent of GDP. The trade effects of depreciation lag substantially. The hope is that the dollar will weaken gradually, that the main brunt is borne by the euro, and that the yen will appreciate slowly enough to allow domestic adjustment to occur. Japan cannot rely on export expansion to be a major source of domestic demand over the coming decade.

But suppose the dollar depreciates suddenly and swiftly, as foreigners lose confidence in the U.S. market. While the Japanese government would initially continue to resist yen appreciation and buy dollars, at some point it would stop resisting what had become a global phenomenon. Suppose the exchange rate became 100 yen/dollar. This would make it clear that there was no possibility of Japan's exporting its way out of undesirably low rates of growth, or even recession. In order to prevent a massive decline in confidence and in foreign demand, the government would be forced to take vigorous aggregate demand stimulus and economic reform measures.

Since all these potential shocks are well known, why don't Japanese policymakers do more now? There are at least three reasons: lack of political will (the stalemate between the reformers and the status quo vested interests, the political costs of difficult decisions); wishful thinking ("in due course the economy will recover and grow normally on its own and deflation will end"); and mistaken perceptions and incorrect analysis of policy issues and policy instruments.

Other shocks are less likely. Some analysts of the muddling along ("setting sun") scenario visualize unemployment eventually reaching double digits. I consider that to be socially and politically unacceptable to Japanese; it would trigger major economic policy changes. Fundamental changes in the external environment, such as a U.S. retreat into unilateral isolationism, disintegration of the global economic and financial systems, or a heightened Japanese perception of external threat not handled by a reliable U.S. security guarantee, all seem quite unlikely.

#### Japan in International Context

U.S. economic performance is for Japan and indeed all economies by far the single most important international economic force. The current uncertainties about the U.S. economic recovery cloud the near-term future. While the yen-dollar exchange rate may continue in the 115–120 range for some months, it might at some point strengthen (or weaken) substantially.

On a trade-weighted basis the yen has appreciated 9 percent, about two thirds as much as the dollar bilateral rate because many Asian currencies, as well as the euro, have also appreciated. Much of Japan's current export increase is to the other Asian

economies, which are growing well and collectively have become a significant engine for global recovery. China continues to increase in importance as an economic partner for Japan; trade is growing rapidly, and China is a substantial destination for Japan direct investment (even though China still receives far less of this investment than does the United States). China's entry into the WTO is an epochal event. How the presently dynamic China and a slow-growth Japan manage their economic and political relationships in the coming years is a major issue not only for them but for the rest of Asia and especially for the United States. While Japan faces many structural economic and political difficulties, perhaps China faces even more.

Japan is both Western and Asian. That creates various tensions. On the one hand, Japan is the world's second largest advanced industrial nation, a major player in the international economic system, and deeply dependent for its security on its alliance with the United States. On the other hand, Japan is now attracted to Asian regionalism. This is reflected in its negotiations on free trade agreements with various Asian (and non-Asian) countries, and particularly by its inevitably central role in the "ASEAN plus three" (Japan, China, Korea) trade and finance dialogue. A key issue is whether Japan's multilateral and regional international economic policies can be designed so as to be complementary, or whether they will be in conflict.

#### In Conclusion

Over the long period of its recorded history, Japan has demonstrated a tremendous capacity to re-invent itself politically, economically, socially, culturally. As in all countries, institutions were created that served the purposes of each particular phase of Japan's history, but these institutions became counterproductive as conditions and circumstances changed. The essential point is that Japan, like all countries today, lives in a world of change. Consider the Meiji transformation from the daimyo-based Tokugawa system; the development of a modern, industrial, autocratic, militaristic state prior to World War II; the emergence of a pacifist, democratic state that became the first postwar "economic miracle"; and the period since 1990, in which Japan is once again in a difficult process of major transformation.

The past few years have not been easy, and the next few may well be equally difficult, but in the longer run Japan will once again constructively and productively reinvent itself.

Hugh Patrick  
August 15, 2002

## **THE RESEARCH COMMUNITY**

The foundation of the Center on Japanese Economy and Business is built upon its exceptional group of faculty members; these seven scholars of Japanese economy, finance, law, management, and political science are the Center's intellectual core. All are members of the faculty of Columbia University's Business School, Law School, Economics Department, Political Science Department, or School of International and Public Affairs. In addition to the Center's core faculty, a number of other faculty members have participated over the years in a range of research, teaching, and curriculum development programs, as well as study trips and conferences.

All activities of the Center flow from an effective research program that is ambitious, wide-ranging, and solidly academic in conception but with real-world applications. In addition to organizing research projects involving international groups of scholars, the Center actively encourages, supports, and disseminates relevant individual research projects by faculty members in the Business School and in the social sciences and by research associate scholars.

Research topics reflect the Center's deep commitment to enhancing academic understanding of the Japanese economy, business behavior, and management practices, in domestic terms as well as in regional, international, and comparative contexts. The Center's current research agenda focuses on three interrelated subjects: Japan's financial system and corporate financial structure; the study of Japanese management systems and their domestic and inter-national evolution; and comparative research on Japan and other Asia-Pacific economies, including Asia-Pacific economic cooperation, the implications and effects of the current Asian economic crisis, the prospects and implications of economic deregulation, and competition policy. Much of this research appears in the Center Working Paper Series and underlies its conferences and symposia.

### Director

Hugh T. Patrick, director of the Center on Japanese Economy and Business, is R. D. Calkins Professor Emeritus of International Business at Columbia Business School. He also serves as codirector of the University's APEC Study Center. Professor Patrick joined Columbia University in 1984 after twenty-four years at Yale University, serving as professor of economics from 1968 and two terms as director of the Yale Economic Growth Center in 1976–1979 and 1980–1983. He received his B.A. from Yale University in 1951 and M.A. degrees

in Japanese studies (1955) and economics (1957) and his Ph.D. in economics (1960) from the University of Michigan.

Professor Patrick's major fields of research on the Japanese and other Asia-Pacific economies over the years include macroeconomic performance and policy, the Japanese financial system, industrial policy and government-business relations, Japan-U.S. economic relations, Asia-Pacific economic relations, and the role of APEC.

He has published fifteen books and some sixty articles and essays. A complete listing of publications and research can be found on Professor Patrick's Web page: <http://www.gsb.columbia.edu/japan/director>.

Professor Patrick has served widely in professional and public service organizations and in an advisory capacity to government and business. His public service

positions have included chair of the International Steering Committee of the Pacific Trade and Development (PAFTAD) conference series, chairman of the board of the Social Science Research Council, and member (seven three-year terms) of the Board of Directors of the Japan Society. Professor Patrick was the only academic among the four American members of the Japan-U.S. Economic Relations Group appointed by Prime Minister Ohira and President Carter. He is a member of the Council on Foreign Relations and the U.S. National Committee for Pacific Economic Cooperation Council (U.S. PECC). He has been awarded a Guggenheim Fellowship and two Fulbright Fellowships. In 1992 he received the Ohira Prize. In 1994 the Government of Japan honored Professor Patrick for a lifetime of outstanding contributions to the study of Japan's economy and to the improvement of U.S.-Japan relations by awarding him the Order of the Sacred Treasure, Gold and Silver Star (Kunnito<sup>o</sup> Zuiho<sup>o</sup> sho<sup>o</sup>). He was awarded an honorary Doctor of Social Sciences degree by Lingnan University, Hong Kong, in November 2000.

Professor Patrick's current research projects are on three topics. One is Japanese corporate governance in comparative perspective, specifically considering the systems and practices in the United States, Korea, and Indonesia. A preliminary paper, "Corporate Governance, Ownership Structure and Financial Crisis: Experience of East Asian Countries," was presented at a conference organized by the Korean Deposit Insurance Corporation in Seoul in December 2001. A second area is his ongoing research on Japanese banking and the financial system. The third is consideration of alternatives of the Japanese economy and economic performance for the next ten-year period.

#### Core Faculty

Schon L. Beechler, a specialist on Japanese and comparative international management systems, joined the Columbia Business School faculty in 1989. Professor Beechler received her Ph.D. from the University of Michigan in business administration and sociology and is currently professor, Executive Education Programs, at Columbia Business School. Professor Beechler is engaged in a variety of research projects on Japanese and international management strategies. She is currently the project team leader for the research study, "Organizational Competitiveness: Exploring the Roles of Human Resource Management and Organizational Culture in MNCs." This major study, sponsored by the International Consortium for Executive Development Research (ICEDR), the Center on Japanese Economy and Business, and Executive Education at Columbia Business School, involves more than 4000 employees in forty business units of fifteen multinational companies from Japan, the U.S., Latin America, Australia, and the U.K.

Professor Beechler is a 2000–2002 National Science Foundation grant recipient for her program on Innovation and Organizational Change. In January 2002, she directed a thirteen-day, executive-in-residence program in Tokyo, entitled "Fundamentals of Business—Highlights from the MBA—Asia." The new program is designed for participants from the Asia region. It presents the latest thinking in finance, e-business, marketing, negotiations, and leadership, while focusing on challenges especially important for the Asia region. This program is part of Columbia Business School's Executive Education Program.

Lee Branstetter joined Columbia Business School as an associate professor in the Finance and Economics Division in July 2001. He was also recently named the director of the International Business Program. Prior to these appointments, Professor Branstetter was an assistant professor of economics and director of the East Asian Studies Program at the University of California, Davis. He received his Ph.D. in economics from Harvard University in 1996 and his B.A. from Northwestern University in 1991. Professor Branstetter is a faculty research fellow at the National Bureau of Economic Research. He teaches courses on international business and business and finance in East Asia.

Professor Branstetter conducts research in the fields of inter-national economics and industrial organization. He also maintains a strong interest in the economic analysis of technological innovation. His recent research projects examine Japanese foreign direct investment, international technology diffusion in Asia, the impact of changes in Japanese patent law, and technology promotion policy in the United States and Japan. Forthcoming papers include "When Do Research Consortia Work Well and Why? Evidence from Japanese Panel Data," with Mariko Sakakibara (UCLA), *American Economic Review*, vol. 92, no.1; "Is Foreign Direct Investment a Channel of Knowledge Spillovers? Evidence from Japan's FDI in the United States," NBER Working Paper no. 8015; and "The Impact of Technology Transfer and R&D on Productivity Growth in the Taiwanese Electronics Industry: Microeconometric Analysis Using Plant-Level Data," with Jong-Rong Chen, National Central University, Taiwan.

In 2001, Professor Branstetter was awarded a grant by the National Science Foundation to study the impact of academic research on industrial innovation. He was also awarded an Abe Fellowship by the Social Science Research Council. In 2002, he was awarded an NBER Nonprofit Research Project Grant to continue his research on industrial innovations and was also awarded the Chazen Innovation Prize for Innovative Teaching in International Business from Columbia Business School.

See Professor Branstetter's Web page for a complete listing of publications and research: <http://www.gsb.columbia.edu/faculty/lbranstetter>.

Merit E. Janow was appointed professor in the Practice of International Trade at Columbia University's School of International and Public Affairs (SIPA) in the fall of 1994. She is also director of the International Economic Policy concentration at SIPA (since 1998) and codirector of Columbia's APEC Study Center (since 1994). Professor Janow teaches graduate courses in international economic and trade policy at SIPA and international trade law and international antitrust at Columbia Law School.

While at Columbia, in November 1997, Professor Janow was appointed executive director of a new International Competition Policy Advisory Committee (the Advisory Committee) to the attorney general and assistant attorney general for antitrust at the Department of Justice, Washington, D.C. The first such committee established by the Department of Justice to consider international antitrust matters, it was charged with providing a medium-term perspective on three related issues: the interface of competition and trade policy issues, multijurisdictional mergers, and international enforcement cooperation. The Advisory Committee issued its Final Report in late February 2000.

Previously, from February 1990 through July 1993, Professor Janow was deputy assistant U.S. trade representative for Japan and China at the Office of the U.S. Trade

Representative (USTR), Executive Office of the President. Before joining USTR, she was an associate with the law firm of Skadden, Arps, Slate, Meagher & Flom, specializing in mergers and acquisitions and international corporate transactions.

Professor Janow is the author of a number of articles and books on U.S.-Japan and U.S.-Asian economic and trade relations as well as international economic law and policy subjects, including: “The Future of Competition Policy in the WTO” (Kluwer Publishers, forthcoming 2003); “Unilateral and Bilateral International Approaches to Competition Policy: Drawing on the Trade Experience” (Brookings Institution, 1999); “Competition Policy and the WTO” in *The Uruguay Round and Beyond*, ed. J. Bhagwati (University of Michigan Press, 1998); “U.S. Trade Policy Towards Japan and China” in *Trade Policies for a New Era* (Council on Foreign Relations Press, 1998), among

others. Professor Janow received a J.D. from Columbia University Law School. She received a B.A. with honors in Asian studies from the University of Michigan, Ann Arbor. She is a member of the Council on Foreign Relations, the National Committee on U.S.-China Relations, Asia Society, and Japan Society, among others. She serves on the Board of Directors of two global mutual funds.

Curtis J. Milhaupt is the Fuyo Professor of Law and director of the Center for Japanese Legal Studies at Columbia Law School. He holds a B.A. from the University of Notre Dame and a J.D. from Columbia Law School, where he was a Harlan Fiske Stone Scholar and an editor of the *Columbia Law Review*.

Prior to joining the Columbia Law School faculty in 1999, Professor Milhaupt practiced law in New York and Tokyo, principally in the areas of mergers and acquisitions and international finance, and began his academic career at Washington University in St. Louis. Professor Milhaupt has served as

visiting professor of law at University of California at Los Angeles, visiting scholar at the Bank of Japan Institute for Monetary and Economic Studies, and Japan Foundation Fellow at the University of Tokyo. He has also served as a member of an international team of scholars advising on Korean unification, where he was responsible for designing a privatization plan for North Korean state-owned enterprises. His principal areas of research interest include comparative corporate governance; financial regulation; Japanese law, particularly corporate and banking law; law and economics; and institutional economics. Professor Milhaupt has written on a broad range of comparative law topics, including venture capital, deposit insurance, and organized crime, and is coauthor of *Japanese Law in Context: Readings in Society, the Economy, and Politics*.

Professor Milhaupt published “On the (Fleeting) Existence of the Main Bank System and Other Japanese Economic Institutions” in *Law and Social Inquiry* (spring 2002). He is currently editing a volume entitled *Global Markets, Domestic Institutions: Corporate Law and Governance in a New Era of Cross-Border Deals* (forthcoming, Columbia University Press, 2003). This volume grew out of a major project he directed, which included two conferences on corporate governance held at the Law School in 2001–2002, culminating in a major public conference that drew corporate and finance scholars, practitioners, and policymakers from around the world.

In the fall of 2002, Professor Milhaupt will be on leave at the Research Institute of Economy, Trade and Industry and the Law Faculty of the University of Tokyo, where he will be researching a book titled “Law and the Transformation of East Asia: Redesigning

States, Markets, and Communities for Life After High Growth.” This research is supported by an Abe Fellowship of the Center for Global Partnership and the Social Science Research Council.

David Weinstein is Carl S. Shoup Professor of the Japanese Economy in the Department of Economics at Columbia, and associate director for research of the Center on Japanese Economy and Business. Previously, Professor Weinstein was associate professor of international business, research professor in Japanese business, and Sanford R. Robertson Associate Professor of Business Administration at the School of Business Administration, University of Michigan. Professor Weinstein earned his Ph.D. and M.A. in economics from the University of Michigan and his B.A. from Yale University.

Professor Weinstein’s research focuses on trade, economic geography and current analysis of the Japanese economy. His research on international trade has focused on the determinants of trade and production patterns and the implications that these have had for Japanese development. A major conclusion of this work is that imports, not exports, have been instrumental in generating Japanese productivity growth. This result has been buttressed with work on Japanese regions that finds that superior access to inputs and not superior access to markets is important in determining the productivity of Japanese regions.

Professor Weinstein received a three-year National Science Foundation (NSF) grant to support his research on why countries trade. In 2002, he received a second three-year NSF grant to study trade patterns. Another project examines the determinants of cities in Japan. Using Japanese regional census data that extends back for over a thousand years, Professor Weinstein has documented the enormous stability of the distribution of economic activity, despite dramatic changes in Japan’s government, economy, and urbanization. Using evidence drawn from the bombing of Japanese cities, he has examined the tremendous long-run stability of urban populations. This evidence points toward a critical role played by locational factors in determining city sizes and a minimal role for policies to affect the relative sizes of cities. His work on Japanese cities and international migration has been written up in the *New York Times*, *Business Week*, and *The Economist*.

Professor Weinstein is currently working on several new projects. One of these involves the use of regional data to understand fiscal policy in Japan. The Japanese government instituted an enormous fiscal stimulus in the early 1990s to counteract the bursting of the bubble. Despite this policy, Japanese growth rates remained quite low. This research is designed to answer the question of whether this stimulus actually supported the Japanese economy during this difficult time. A complete listing of publications and research can be found on Professor Weinstein’s Web page: <http://www.columbia.edu/~dew35>.

The Center is pleased to announce that Gerald Curtis, Burgess Professor of Political Science at Columbia University, has joined the Center as a core faculty member. Professor Curtis is former director of Columbia’s East Asian Institute and has been a visiting professor at the Graduate Research Institute for Policy Studies in Tokyo since September 2000. He is a specialist on comparative politics, especially election systems, campaign practices, and political parties.

Professor Curtis is the author of numerous books and articles in both English and Japanese concerning Japanese politics and society and U.S. relations with Japan and Asia. His most recent book, *The Logic of Japanese Politics*, was published in both English and Japanese last summer. He has written on democratic development in the *Journal of Democracy* and published many articles and books dealing with U.S.-Japan relations and U.S. foreign policy in East Asia. He served as adviser to the ACE project on administration and cost of elections, a joint project of the Institute for Democracy and Electoral Assistance (IDEA), the United Nations, and the International Federation for Electoral Systems (IFES). He also served as an expert evaluator for a Japanese government-sponsored project to develop an electronic voting system.

In addition to his scholarly writings, Professor Curtis' political commentaries appear widely in the Japanese and foreign media. He has written a monthly column in the *Tokyo Chunichi Shimbun* since 1982 and he has been senior adviser for *Newsweek Japan* and *Newsweek Korea*. He is a member of the Advisory Council of the Center for Global Partnership of the Japan Foundation and of the Board of Directors of the U.S.-Japan Foundations. He serves on the Board of Directors of the Bank of Tokyo-Mitsubishi Trust Company and is a frequent lecturer to the business and public service organizations concerns with Japan and East Asian affairs. Professor Curtis recently received a three-year renewal grant from the Toyota Motor Corporation for the program he directs on U.S.-Japan Relations.

#### Faculty Associates

The Center encourages active working relationships with a number of faculty in the Business School in addition to its core faculty. The following have been designated as faculty associates, reflecting their ongoing involvement in the Center and its programs.

Charles W. Calomiris  
Paul M. Montrone Professor of Finance and Economics  
Finance and Economics

Nelson Fraiman  
Professor  
Management Science  
Operations Management

Trevor S. Harris  
Roy Bernard Kester and T. W. Byrnes Professor of  
Accounting and Auditing  
Accounting  
Business Law and Taxation  
International Business Program

Robert J. Hodrick  
Nomura Professor of International Finance  
Finance and Economics

Casey Ichniowski  
Professor  
Management  
Human Resource Management Program

Peter J. Kolesar  
Professor  
Management Science  
Operations Management

Frank Lichtenberg  
Courtney C. Brown Professor of Business  
Finance and Economics  
International Business Program

Rita Gunther McGrath  
Associate Professor  
Management  
Executive Education

Kristen L. Willard  
Assistant Professor  
Finance and Economics  
International Business Program

Professional Fellows

The position of professional fellow was created by the Center on Japanese Economy and Business in order to recognize a select number of former government officials and business leaders who have had distinguished careers in economics-related ministries or business corporations and to facilitate their ongoing involvement in and support of the Center's activities.

The current appointees to this position are:

Robert Fallon, director and member of the Executive Committee of the Japan Society. He was head of Global Financial Services for JP Morgan Chase & Co., with responsibility as senior executive for worldwide relationships with financial institutions, including banks, insurance companies, investment management firms, broker-dealers, hedge funds, and government-related financial institutions. Mr. Fallon was formerly resident in Japan where he was the Asia Pacific division head for the Chase Manhattan Bank and a member of the Chase Manhattan Corporation Management Committee. He was responsible, as senior executive in Asia, for Chase's activities in the Pacific Rim located across thirteen different countries. Mr. Fallon has lived in Asia for twenty-six years including time spent in Western Samoa, Hong Kong, and Japan. He has worked in a

broad variety of complex financing, advisory, and capital markets transactions throughout Asia and enjoys extensive contacts across a wide spectrum of government, corporate, and financial institutions in the region. He started his banking career with Citibank in 1975 and later worked in investment banking and management positions with Drexel Burnham Lambert and Bankers Trust Company before joining Chase in 1992. Currently residing in New York, Mr. Fallon is a director of the Council on International Educational Exchange, a trustee of the China Institute and a member of the Asia Society, Korea Society, and the Council on Foreign Relations. He holds a B.A. from Ohio University and an M.B.A. from Harvard Business School.

Shijuro Ogata served the Bank of Japan from 1950 to 1986, mostly in Tokyo but also in Osaka, London, Okayama, and New York, culminating as its deputy governor for international relations. From 1986 to 1992, Mr. Ogata was deputy governor of the Japan Development Bank. During this period, he served in governmental councils on shipbuilding and shipping, navigation, coal mining, energy research, and education. In addition to serving as an adviser to a number of financial institutions, Mr. Ogata is active in public service as former chairman and a member of the Asia Pacific Advisory Committee of the New York Stock Exchange, Japanese deputy chairman of the Trilateral Commission, and a member of the Group of Thirty. In addition, he currently is a nonexecutive director of Fuji Xerox Co., Ltd., and Horiba, Ltd.; a member of the International Advisory Council of Chase Manhattan Corporation; a Swire Group adviser in Japan; an adviser to Imperial Hotel, Tokyo; and a special adviser to Barclays Asset Management Group in Japan. A graduate of the University of Tokyo and the Fletcher School of Law and Diplomacy, Mr. Ogata is a coauthor of *International Financial Integration: The Policy Challenges* (Trilateral Commission, 1989) and has written numerous articles, mainly on international monetary issues.

#### Visiting Fellows and Scholars

Each year the Center accepts a small number of professional fellows and scholars to spend a period in residence at Columbia. During 2001–2002, the Center hosted six visiting fellows from academic and professional communities in the fields of business and economics. Center fellows engage in a wide variety of activities during their stay, including auditing courses at the University and pursuit of individual research projects under the direction of Business School faculty. They contribute significantly to the Center environment and serve as important sources of experience and information for faculty and students.

Morimitsu Inaba  
Nihon University  
Summer 2001

Naotaka Kawakami  
Ministry of Finance  
2000–2002

Trinh Ngoc Luu  
Institute of World Economies  
Hanoi, Vietnam  
2001–2002

Research Associates

Christina Ahmadjian  
Associate Professor  
Graduate School of International and Corporate Strategy  
Hitotsubashi University

Masahiko Aoki  
Henri and Tomoye Takahashi Professor of Japanese Studies  
Department of Economics  
Stanford University

Jenny Corbett  
Professor of Japanese Studies  
Asia-Pacific School of Economics and Management  
Australian National University

Robert Dekle  
Associate Professor of Economics  
University of Southern California

Peter Drysdale  
Professor  
Economics Department  
Research School of Pacific Studies  
Executive Director  
Australia-Japan Research Center  
Australian National University

David Flath  
Professor of Economics  
North Carolina State University

Koichi Hamada  
Professor of Economics  
Economic Growth Center  
Yale University

Yasushi Hamao  
Associate Professor  
Marshall School of Business

University of Southern California

Takeo Hoshi

Professor

Graduate School of International Relations and Pacific Studies

University of California, San Diego

Takatoshi Ito

Professor

Research Center for Advanced Science and Technology

University of Tokyo

Patricia Kuwayama

Vice President

JP Morgan Chase

New York

Edward Lincoln

Senior Fellow

Foreign Policy Studies Program

The Brookings Institution

Mark Mason

Director

Program on Alternative Investments

Center on Japanese Economy and Business

Columbia Business School

Terutomo Ozawa

Professor of Economics

Colorado State University

William V. Rapp

Henry J. Leir Professor of International Trade and Business

New Jersey Institute of Technology

Frances McCall Rosenbluth

Professor of Political Science

Yale University

Gary Saxonhouse

Professor of Economics

University of Michigan

Ulrike Schaede

Associate Professor

Graduate School of International Relations and Pacific Studies  
University of California, San Diego

Michael Smitka  
Professor of Economics  
Williams School of Commerce  
Washington and Lee University

Hong Tan  
Senior Economist  
The World Bank

Eleanor Westney  
Professor of Management  
Sloan School of Management  
Massachusetts Institute of Technology

Michael Yoshino  
Herman C. Krannert Professor of Business Administration  
Harvard University

## PROGRAMS

Given its central location in New York City, the Center on Japanese Economy and Business at Columbia University is well situated to enhance understanding of the Japanese and Asia-Pacific economies through informed, objective discourse with the academic, business, financial, governmental, and other professional communities. To this end, the Center regularly organizes conferences, symposia, and lectures, ranging from the purely academic to those with a strong business and public policy focus. These serve as important ways for communicating the research results of Center-sponsored projects and those of related faculty. In addition, the Center occasionally cosponsors conferences in Japan and other countries in the Asia-Pacific. The 2001–2002 academic year was particularly active, thanks in part to funding through the Center's Corporate Sponsorship Program and other grants. Reports of the conferences, symposia, and lectures are published by the Center and available on the Center's Web site: [www.gsb.columbia.edu/japan](http://www.gsb.columbia.edu/japan).

### International Conferences

#### Where Does the Japanese Economy Go From Here?

On November 2, 2001, the Center hosted a major one-day international conference to discuss the state of the Japanese economy and its future, including macroeconomic implications, structural reform, the financial system, and domestic and foreign policy implications. The conference provided a forum for distinguished scholars, international law experts, business executives, and journalists to discuss the following issues: whether the worst of Japan's economic malaise is over, or yet to come; the lessons to be drawn from Japan about the success and failure of government policy; the implications of a world slowdown on Japan and the Japanese slowdown on the world; and whether the Koizumi administration represents a real change or just a cosmetic one.

#### Intellectual Property Rights and the Prospects for U.S.-Japan Cooperation in Asia

On February 15, 2002, the Center held a one-day conference to discuss the roles the United States and Japan play in building and negotiating an international framework for intellectual property rights systems. The conference addressed several questions: To what degree and in what way have the U.S. and Japanese IPR systems converged? What are the economic, business and political implications? How do business method patents fit into this global strategy? Do we need to rethink whether a global approach to IPR works in developing countries? How can the United States and Japan support the implementation of IPR commitments that China has made? This conference focuses on these and related issues with presentations by a select group of distinguished business professionals, lawyers, and academics from the United States and Japan. Robert Stoll, administrator, Office of Legislative and International Affairs, United States Department of Commerce, Patent and Trade Office, delivered the keynote address.

#### Can Japan's Ailing Banking System be Cured?

On May 2, 2002, together with the Japan Society of New York, the Center hosted a half-day international conference to address Japan's persistent nonperforming loan problem.

Despite efforts to clean up the mess, Japanese banks are still saddled with trillions of yen in problem loans. While Prime Minister Koizumi has vowed to stick to his plan to promote the disposal of banks' bad debt over the next three years, he faces stiff resistance to restructuring from both within his own party and without. In addition, many analysts wonder whether the cure could be worse than the disease, with bank restructuring sparking more corporate bankruptcies and higher unemployment. Can Japan's ailing banks be cured? How will loan workouts and corporate restructuring proceed? This half-day conference addressed those questions by bringing together senior Japanese and American politicians, policymakers, bank executives, and analysts to discuss the prospects for reform. Keynote speakers included the Honorable Yasuhisa Shiozaki, member, House of Representatives, Japan; and the Honorable Paul H. O'Neill, Secretary of the Treasury.

### International Symposia

#### Evaluating the Koizumi Cabinet's Economic and Financial Reform Program, and Japan's Imminent Banking Crisis

On October 2, 2001, and February 7, 2002, the Center on Japanese Economy and Business and the East Asian Institute of Columbia University hosted two symposia featuring Shijuro Ogata, former deputy governor for international relations, Bank of Japan. Mr. Ogata addressed major issues related to Japan's banking and economic policy dilemmas, including the restructuring of the Japanese financial system, privatizing government banks, rising stock prices, nonperforming loans, political overhaul and its economic implications, and monetary policy. Hugh Patrick, director of the Center, served as the moderator.

#### Japan: Crisis or Reform—Or Both?

On February 20, 2002, the Center organized a symposium to consider the possibility of a major financial crisis in Japan and to assess Prime Minister Koizumi's administration. The sharp decline in public support for Prime Minister Koizumi as a result of firing Foreign Minister Makiko Tanaka all but erased the possibility that Koizumi might be able to leverage his popularity with the public to push through reforms opposed by members of his own party. The symposium featured Paul Sheard, chief economist, Asia, of Lehman Brothers, Tokyo, and Gerald Curtis, Burgess Professor of Political Science at Columbia University. Hugh Patrick, director of the Center, served as the moderator.

#### Crime and Punishment in Japan and the United States

On February 27, 2002, the Center on Japanese Economy and Business and the Center for Japanese Legal Studies, Columbia University, organized a symposium to discuss the procedures and incentive schemes underlying crime and punishment in the world's two largest economies. The symposium featured Mark Ramseyer, Mitsubishi Professor of Japanese Legal Studies, Harvard School of Law, and Gary R. Saxonhouse, professor of economics, University of Michigan. Curtis Milhaupt, Fuyo Professor of Law, and David Weinstein, Carl S. Shoup Professor of the Japanese Economy, Columbia University, served as moderators.

#### Institute for International Economic Studies Symposium

On May 29, 2002, Professors Hugh Patrick and David Weinstein participated in a symposium hosted by the Institute for International Economic Studies (IIES), a Toyota Motor Corporation think tank in Tokyo, Japan. Professor Patrick delivered a presentation on Corporate Governance: The American Model and Japanese Practice; and Professor Weinstein gave a presentation on The State of the U.S. and Japanese Economies.

#### Japanese Corporate Governance in Comparative Perspective

On June 4, 2002, Professor Hugh Patrick participated in a symposium organized by the Asia Foundation, Japan. His discussion focused on comparative corporate governance, including Enron, the Daiei bailout, and other recent experiences. Professors Gerald Curtis, Curtis Milhaupt, and Merit E. Janow served as discussants.

#### Japanese Corporate Governance in Comparative Perspective

On June 4, 2002, Professor Hugh Patrick delivered a major lecture at a symposium hosted by Mori Ark Academy Hills in Tokyo, Japan. His presentation focused on Japanese and U.S. corporate governance systems.

#### Lectures

##### Japan Distinguished Business Leaders Lecture Series

Since 1986 the Center on Japanese Economy and Business, in cooperation with the student-run Japan Business Association at Columbia Business School, has brought distinguished Japanese and American executives to Columbia University through the Japan Distinguished Business Leaders Lecture Series.

Yoshito Hori

CEO, Globis Corporation

Chairman and CEO, Apax Globis Partners

Entrepreneurship and Venture Capital in Japan

November 30, 2001

##### Reform in Japan and China: A Change of Leadership

On February 6, 2002, the Center sponsored a special lecture by William H. Overholt, senior fellow at the Harvard University Asia Center. Dr. Overholt contrasted the slow pace of economic reform in Japan over the course of the 1990s with the much faster pace of reform in China over the same period. According to Dr. Overholt, the much greater commitment to fundamental reform in China augurs well for that country's continued economic growth, while the seeming inability of the Japanese government to countenance radical change has been a major factor holding back the growth of Asia's largest economy.

#### Participants

In addition to Center core faculty, the following were speakers and panelists in programs organized by the Center in 2001–2002:

Jeffrey Brandt  
President  
JLB Consulting

Lee Branstetter  
Associate Professor of Finance and Economics  
Columbia Business School

Stephen Chiang  
Director of Patent Licensing  
Boeing Company

Iain Cockburn  
Professor of Finance and Economics  
School of Management  
Boston University

Timothy Collins  
Chief Executive Officer  
Ripplewood Holdings, LLC

Gerald Curtis  
Burgess Professor of  
Political Science  
Columbia University

Ronald Dore  
Senior Research Fellow  
Center for Economic Performance

Robert Fallon  
Former Managing Director and Group Executive  
JP Morgan Chase & Co.

Timothy Geithner  
Former U.S. Treasury Undersecretary for  
International Affairs

Richard Gitlin  
Partner, Financial Restructuring Group  
Bingham Dana Murase

William Grimes  
Assistant Professor of International Relations  
Boston University

Robert Grondine  
Partner, White and Case Limited Liability Partnership

Fumio Hayashi  
Professor, Department of Economics  
University of Tokyo

Takeo Hoshi  
Professor, Graduate School of International Relations  
and Pacific Studies  
University of California,  
San Diego

Takatoshi Ito  
Professor, Research Center for Advanced Science and Technology  
University of Tokyo  
Former Deputy Vice Minister for International Affairs  
Ministry of Finance  
Merit E. Janow  
Professor in the Practice of International Trade  
Co-Director, APEC Study Center  
Columbia University

Richard Katz  
Senior Editor  
Oriental Economist Report

Roger Kubarych  
Senior Economic Advisor, HVB Americas, Inc.  
Adjunct Senior Fellow, Council on Foreign Relations

Christopher LaFleur  
Deputy Assistant Secretary of State for East Asian and Pacific Affairs

Nicholas Lardy  
Senior Fellow  
Foreign Policy Studies  
The Brookings Institution

Bruce A. Lehman  
President and CEO  
International Intellectual Property Institute

Edward Lincoln  
Senior Fellow, Foreign Policy Studies Program

Brookings Institution

Keith Maskus  
Professor of Economics  
University of Colorado at Boulder

Jim McGinnis  
Senior Analyst  
Mizuho Securities

Curtis Milhaupt  
Fuyo Professor of Japanese Law and Legal Institutions  
Director, Center for Japanese Legal Studies  
Columbia University

Arthur Mitchell  
Partner and Head of Japan Practice Group  
Coudert Brothers

Robert Myers  
Senior Consultant, Fairfield Resources International Inc.  
Adjunct Professor, Columbia Business School

Richard R. Nelson  
George Blumenthal Professor of International and Public Affairs, Business and Law  
Columbia University

Shijuro Ogata  
Former Deputy Governor of International Relations  
Bank of Japan

Paul H. O'Neill  
Secretary of the Treasury  
United States Department of the Treasury

William Overholt  
Senior Fellow  
Harvard University Asia Center

George Packard  
President  
U.S.-Japan Foundation

David Pflug  
Managing Director and Senior Credit Officer International  
JP Morgan Chase & Co.

Adam Posen  
Senior Fellow  
Institute for International Economics

Mark Ramseyer  
Mitsubishi Professor of Japanese Legal Studies  
Harvard Law School

William Rapp  
Henry J. Leir Professor of International Trade and Business  
New Jersey Institute of Technology

Wilbur L. Ross, Jr.  
Chairman and CEO  
WL Ross & Co. LLC

Richard Samuels  
Ford International Professor  
Director, MIT-Japan Program  
Massachusetts Institute of Technology  
Gary Saxonhouse  
Professor of Economics  
University of Michigan

Paul Sheard  
Chief Economist Asia  
Lehman Brothers

Yasuhisa Shiozaki  
Member, House of Representatives, Japan

Toshiko Takenaka  
Associate Professor,  
School of Law  
Director, Center for Advanced Study and Research on Intellectual Property (CASRIP)  
University of Washington

David Weinstein  
Carl S. Shoup Professor of  
the Japanese Economy  
Department of Economics  
Associate Director for Research  
Center on Japanese Economy and Business  
Columbia University

East Asian Institute Brown Bag Series

The Center cosponsors a number of the informal luncheon meetings held throughout the academic year with the East Asian Institute at Columbia's School of International and Public Affairs. Seminars for 2001–2002 are listed below:

David Weinstein

Carl S. Shoup Professor of the Japanese Economy  
Columbia University

Catastrophic Events and Cities: Lessons from Japan  
October 3, 2001

Naoko Munakata

Senior Fellow

Research Institute of Economy, Trade and Industry  
Ministry of Economy, Trade and Industry, Japan  
Evolution of Japan's Policy on Economic Integration

October 16, 2001

Frances Rosenbluth

Professor of Political Science

Yale University

The Comparative Political Economy of Gender: Japan in Perspective  
October 18, 2001

Takatoshi Ito

Professor

Research Center for Advanced Science and Technology  
University of Tokyo

Former Deputy Vice Minister for International Affairs  
Ministry of Finance

Japan and Asian Regionalism: Will ASEAN Plus 3 Develop into a Regional Block?  
November 1, 2001

Steven Clemons

Executive Vice President

New American Foundation

Is There an American Agenda for Japan?  
November 14, 2001

Gerald Curtis

Burgess Professor of Political Science  
Columbia University

Can Koizumi Reform Japan?

December 5, 2001

Yoshibumi Wakamiya

Guest Fellow, Foreign Policy Studies Program  
Brookings Institution  
Former Deputy Managing Editor  
Asahi Shimbun  
Nationalism and Reconciliation in East Asia: Does Japan Learn from Experience?  
December 6, 2001

Naotaka Kawakami  
Visiting Fellow, Center on Japanese Economy and Business  
Former Special Officer of Research and Planning,  
Japanese Ministry of Finance  
The Impact of the Post Cold War Crises on the Political Economy of Japan  
January 29, 2002

Takao Shibata  
Career Diplomat  
Ministry of Foreign Affairs, Japan  
UN Reform and Japan  
January 30, 2002

Motohisa Furukawa  
Democratic Party (Minshuto) Member of the Japanese Lower House  
Prime Minister Koizumi's Reforms: Magic or Illusion? A View From the Political  
Opposition  
January 31, 2002

Akinori Tomohara  
Visiting Scholar, East Asian Institute, Columbia University  
Consultant, The Urban Institute  
Wheels of Change: Tax Policy Effects on U.S.-Japan Auto Trade  
February 12, 2002

Robert Grondine  
Partner, White and Case Limited Liability Partnership  
Japanese Deregulation, Deflation and Restructuring: Interpreting FY2001 Results and  
Assessing FY2002 Trends  
April 11, 2002

Christopher LaFleur  
Deputy Assistant Secretary of State for East Asian and Pacific Affairs  
Update on U.S. Policy Toward Northeast Asia (Japan and the Two Koreas)  
April 12, 2002

Ronald Dore  
Senior Research Fellow, Center for Economic Performance  
London School of Economics

Japan, Efficiency, Confidence, and Stagnation  
April 16, 2002

Richard Samuels  
Ford International Professor of Political Science  
Director, Center for International Studies,  
Massachusetts Institute of Technology  
Knowing Our Japanese Allies  
April 23, 2002

#### Pacific Trade and Development Conference (PAFTAD) Series

The Center on Japanese Economy and Business serves as the American liaison office of PAFTAD in association with the PAFTAD Secretariat based at the Australian National University. Since its inauguration in 1968, PAFTAD has held twenty-seven policy-oriented academic conferences on major topics and policy issues involving various dimensions of the economic interactions among the Asia-Pacific economies, including trade, foreign direct investment, technology transfer, regional institutional arrangements, environment and development, and competition policy. The edited conference papers are published in a refereed book in arrangements made through the PAFTAD Secretariat. As a private organization long before full diplomatic relations were established, PAFTAD was able to arrange participation from the People's Republic of China, the Soviet Union, Vietnam, and most recently, North Korea. The conferences have been hosted by committees in virtually every Asia-Pacific economy. PAFTAD participants, especially the International Steering Committee members, are actively involved as academic participants in PECC (the Pacific Economic Cooperation Council) and especially its policy task forces and study groups. In a number of countries, they also serve as advisers to their respective government's participation in APEC (the ministerial Asia-Pacific Economic Cooperation forum). In recent years the PAFTAD conferences have addressed important emergent issues in order to provide intellectual input into the APEC agenda as it develops over time. Professor Hugh Patrick has been chairman of the PAFTAD International Steering Committee since 1985.

The twenty-eighth PAFTAD conference was held in Manila, Philippines, in September 2002, on the theme of Competition Policy in the New Millennium. Dr. Mario Lamberte, president of the Philippine Institute for Development Studies, was chair of the local organizing committee, and the conference was hosted by the Philippine Institute for Development Studies (PIDS). The twenty-seventh PAFTAD conference was held in Canberra, Australia, in August 2001, on the theme of The New Economy: Challenges for East Asia and the Pacific. Professor Peter Drysdale, among his other activities, executive director of the PAFTAD Secretariat housed at the Australian National University, was chair of the local organizing committee, and the conference was hosted by the Australian National Committee.

The twenty-sixth PAFTAD conference was held in Seoul, Korea, in June 2000, on the theme of Globalization in the New Millennium. Dr. Tae-Kyung Lee, president of the Institute of International Economic Policy (KIEP), was chair of the local organizing committee, and the conference was hosted by KIEP.

## Pacific Economic Cooperation Council (PECC)

PECC is a unique international organization. It was established in 1980 as a policy-oriented forum through the efforts of several PAFTAD leaders, notably Sir John Crawford of Australia and Saburo Okita of Japan. Today some twenty-five Asia-Pacific economies are members. Each member has a unique tripartite national committee consisting of academics, business leaders, and government officials in their private capacity. PECC works closely with the governmental Asia-Pacific Economic Cooperation forum (APEC). PECC holds general meetings biannually. Professor Hugh Patrick participated in the 15th General Meeting in Hong Kong in November 2001.

Professors Janow and Patrick are members of the U.S. National Committee of PECC, and Hugh Patrick is on its Board.

## Faculty Support Program

In addition to supporting its core faculty, the Center provides materials and other assistance for curricula-enrichment activities and facilitates travel to Japan by interested Business School faculty. On occasion the Center offers support for Japan-related faculty visitors to Columbia University.

- From June 2 to June 12, 2002, Professor Andrew Gershoff participated in a study tour of Japan. The tour, designed for business school faculty and administrators, is organized annually by the Keizai Koho Center, a leading Japanese business organization. It provides an opportunity for approximately ten member schools of the American Assembly of Collegiate Schools of Business (AACSB) to send a representative to Japan for purposes of curriculum enhancement and comparative research activities. The Center selects Business School faculty for participation in this program.
- In 2002 the Center provided financial support to Professor Jie Gan of the Columbia Business School for her empirical investigation of the real effect of real assets as collateral on the Japanese economy.

## APEC Study Center of Columbia University

Columbia University established the APEC Study Center in 1994 at the request of the U.S. Department of State in response to the APEC Leaders' Education Initiative introduced in 1993. This initiative calls on institutions of higher education in the United States and throughout the Asia-Pacific region to collaborate on Asia-Pacific policy research. Through exchanges, joint research, conferences, and other contacts, APEC Study Centers are helping to establish an emerging regionwide network of personal and institutional relationships for all member economies. This Center serves as a focal point of study and research at Columbia University on issues of economic importance for the Asia-Pacific region and is codirected by Professors Merit E. Janow and Hugh Patrick.

APEC Study Centers have now been established in most of the twenty-one Asia-Pacific Economic Cooperation forum (APEC) economies. They have created an international consortium of APEC Study Centers, and those in the United States have established a national consortium as well, based at the East-West Center in Hawaii. The

Columbia APEC Study Center was a founding member of both national and international consortia.

Jointly administered by the Center on Japanese Economy and Business at the Business School and the East Asian Institute within Columbia's School of International and Public Affairs, the APEC Study Center of Columbia University enhances the Business School's rich tradition of research and teaching on the Asia-Pacific region by linking, coordinating, and expanding the reach of existing University programs organized by a variety of institutions, which in turn provide it with important infrastructural support. In addition to the East Asian Institute and the Center on Japanese Economy and Business, these institutions include the Jerome A. Chazen Institute of International Business, the Center for International Business Education, the Center for Chinese Legal Studies, the Center for Japanese Legal Studies, the Center for Korean Legal Studies, the Donald Keene Center of Japanese Culture, and the Center for Korean Research, among others.

During 2001–2002, the Center had a particularly active year of conferences, workshops, lectures, and research projects, including the following:

- International roundtable discussion on Substantive Differences in Competition Laws as They Apply to Exclusionary Conduct: Implications for Global Competition and New Competition Regimes, on October 27, 2001, at Columbia University.
- Panel discussion on Advancing Corporate Governance Reform in Asia, on February 25, 2002, at Columbia University. Featured speakers included Frank Wiebe, chief economist and director, Economic Reform and Development Program, Asia Foundation; Jesus Estanislao, chairman, Foundation for Community Building in the Asia-Pacific, president and CEO, Institute of Corporate Directors; Hasung Jang, professor of finance, Korea University, chair, Participatory Economy Committee of the Peoples Solidarity for Participatory Democracy; and Daochi Tong, deputy director general, Listed Company Supervision, China Securities Regulatory Commission.
- Panel discussion on The Future of the WTO and the International Trading System, on February 26, 2002, at Columbia University. Featured speakers included Supachai Panitchpakdi, director general designate, World Trade Organization; Joseph Stiglitz, professor, Columbia University; and Jagdish Bhagwati, University professor, Columbia University.
- Lecture on Inside the World Trade Organization, by James Bacchus, former senior advisor, National Economic Council, The White House, on February 28, 2001, in New York. Cosponsored by the Center on Japanese Economy and Business.
- Conference on The United States and the Korean Peninsula after September 11th, held on March 14, 2002, at Columbia University.
- Lecture on My Nine Lives, by N. T. Wang, senior research scholar, East Asian Institute, and director, China-International Business Project, held on April 22, 2002.

Other Columbia faculty involved with the APEC Study Center include John Bresnan, Gerald Curtis, Carol Gluck, Robert Immerman, Andrew Nathan, N. T. Wang,

and Madeleine Zelin from the East Asian Institute; Schon Beechler, and Lee Branstetter from the Business School; and R. Randle Edwards from the Law School.

The APEC Study Center publishes a discussion paper series based on the results of its research and program activities. These papers are available to the public on request and are distributed among the academic community at Columbia and APEC specialists elsewhere. They are also available on the APEC Web site:  
<http://www.columbia.edu/cu/business/apec>.

Professor Merit E. Janow, as codirector, delivered a Briefing Session on APEC at the Asia Society, New York, and presented a paper at the WTO Symposium on Trade and Competition Policy in Geneva on April 22, 2002. The paper discussed the benefits of competition policy for developing economies and the relationship between competition policy and the WTO.

Resources for the APEC Study Center's basic infrastructure have been provided by Columbia University. Corporation and foundation support in the United States and Asia is secured for specific programs and projects. In particular, the APEC Study Center thanks the Lotte Group of Seoul, Korea, and ITOCHU International Inc. for their support.

For additional information about Columbia's APEC Study Center and its programs, please visit the APEC Web site (<http://www.columbia.edu/cu/business/apec>).

#### U.S.-Japan Policy Discourse

In addition to its conferences, symposia, Working Paper Series, reports, and individual faculty meetings with government officials and business leaders, the Center on Japanese Economy and Business sponsors several other activities to enhance public discourse on the Japanese economy and business and/or Asia-Pacific economic and business relations. The following are indicative of these activities.

#### The Japan Economic Seminar

The Center on Japanese Economy and Business and the East Asian Institute at Columbia University and George Washington University cosponsor the interuniversity Japan Economic Seminar for faculty and advanced graduate students. The Center administers the seminar. The Japan Economic Seminar was founded in 1966 by Professors James Nakamura (Columbia), Hugh Patrick (then at Yale), and Henry Rosovsky (Harvard). The seminar currently has approximately ninety members and meets four times a year to discuss new research on the Japanese economy, based on two papers circulated in advance. Professor Hugh Patrick serves as secretary-treasurer. The following papers were discussed during 2001–2002:

September 15, 2001

Columbia University

Toward Normalcy in the Japan–United States Economic Relationship by C. Fred Bergsten, Takatoshi Ito, and Marcus Noland, IIE, Hitotsubashi University.

From Cozy Regulation to Competitive Markets: The Regime Shift of Japan's Financial System by Hugh Patrick, Center on Japanese Economy and Business, Columbia Business School.

November 17, 2001

George Washington University

What Happens in Banking Crises? Moral Hazard vs. the Credit Crunch by Nobuhiko Hibara, Center on Japanese Economy and Business, Columbia Business School.

Are the Cross Shareholdings of Japanese Corporations Dissolving? Where Now and What It Means by Mitsuaki Okabe, Keio University, Japan, and University of Minnesota.

February 16, 2002

Columbia University

The Importance, Nature, and Impact of Bequest Motives in Japan by Charles Horioka, Institute of Social and Economic Research, Osaka University and National Bureau of Economic Research, with Koji Yamashita, Institute for Posts and Telecommunications Policy, Ministry of Public Management, Home Affairs and Posts and Telecommunications, Government of Japan; Masashi Nishikawa, Faculty of Economics, Saitama University; and Shiho Iwamoto, Chuo Aoyama Kansa Hojin.

A Direct Test of the Theory of Comparative Advantage: The Case of Japan by Daniel M. Bernhofen and John C. Brown, Department of Economics, Clark University.

April 20, 2002

School of Advanced and International Studies (SAIS)

Integrated Production in East Asia: Globalization without Insulation? by Patricia Nelson, University of Edinburgh

The Fable of the Keiretsu by Mark Ramseyer, Harvard Law School, and Yoshiro Miwa, University of Tokyo.

The U.S.-Japan Discussion Group

Organized as a series of informal meetings among a small group of senior American and Japanese business leaders and professionals in the New York area, together with several Columbia faculty, the group meets four evenings a year to consider issues in U.S.-Japan business, economic, financial, and political relations. During the 2001–2002 academic year, the discussions were led by Hugh Patrick and Atsushi Nishijo, president and CEO of Sumitomo Corporation of America. Other participants from Columbia were Professors Gerald Curtis, Merit E. Janow, and David Weinstein.

Japanese Financial System Discussion Group

The discussion group includes senior specialists on the Japanese financial system. The group meets five or six times a year. The participants are Patricia Kuwayama, vice president, JP Morgan Chase; Curtis Milhaupt, Fuyo Professor of Law, Columbia University, Hugh Patrick, R. D. Calkins Professor of International Business; Frances Rosenbluth, professor, Department of Political Science, Yale University; David Weinstein, Carl S. Shoup Professor of Japanese Economy, Columbia University.

Video Conferences

Professors Hugh Patrick and Merit E. Janow are the Columbia cohosts of video conferences between Columbia Business School and Mori Ark Academy Hills in Japan. The Japanese cohosts are Professor Motoshige Itoh, University of Tokyo, and Professor Jiro Tamura, Keio University. The conferences address public-policy issues related to U.S.-Japan relations and are carried out in conjunction with Georgetown University.

## Center-Supported Courses

Columbia Business School and the Department of Economics annually offer more specialized courses on the Japanese and Asia-Pacific economies than any other major university in the United States. The Center provides support for the teaching activities of Business School faculty Professor Lee Branstetter and occasional visiting professors who teach related courses. The Center also assists in providing materials on Japanese and Asia-Pacific economies, business, management, industrial relations, marketing, and related topics taught as modules or cases in a variety of courses in the Business School. Graduate courses offered during the 2001–2002 academic year at Columbia Business School include Business and Financial Markets in East Asia.

## Center Outreach and Support

The Center annually supports a number of student organizations and research institutes to enhance dialogue between Japan and the United States as with the Columbia community. During 2001–2002, the Center supported the following organizations:  
Columbia University's Black Business Student Association  
Japanese Business Association, Columbia Business School  
Japan Information Access Project  
Nihon Benkyokai

## Fellowship and Internship Programs

The Center on Japanese Economy and Business provides selected fellowships supporting research and participation in academic programs related to Japanese economic and business fields for Columbia University students who prove outstanding academic ability and demonstrate a specific interest in Japan and the Asia-Pacific economies. Programs and recipients for 2001–2002 are as follows.

### Sumitomo Corporation of America Predoctoral, Doctoral, and Postdoctoral Fellowships

The Sumitomo Fellowship Program was established by the Center as part of an initial operating grant from Sumitomo Corporation of America. The program provides support to recent Ph.D.'s and Ph.D. candidates specializing in some aspect of U.S.-Japan economic and business relations. Fellowship recipients typically spend a period in residence at the Center to engage in their own research and participate in Center programs. The 2001–2002 doctoral fellow was Nobuhiko Hibara, then Columbia University Ph.D. candidate in economics, whose dissertation is "What Happens in Banking Crises? Moral Hazard vs. Credit Crunch" was successfully defended in June 2002.

### Mitsubishi Trust Yamamuro Memorial Scholarship

The Center annually conducts a University-wide competition on behalf of the Mitsubishi Trust Yamamuro Scholarship and nominates a student of Columbia University to receive tuition and living expenses for a one-year program of graduate study in Japan. Mathew Morgenstein, a senior at Columbia University in political science and East Asian languages and cultures, is the recipient of the 2001–2002 scholarship. In 2000–2001,

Charles Ayres, a graduate of Columbia College in East Asian studies and the recipient of the 1999–2000 scholarship, was awarded a second year of graduate study in Japan.

#### Other Student Programs and Activities

The Center works in cooperation with student organizations at Columbia Business School and the School of International and Public Affairs (SIPA) that focus their activities on Japanese business and Asia-Pacific economic relations. Frequently the Center provides guidance for the organization of student-run conferences and projects in addition to administrative and financial support for various student activities. Together with the student-run Japan Business Association, the Center offers its Japan Distinguished Business Leaders Lecture Series and collaborates on the organization of the annual Japan Study Trip. The Center also cooperates with the SIPA student-run Asia Pacific Affairs Council (APAC), which holds regular lectures, conferences, and discussion groups on important issues about Japan and Asia.

#### Columbia Business School Japan Study Trip

In March 2002, sixty-four students from Columbia Business School traveled to Japan on the Business School's eleventh annual Japan Study Trip. Over the course of seven days the students met with representatives of Japanese business, government, and other economic institutions to experience Japan's business and cultural environment firsthand. The Japan Columbia M.B.A. Association hosted a reception for them. The 2002 Japan Study Trip included visits to Kikkoman Corporation, NTT DoCoMo, Sony, Nikko Solomon Smith Barney, Fuji Television, Omron, and Toyota. Students also viewed Tokyo's Tsukiji fish market, sumo wrestling and Kabuki, among other activities. The Japan Study Trip is organized by a committee of M.B.A. students under the direction of the student-run Japan Business Association. The Center on Japanese Economy and Business provides administrative backing and other support, as do a number of Japanese and American corporations.

## **CENTER PUBLICATIONS**

The Center on Japanese Economy and Business contributes significantly to the understanding of Japanese business and Asia-Pacific economic relations by actively encouraging the dissemination of research results in written form. Most research affiliated with the Center is published in scholarly books and professional journals. The Center's Working Paper Series and Occasional Paper Series disseminate preliminary research results prior to publication and make the substance of exceptional lectures and presentations at Columbia University more widely available. In recent years the Center has been publishing a summary of the proceedings of its major conferences and lectures to provide a written record of the timely, and often controversial, discussions on U.S.-Japan and Asia-Pacific economic and business issues. We thank the authors and editors for their contributions.

Copies of the Center's Working Paper and Occasional Paper Series and conference and distinguished lecture reports are available through the Center's home page (<http://www.gsb.columbia.edu/japan>).

### **Working Paper Series**

The Center's Working Paper Series provides an opportunity to circulate research in preliminary form both to achieve early dissemination and to serve as a basis for comment and revision. Papers for 2001–2002 are the following:

191. Nationwide Financial Services, William Rapp, 2001.

The paper examines Nationwide Financial Services (NFS) as a leader in the strategic application of information technology (IT) to financial services and especially to life insurance, retirement, and annuity-related products. It establishes NFS as a sophisticated level two IT strategist that effectively uses IT to enhance its core competencies in a very focused manner in its designated market segments. It particularly illustrates how NFS uses IT to support its products and related services in its major marketing channel, third party financial managers such as banks and brokers. The beneficial results have been rapid growth, high returns, and lower costs that have made NFS a leader in financial retirement products even for relatively small accounts such as those for state and local government employees.

192. Bones, Bombs and Break Points: The Geography of Economic Activity, Donald R. Davis and David E. Weinstein, 2001.

The paper considers the distribution of economic activity within a country in light of three leading theories—increasing returns, random growth, and locational fundamentals. To do so, we examine the distribution of regional population in Japan from the Stone Age to the modern era. We also consider the Allied bombing of Japanese cities in World War II as a shock to relative city sizes. Our results support a hybrid theory in which locational fundamentals establish the special pattern of relative regional densities, but increasing returns may help to determine the degree of special differentiation. One implication of our results is that even large temporary shocks to urban areas have no long-run impact on size.

193. The “Hidden” Side of the “Flying Geese” Catch-Up Model: Japan’s Dirigiste Institutional Setup and a Deepening Financial Morass, Terutomo Ozawa, 2001.

This paper points out that Japan’s once miraculous “flying geese” (FG) growth was made possible because it established an effective dirigiste catch-up regime in the early postwar period but that Japan’s present financial predicament is paradoxically a path-dependent outcome of such an FG strategy. The institutional, especially financial, dimension of FG strategy needs to be taken into account to explain why such a strategy once proved effective but later culminated in a deepening financial morass. The FG model should encompass not only the industrial dimension of catch-up but also its institutional, particularly financial, dimension.

194. International Market Segmentation and the CME Quanto Nikkei Future, Andrew Carverhill and Ronald Schramm, 2002.

The CME Nikkei 225 “Quanto” futures contract settles against the Nikkei Index but taken to refer to U.S. dollars. In contrast, the corresponding “Vanilla” instruments trading in Singapore and Osaka settle in Yen. We show that the returns to the Quanto future are correlated with returns to the U.S. market, as represented by the CME S&P 500 future, even after controlling for the returns to the Vanilla contract, translated into dollars, and the dollar/yen returns. This correlation is partially reversed the next day. This result goes against the usual analysis of Quanto instruments, which asserts that they can be hedged via the corresponding Vanilla instrument and a currency position. We show that our Quanto and Vanilla investment strategies should not differ in their currency exposure, and this is reflected in the significance of the dollar/yen return not being high or consistent from year to year in our regressions. Our results point to the international market being segmented; users of the CME Quanto Nikkei future are influenced too much by the U.S. market factor.

195. Women’s Higher Education in Japan: Family Background, Economic Factors, and the Equal Employment Opportunity Law, Linda Edwards and Margaret Pascale, 2002.

Since the mid-1980s there has been a striking increase in the propensity of young Japanese women to attend four-year universities. During this same period, the Japanese Diet, in 1985, passed the Equal Employment Opportunity Law, which focused on improving women’s access to career employment. This paper uses microdata from the Japanese Panel Survey on Consumers (JPSC) to investigate the importance of socioeconomic and demographic factors, as well as the EEO Law, in determining the higher education decisions of young women in Japan. We find that one of the most important factors for determining whether or not a young woman attends university is whether or not her mother and/or father attended university, whether or not the young woman attended juku in high school, family income, and attendance at private secondary school. Data limitations prevent drawing strong conclusions about the role of the passage of the EEO Law, but our results suggest that the passage of the law was associated with an increase in the propensity of women to choose university over junior college.

196. Technological Superiority and the Losses from Migration, Donald R. Davis and David E. Weinstein, 2002.

Two facts motivate this study. (1) The United States is the world's most productive economy. (2) The U.S. is the destination for a broad range of net factor inflows: unskilled labor, skilled labor, and capital. Indeed, these two facts may be strongly related: All factors seek to enter the U.S. because of the U.S. technological superiority. The literature on international factor flows rarely links these two phenomena, instead considering one-at-a-time analyses that stress issues of relative factor abundance. This is unfortunate, since the welfare calculations differ markedly. In a simple Ricardian framework, a country that experiences immigration of factors motivated by technological differences always loses from this migration relative to a free trade baseline, while the other country gains. We provide simple calculations suggesting that the magnitude of the losses for U.S. natives may be quite large—\$72 billion per year or 0.8 percent of GDP.

197. The Components of the Bid-Ask Spread in a Limit-Order Market: Evidence from the Tokyo Stock Exchange, Hee-Joon Ahn, Jun Cai, Yasushi Hamao, and Richard Y. K. Ho, 2002.

This paper analyzes the components of the bid-ask spread in the limit-order book of the Tokyo Stock Exchange (TSE). While the behavior of spread components in U.S. markets has been extensively studied, little is known about the spread components in a pure limit-order market. We find that both the adverse selection and order handling cost components of the TSE exhibit U-shaped patterns independently, in contrast to the findings of Madhavan, Richardson, and Roomans (1997) for U.S. stocks. On the TSE, there does not exist an upstairs market that allows large trades to be prenegotiated or certified as on the New York Stock Exchange (NYSE). This feature of the TSE provides a valuable opportunity to examine the relationship between trade size and spread components. Our results show that the adverse selection cost increases with trade size while order handling cost decreases with it.

198. Idiosyncratic Risk and Creative Destruction in Japan, Yasushi Hamao, Jianping Mei, and Yexiao Xu, 2002.

The dramatic rise and fall of the Japanese equity market provides us with a unique opportunity to examine market- and firm-specific risks over different market conditions. Contrary to the U.S. experience, we document a surprising fall in firm-level volatility and turnover in Japanese stocks after the market crash. Accordingly, correlations among individual stocks have increased, and the number of stocks needed to achieve a given level of diversification has declined. We suggest that, as a consequence, it has become more difficult over the past decade for both investors and managers to separate high-quality from low-quality firms, making the Japanese market less efficient. It is also indicated that improvements in information efficiency occur when regulations on corporate bankruptcies are relaxed. These results suggest that the sharp fall in firm-level volatility during the 1990-1996 period could be due to a lack of corporate restructuring. This is more evident for firms with business group and main bank affiliations, whose firm-level volatility is less dependent on economic conditions than that of firms with no affiliations. Thus, we argue that a lack of "creative destruction" may have led to Japanese market inefficiency and a vicious cycle of capital misallocation.

199. Distribution Keiretsu, FDI and Import Penetration in Japan, David Flath, 2002.

An independent wholesaler with many different upstream suppliers is likely to be better at market coverage than if it were the subsidiary of just one supplier. But where wholesale efforts are focused on resolving externalities (by establishing and administering a directed marketing channel), efforts at expanding market coverage have greater marginal cost and will be commensurately retrenched, so independent wholesaling has a smaller payoff. This suggests that directed marketing channels (known in Japan as distribution keiretsu) are more likely than others to be headed by a primary wholesaler that is vertically integrated with the manufacturer. We demonstrate the empirical validity of this by showing that FDI in Japanese wholesaling is heavily concentrated in marketing channels with relatively high incidence of distribution keiretsu.

200. The Japanese Distribution Sector in Economic Perspective: The Large Store Law and Retail Density, David Flath, 2002.

This paper compiles facts on the distribution sector of Japan and puts them in historical and international context, expresses in a coherent way the conventional view that the peculiar features of Japan's distribution sector are due to distorting government regulations, and provides new evidence that bears on the truthfulness of that proposition. We find that regulation has indeed mattered, but that fundamentals like Japan's geographic centrality, lack of private cars and smallness of dwellings have had a larger effect.

#### Occasional Paper Series

The Center's Occasional Paper Series provides a written forum for exceptional presentations delivered at Center-sponsored symposia and lectures at Columbia University, as well as essays on particular topics. Papers for 2001–2002 are listed here: 46. Effectiveness and Importance of Leadership in the Changing Period, Yasushi Ueno, 2001.

47. E-commerce in the Japanese Non-Life Insurance Market, Shigeyuki Goto, 2001.

48. Can Japan's Ailing Banking System Be Cured?, Yasuhisa Shiozaki, 2002.

#### Conference, Symposia, and Distinguished Lecture Reports

The Center prepares executive summaries of its major public conferences, lectures, and symposia. The following six reports for 2001–2002 emanate from the conferences and lectures described earlier. These reports are available at the Center on Japanese Economy and Business or can be downloaded from the Center's Web site (<http://www.gsb.columbia.edu/japan>).

#### Where Does the Japanese Economy Go from Here?

Report of international conference held on November 2, 2001.

#### Intellectual Property Rights and the Prospects for U.S.-Japan Cooperation in Asia

Report of conference held on February 15, 2002.

#### Japan: Crisis or Reform—Or Both?

Report of symposium held on February 20, 2002.

#### Japan's Economic Policy Dilemmas

Report of special lecture held on April 9, 2002.  
Can Japan's Ailing Banking System Be Cured?  
Report of international conference held on May 2, 2002.

## **RESOURCES**

People are vital to the Center's success. In addition to its faculty, the Center depends critically upon other human resources without which its activities would not be possible. These include the International Advisory Board, the Center's professional and administrative staff, a select number of Japanese professional fellows, visiting fellows and scholars, and research associates who are scholars at other, mainly American research institutions, as well as research, teaching, and administrative assistants.

### **International Advisory Board**

The International Advisory Board of the Center on Japanese Economy and Business provides overall guidance for the Center. Members are distinguished leaders in the fields of Japan-U.S., economic, business, and political relations.

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In Memory of Cyrus Vance (March 1917–January 2002)

The Center on Japanese Economy and Business pays special tribute, with respect and deep appreciation, to Cyrus Vance, a member of the Center's International Advisory Board.

Mr. Vance will be best remembered for his great integrity, decency, and spirit of public service, both in his official capacity at the local, state, national, and international levels and as a civilian for his fellow New Yorkers. His concern for his fellow human beings was universal and deep.

Mr. Vance was Jimmy Carter's secretary of state from 1977 until 1980, when he resigned in protest over the rescue mission of 52 American hostages in Iran—an attempt that he considered strategically and diplomatically unwise and that proved to be a total failure as he had predicted. Under President Carter, Mr. Vance was instrumental in moving human rights to the forefront of foreign policy and negotiating the Panama Canal Treaty and the Camp David agreement establishing peace between Egypt and Israel. Earlier, he served in the Navy during World War II and as deputy secretary of defense and secretary of the Army under Presidents Kennedy and Johnson. Later, during the 1990s, Mr. Vance was personal envoy of the secretary-general of the United Nations in the Greece-Macedonia negotiations as well as in a disintegrating Yugoslavia.

Mr. Vance served as associate and partner for over half a century at the Wall Street law firm of Simpson Thacher & Bartlett until his retirement in January 1998. As a leader of the local bar and crusader for good government, he did much to advance the causes of state court reform and legal services to the poor. Mr. Vance served as a president of the Association of the Bar of the City of New York between 1975 and 1976 and was a member of the American Bar Association, the American Bar Foundation, and the American College of Trial Lawyers. In addition to maintaining an active legal career and serving on many corporate boards, among them IBM, Pan American Airways, and the New York Times, Mr. Vance served as chairman of the Japan Society from 1985 to 1993 and of the American Ditchley Foundation from 1981 to 1994 and as a trustee emeritus at the Mayo Foundation. Mr. Vance was also former chairman of the Federal Reserve Bank of New York and of the Rockefeller Foundation and former vice-chairman of the Council on Foreign Relations.

In 1969, Mr. Vance was awarded the Presidential Medal of Freedom, the nation's highest civilian award. Mr. Vance held both undergraduate and graduate degrees from Yale University, honorary degrees from over twenty American colleges and universities, and several foreign honorary degrees.

### **Professional and Administrative Staff**

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#### Japan and England Representatives

In spring 2001, Terumi Ohta assumed the responsibilities of Japan representative for the Center on Japanese Economy and Business. Kaori Kuroda-Kameya, a former Center program officer and Japan representative, assumed the responsibilities of London, England, representative. Both perform their duties of on a volunteer basis.

#### Research, Teaching, and Administrative Assistants

The Center benefits from the ability, effort, and expertise of Columbia graduate and undergraduate students who take on research, teaching assistant, and administrative responsibilities part time for the Center.

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Columbia University

Jane Kim  
B.A. Candidate  
Columbia University

Yookyung Park  
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#### Library and Data Resources

Columbia University is home to one of the largest collections of Japanese- and English-language materials in the United States. The Center evaluates Columbia University library resources, commits funding to procure new materials on Japan and the Asia-Pacific economies, and lends support to the programs of the C. V. Starr Library of East Asian Studies and the Watson Library of Business and Economics. The Center maintains a small working collection of materials on the Japanese and Asia-Pacific economies, including statistical resources, academic journals and periodicals, monographs, and videotapes in both Japanese and English. These materials are available to Columbia University faculty and students engaged in research on the Japanese and Asia-Pacific economies and business systems.

#### The Japan Databank

The Center is developing a major computer-based databank on the Japanese economy, with emphasis on financial markets, under the direction of Professor David Weinstein. The databank is a compilation of statistical resources for use by faculty and students conducting relevant research. It includes time-series and cross-section data on financial markets, institutions, and macroeconomy from Nikkei Telecom and other sources. Nikkei is an on-line news and data retrieval system that provides essential corporate and economic data as well as leading newspaper and journal articles from Japan and other Asia-Pacific economies.

## **FINANCIAL SUPPORT**

Columbia University and its Business School provide basic support for the Center by covering faculty salaries and providing office space, library and administrative support, and other necessary services. At the same time, the Center relies on external sources of financial support from foundations, corporations, and individuals for its programs and activities. Income is derived from the Center's endowment, operating and project grants, and especially from the Corporate Sponsorship Program, established in 1995. These funds are utilized effectively and managed prudently and indeed have been essential in the expansion and deepening of Center activities over the years. Academic independence has not been an issue, since there are no restrictions attached to any of these gifts. Grants from American foundations and the U.S. government-funded Japan-U.S. Friendship Commission primarily have been for specific programs or projects.

### **Corporate Sponsorship Program**

Reflecting the deep structural changes in Japan's domestic economy and management systems, the dramatic growth of the other Asia-Pacific economies, and Japan's significant role regionally and globally, the Center on Japanese Economy and Business in 1995 committed to further expansion of its activities. The Center's Corporate Sponsorship Program, established in early 1995, has been instrumental in funding this expansion and guaranteeing financial support for these activities over the long term. The Center plans to expand the Corporate Sponsorship Program of annual contributions and welcomes inquiries.

The Center is deeply gratified by the support of the following sponsors and donors:

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It is possible for Japanese corporations to receive tax-exempt treatment of their contributions through the arrangements of the Center on Japanese Economy and Business with the Council for Better Corporation Citizenship of Keidanren.

#### Core Faculty Individual Research Grants

While the Center provides some financial and administrative support for the core faculty, each has very successfully obtained individual project-based research grants, including very competitive and prestigious National Science Foundation (NSF) grants and Abe Fellowships awarded by the Japan Foundation's Center for Global Partnerships (CGP) and Social Science Research Council (SSRC).

NSF grantees include David Weinstein, who, with Don Davis of the Economics Department, has just received a second three-year grant. Schon Beechler and Lee Branstetter also received NSF grants in 2001–2002. Curtis Milhaupt was awarded an Abe Fellowship, which he will begin in fall 2002. Lee Branstetter will begin his Abe Fellowship in fall 2003. Gerald Curtis received a renewed three-year grant for his U.S.-Japan Relations Program from Toyota Motor Corporation. In 2000, Professors Merit E. Janow and Hugh Patrick received a USAID contract, which was completed in spring 2002.

#### Other Financial Support

In addition to the grants listed above, the Center acknowledges with appreciation the financial support provided over the years directly to the Center or indirectly through the APEC Study Center and the Pacific Basin Studies Program by the following organizations:

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