Survey of Impediments to Trade and Investment in Japan
－Distribution Services－

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8.1 Introduction

A distribution service is not simply a service to be directly consumed, but it makes consumption activity more effective. In other words, a distribution service helps to inform product's details such as the value and the price of goods from producers to consumers. Also, it transports goods from sellers to buyers as well. In addition, it serves producers key ideas of innovation by solving consumers' claims.

Since the distribution service deals with several products which have distinct characteristics, it has came to establish its unique distribution systems and the way to provide services. Therefore, the Government tends to set separate regulations on each differed products.

This paper focuses on Trade and Investment Barrier on a distribution service in its steps and styles. This project is carried out in order to engage further research on a Japanese service section along with the advanced investigation by T. Warren(1995). Considering the characteristics of a distribution service, it seems necessary to examine each products separately.

This paper is organized in this following order. First, it verifies the factors which a distribution service gets involved. Next, it examines and summarizes the regulations on the service, then gives some examples which is cross-regulated on numerous products or even

which is set on a specific product if it is appropriate for this investigation. After that, it will evaluate the Trade and Investment barrier, then examines the efficiency of a distribution service especially in the U.S. and Japan with the price gap in domestic and foreign market. At last, this paper comes to give an outlook how it influences on the distribution barrier to liberalize services.

8.2 The subject of the survey

Factors of the distribution service is categorized into four sections as Table 8-1.

This classification is referred from "the Table of Services" (GATT, the brief MTN GNS-W-120,1991). Warren also uses the same classes for his investigation. The numbers in parentheses are referred from tentative Central Production Category (CPC, 1991 United Nations, International Economic Social Bureau, Statistic Section, Statistic Data M－No.77). Table 8-2 shows details of each CPC in service area.

As an example, Foods retail service (631 in Table 8-2) is further divided into each foods' retailer. Therefore, we have to realize the situation that every product have a distinct regulation and that a retail service as a whole is defined as one after the differences among products are adjusted.

8.3 The Regulation on the Distribution Service

Basically, the regulation on the distribution service is not set to regulate foreign firms but rather domestic ones. It is, however, the fact that the regulation prevents foreign firms from entering the Japanese market.

There are two types of regulations, economic and social. An economic regulation promotes the market mechanism or protects small or medium-sized firms. Large-scale Retail Store Law is one example, for the Law regulates the retail market rather than a specific

product. On the other hand, social regulations are mainly for a specific product to sustain security, health and environment of citizens. Yet in reality, it is too complicated to divide economic and social regulations since several types of policies get involved at once. For instance, Tobacco Business Law has both two regulation aspects such as maintaining financial revenues for the Government as a social side and protecting small or medium-sized retail stores as an economic side. Table 8-3 shows regulation samples of distribution services with its own policy target.

With deregulatory moves, existing regulations on a distribution service have been actively reviewed. Especially after late 1980s when Japanese yen had appreciated rapidly, Japanese transaction practices and regulations were reexamined with strong public claims to correct the price inequality in and outside of the country and to reduce the transaction benefit from strong yen. The reexamination has been in the process with the goal 'basically free, but have some exceptional regulations' in economic regulation side and with 'least regulation only which is engaged with a policy' in social under a Cabinet meeting determination "Deregulation Promotion Project" in the end of March 1995.

The U.S. pointed out that the Japanese distribution system strongly contains exclusive attitude against foreign firms at 'the Conference on Structural Problems between the U.S. and Japan.' The objection has encouraged to strengthen the Fair Trade Committee's authority and to revise Large-scale Retail Store Law. In shorts, there has been foreign pressures to liberalize a distribution service.

Although all the regulations are presently in the process of reexamination, following paragraphs will discuss contents of regulations including a reexamination stance.

8.3.1 Revised Large Scale Retail Store Law

(January 1992 in force, May 1994 deregulated)

("The law to regulate retail business among large-scale retail stores" 1974 in force)

The Law controls large-scale retail stores which is going to enter the retail market in order to

protect local small or medium-sized retailers. And, it controls over four factors: the opening date, store land area, time to close, and closed days per year.

Large-scale stores are classified into the First or the Second level depending on their floor area. The First level retailers have to report their business starts to the Minister of International Trade and Industry, and the Second to the prefecture governor.

Therefore, local retailers are not authorized to make adjustments for a new entry but the Minister , the governor and an entrant are.

After the Conference on Structural Problems between the U.S. and Japan, the Law had revised in 1992 and some restrictions are eased to enter the large-scale retail business. Revised parts are:

1. widen the land range of the First and the Second level classification.

	First Level Large Scale Store
	(Floor Area to Retail Business)
The former	1,500 ㎡～ (3,000 ㎡～)
The latter	3,000 ㎡～ (6,000 ㎡～)
	Second Level Large Scale Store
The former	500 ㎡～1,500 ㎡ (500 ㎡～3,000 ㎡)
The latter	500 ㎡～3,000 ㎡ (500 ㎡～6,000 ㎡)

Note: Values for special ward or cabinet order city are shown in the parentheses.

2. establish the Large-scale Retail Store Council instead of the Conference on Business Activity Adjustment for newcomers.
3. one year limit for entry arrangement term
4. eliminate entry barrier of municipal corporation.

Revised Large Department Law helps to deregulate further on May, 1994. The main points are:

1. promise free retail businesses when the floor area is less than 1000 ㎡
2. extend the closing time for no report necessary from seven to eight in the afternoon
3. lower the limitation from forty four to twenty four days off as no report necessary

Above deregulation has increased possibility for newcomers to enter the market by reducing adjustment needs and limiting the adjustment term. However, the regulation itself still exists and municipal corporation's regulations intervenes retailers as ever.

The entrance regulation on the large-scale retail stores is not only found in Japan but in the main industrial countries.

Rowie Law in France is a typical law to protect small or medium-sized retailers by holding construction permit authority. However, the Law also contains clearness to announce whether a firm is permitted and the reason why if it is not permitted within three months from the application.

Germany also restrict capable district by construction order. Adjusting term is about three months which is shorter than the Japanese case. However, the Store Closing Law restricts business hours to whole retailers.

In the U.S. and England, a regulation does not exist which directly controls over large departments, but there are some indirect controls to protect residential environments along with the city plans.

Comparing with above countries, the Japanese Department Law has longer period for adjustments and lets municipal corporation's regulation survive. Therefore, further deregulation would be demanded to become transparent. Furthermore, the policy to protect small or medium-sized stores is not desirable any longer, while large-scale stores are partially withdrawn, small or medium-sized stores have built creative business approach, and mail order has widely succeeded. As a result, additional review on regulations may be carried out with a possibility to repeal the Large Department Law in the future. On the other hand, The U.S. Trade Representative reported in 1996 that the Large Department Law is a massive barrier for Japanese consumers to import goods from abroad. This type of deregulation pressure from the U.S. will last for a few years.

8.3.2 Small or Medium-sized Retailers' Promotion Law

Small or Medium-sized Retailers' Promotion Law(SMRP Law) was enacted in 1973 with Large-scale Department Law. SMRP Law has targeted to improve small or medium-sized retailers' management when Large-scale Department Law has restricted the entry of large-scale retailers.

SMRP Law regulates franchise contracts, for it enforces to disclose contracts when franchiser seeks franchisee. This is because in most cases franchisees are small firms and needed a risk protection they may face as an economic weak, though the Law is only effective to retail and restaurant business.

The Antimonopoly Law also regulates franchise service. Both the SMRP and the Antimonopoly Law mainly defend franchisee by demanding franchiser to open information to the public under obligation. Since the franchising environment has improved, there would not be much barrier to prevent foreign firms from entering Japanese market.

8.3.3 Resale Price Maintenance System

Resale price maintenance action is defined in the number twelve section nine in chapter two of the Antimonopoly Law as followed:

> *A manufacture fixes conditions to supply its own products without a proper reason under these situations;*
>
> *1. set the price of goods, and force to maintain its fixed price without any rights for price decision*
>
> *2. let distributor or retailer force their partners to maintain its fixed price without free price decision*

This action has been prohibited under chapter nineteen of the Antimonopoly Law. The following products, however, are specially allowed to act resale price maintenance under the number two chapter twenty four of the Law.

- specific product; the Fair Transaction Committee designate under the number 2 section 2 in chapter 24 of the Antimonopoly Law.

14 cosmetic products with retail price less than 1,030 yen

14 medical care products

- legal product; copyright products(newspapers, books, magazines, records, etc.)

Yet, specified 28 products are no longer the exception by the end of March 1997. Legal products are also discussed to be revised by the Administrative Reform Committee, and "Reexamination of Deregulation Promotion Project" on December 1996 mentioned to edit Resale Price Maintenance System over copyright products. The copyright products are classified as 'newspaper,' 'book and magazine' and 'record and others' in the argument. It has not yet came to the point to make a decision whether to sustain the System over copyright products. Therefore, various public opinions should be raised.

Resale Price Maintenance System is also found in the U.S. and Europe. Although England has the system, it has not been practiced any longer. The system itself has been totally abolished in the U.S., Canada, Australia and Sweden. Only in France and Germany, the system is practiced just for copyright products. Since 1997, Japan also allows resale price maintenance only to copyright products.

Although resale price maintenance is considered as indispensable to maintain newspaper distribution service and to protect small or medium-sized bookstores, it has to be carefully analyzed to balance out the consumer's welfare and the market price which can not be determined by market mechanism.

8.3.4 New Foods Law

('Law about equilibrium demand and price on main foods 1995
in force)

This is a revision of 'Food administrative Law' and edited on rice distribution field under competitive market theory. The New Foods Law restricts over the market entry and the price as summarized below:

(the market entry regulation)

- any distributors has a right to enter the market if they never trade a improper rice(like one in a black market).

- distributors of proper rice(private and the government's rice) are under registration system in stead of designated by the Minister of Agriculture, Forestry and Fisheries---registered distributors are required to cooperate with production controls.
- distributors are under registration system instead of licensed by the municipal governor.

(price controls)

- the Price Determination Center for the private rice determines the price indicator for the private rice through a bidding transaction.
- the Minister of Agriculture, Forestry and Fisheries determines the governmental trading price and the market price on government rice.
- the improper rice price is determined under the market mechanism.

As it is shown above, rice distribution is liberalized dramatically. However, the Fair Trade Committee observes carefully to protect retail entrants from receiving stricter requirements than the Government has set. Also, it seems necessary that the Price Determination Center manages its bidding invitation well without limitations.

8.3.5 The Liquor Tax Act

The Law controls alcohol distribution entry as followed:

- alcohol merchandise needs either an alcohol retail license(general alcohol retail license, large-scale alcohol retail license, and special alcohol retail license) or an alcohol wholesale license issued by a superintendent of a revenue office in each county.
- a general alcohol retail license contains labor capital requirement and location requirement such as the distance from an existing store. In addition, there is an annual licensing limit.
- location requirement and annual licensing limit does not exist under the Large-scale Alcohol Retailers' Law which is established for Department stores and large-scale supermarkets in 1989, but they are not allowed to provide well-purchased products such as sake and beer for the first three years.

The report from "Meeting for Political Intervention and Competition Policy Analysis" claims practical entry controls as;

- Because a Large-scale Alcohol Retail License is conferred to stores which cover an area of more than ten thousand square meters, approximately six hundred stores only are able to meet the requirement. Therefore, most supermarkets hold an general alcohol retail license and actual deregulation has not enforced adequately for supermarkets' license conferment.
- Large-scale alcohol retail license restricts merchandise on well-purchased products such as sake and beer for the first three years, but it interferes fair competition among retailers.
- Although license for convenience stores are general alcohol retail license, it is not easy to meet the distance requirement.

Also, the report of the Administrative Reform Committee (1995) advises to discontinue the balance adjustment of demand and supply by controlling store distance and number of customers, for it intervenes not only customers' convenience but the business modernization. Also, the report claims to exclude sweet rice wine from alcohol list since it is mainly used as cooking spice.

8.3.6 Tobacco Business Law (1984 in force)

The Law controls over the entry and the price in the tobacco market as below:

(entry regulation)

- Importers(specified dealers) and wholesalers have to register to the Minister of Finance.
- Retailers have to receive permission from the Minister of Finance in every retail area. And the permission restricts distance from other stores and proposed dealing balance as well as labor capital.

(price regulation)

- When JT sells tobacco to retailers, it has to be permitted by the Minister of Finance on the price which consumption tax is added(highest sales price). Also, JT and importers also need permission on fixed retail price for their business.
- Retailers are not allowed to trade at different price from the fixed one except for a special situation, otherwise punished

Although practical entry regulation allows wholesale business, wholesalers do no deal

domestic tobacco since it has been directly traded only between JT and retailers. Comparing with the number of registered dealer, specified dealers and wholesalers trade imported tobacco a lot less than they are allowed. The controls are originally established to organize the distribution upheaval from monopoly break down ten years ago, so it seems unnecessary to enforce them any longer.

8.4 Valuation on Trade and Investment Barrier

8.4.1 Draw A Checking Table

Table 8-4 shows the valuation result of distribution service with all the analyses explained above chapters. The number in Table 8-6 means:

1.0: no restriction, 0.0: several restrictions 0.5: others

Each row represents:

upper row: evaluation by Tom Warren (1995)

middle row: evaluation based on the Law

lower row: evaluation from the actual conditions

The mode 1～4 is valued under following conditions:

mode 1; Cross-border supply

service in Japan by foreign distributors

mode 2; Consumption abroad

service for Japanese in foreign countries

mode 3; Commercial presence

service by foreign distributors from Japanese business base

mode 4; Presence of natural persons

service by foreign distributors for foreign labor in Japan

8.4.2 Frequency

Owning to Warren, frequency measures degree of barrier and there are two ways to measure. One is a calculation which includes the point 0.5 and the other excludes the point 0.5. The result of frequency test represents that closer the result goes to zero, less barrier there is on trade and investment. Also, closer it goes to a hundred, stricter the barrier is.

Using the above checking table, test frequency in each cases.

(T. Warren)

100 - (20 / 32) * 100 = 37.50 (exclude the point 0.5)

100 - (26 / 32) * 100 = 18.75 (include the point 0.5)

(The Law)

100 - (16 / 32) * 100 = 50.00 (exclude the point 0.5)

100 - (24 / 32) * 100 = 25.00 (include the point 0.5)

(The actual condition)

100 - (16 / 32) * 100 = 50.00 (exclude the point 0.5)

100 - (23.5 / 32) * 100 = 26.56 (include the point 0.5)

8.4.3 Evaluation on the Trade and Investment Barrier

First, let's discuss the evaluation by T. Warren. He determined it based on a table of Japanese specific promise on "The Second Protocol**,** General Agreement on Service Trade" WTO. He used the promise table which also referred to his evaluation number:

"none" equals 1.0

"unbound" equals 0.0

" others" equals 0.5

As a result, frequency becomes 37.50 (18.75 when the equation includes the point 0.5). It

means that leisure, travel, construction, information•communication, and computer services are determined as lowest barrier field in Japanese service industry.

However, the promise table says “in the specific promises of distribution service, services which deal with oil, rice, tobacco, salt and alcohol, and services in the public retail market are excluded.” It means that services which are raised in this investigation are not considered as subjects of liberalization. Therefore, it is questionable to take his evaluation into account as actual barrier condition. Then, the lower 2 rows of the table 6 shows the degree of barrier from the Law and its actual practices to support our understanding.

The Law values market accessibility of mode 3 on business basis differently from T. Warren. As the promise table shows above, some of distribution services are excluded from the list, and those excluded services may be key factors to determine the real situation. After analyzing political regulations, it may not be impossible but very difficult to provide distribution service from business basis in Japan. Therefore, 0.5 is corrected to 1.0 in this valuation equation. Also, those political regulations make it difficult to enter the market not only for foreign firms but for Japanese firms as well. In addition, the mode 3 which bargain Japanese in Japan is interpreted to restrict indiscriminately in and outside of the country. Therefore, it seems right to correct the point 0.5 to 1.0. Yet, a common promise in the promise table says “no promise is made on aids for research and development.” In short, mode 3 differs its ground such as market accessibility and the treatment of Japanese in Japan, though the point 0.5 stays the same. As a result, frequency turns out 50.00 (25.00 when the point 0.5 is calculated). It shows the valuation on Trade and Investment barrier is higher than that by Warren.

Lastly, the valuation from the practical aspect varied from other grade in following points. First, it is predicted that claims on the Law and stricter regulation will raise market accessibility mode 3 of retail service 4C. Secondly, foreign firms will hardly have opportunity to start their business in Japan with less than 500 square meters in area (1,000 square meter at present) which is least area to be regulated under Large-scale Retail Store Law even though the Law does not mean to defend foreign entry straightway. Therefore, the U.S. has criticized the Law at the Conference of Structural Problems between the U.S. and Japan.

Then, the point 0.5 is counted as 0.0 only in the market access factor. The other factor is under the same condition as valuation based on the Law. Frequency test resulted 50.00 when it excludes the point 0.5 from calculation which is equivalent to the valuation by the Law, but the barrier is determined very high as 26.56 when it includes 0.5.

The value 50.00, including the point 0.5, represents that it is the same degree of barrier as real estate service comparing with Warren's valuation. However, the degree is quite low in the service industry as a whole. Closure and inefficiency in a distribution service market have been blamed with a research on Japanese-style transaction behavior and numerous steps system of its organization. Compared with other services, the barrier on Trade and Investment, however, is concluded as not so high. It seems far from our realization.

Evaluation on the barrier in this investigation is on wholesale, retail and franchise dealers. As it is notified several times, each product have distinct system and regulation, and the evaluation is standardized after all the high and the low degree of barrier are counted. That is why there might be some gap between our realization and evaluation.

8.5 Inspection on the Wide Gap between Domestic and Overseas Prices

Actually, it is very difficult to inspect the price gap in domestic and foreign distribution markets since all the data is not collectable. The past project also researched and compared international retail prices of a specific product rather than a price in the whole distribution service. When the wholesale price is the same but the retail price is varied, that difference is considered as the gap among distribution costs. However, the wholesale price is not necessarily the same in an international market and the consumption level in each country is differed on the same product. In addition, there is exchange rate problem which always exist in the international market. Also, products' quality is not standardized among countries. In short, the retail price differences does not simply mean the price inequality between domestic and overseas market.

After understanding these situations, let's discuss two surveys of price gap on goods

and services investigated in 1996.

(1). Economic Planning Agency "Survey of the price gap between domestic and overseas market on main goods and services" July 1996

This research was carried out in order to see the price gap especially on goods and services among the U.S. and European nations.

There are 34 subjects of survey .It was surveyed on December 1995 and used 1995 average exchange rate from "International Financial Statistics" IMF.

Table 8-5 is a result of price gaps among main cities. The overall price rate is calculated as double-mean value using consumer price index in Tokyo with 1990 bench mark.

Analyzing the table, we notice that the price gap rate is higher on Foods and Clothing than anything else. Also, the rate is higher against the U.S. than Europe. The overall rate is only 1.34 against Europe, but 1.69 against New York. Moreover, a local city St. Louis is rated 2.07 which is wider gap than one in metropolises.

Table 8-6 shows the trend of price gap by comparing the previous research on New York prices in 1990, but capable good s for the comparison is decreased from 31 to 27 in this research. On this table, the fluctuation rate on the price gap explains whether the gap between Tokyo and New York gets greater since 1990. When the rate is negative, it means the price gap has shrunk. Also, the purchasing power parity explains how much it costs by yen to buy a product for one dollar. The converted rate on the table shows annual mean rate of change on purchasing power parity since the previous research. It is considered as a rate which removed exchange rate bias along with a price gap movement. In turn, when the converted rate is positive, it means that the Tokyo price at local currency declined relatively compared with the New York price.

Six products out of twenty seven on Table 8-5 shrunk its price gaps. Also, ten products out of which widen price gaps has bettered based on purchasing power parity determination. On the other hand, many products on Clothing and Services expanded their price gaps. In 1990 and 1995 when the researches were carried out, exchange rate increased

by more than 30 percentage from 144.79 to 94.06 yen per one dollar. While the rapid yen's appreciation has encouraged to enlarge the price gap, 16 investigated products out of 27 lowered their prices. In short, price gap in domestic and overseas markets as a whole tends to shrink lately.

(2). The Ministry of International Trade and Industry "Research on Goods and Consumer's Services in Domestic and Overseas Markets" September 1996

This research had examined price gap in Tokyo versus cities in the U.S. and Europe on January-February 1996. Subjects of this research are 100 products consisting of 83 goods and 17 consumer's services. Table 8-7 shows its result.

The price gap is greater with the U.S. than Europe resulting 1.46 times with the U.S. and 1.19 times with Europe. Comparing with a research in 1995, the gap shrunk owing to the yen's appreciation modification. Also, the result has the same trends with the price rate of 1995 investigation which Economic Panning Agency released in 1996.

The wide gap exists on Energy, Services and Clothing, but the price of Camera and Home Electric products does not have a gap.

As a result, we can see the situation that strictly regulated goods (some cosmetic products are resale designated) and services have greater price gap, but competitive products such as home electric products have slight gap since private bland goods and discount stores has raised competition level.

We have examined two researches on the wide gap between domestic and overseas prices published in 1996. After comparing retail prices on major goods and services, we can conclude that the gap is wider against the U.S. than Europe. Both researches resulted 1.3 times in Europe and 1.6 times in the U.S. at 1995 prices. Therefore, the price gap in Tokyo against the U.S. can be considered as 1.6 times if other things are fixed.

Moreover, it is obvious that regulated products which restrain price competition have wide price gap and that competitive products have only slight or no gap.

8.6 The Price Gap on Distribution Service in Domestic and Foreign Market

The wide gap especially in retail prices has been examined indirectly by using researches on the gap between domestic and overseas prices. This section will examine the price gap directly on distribution service.

(1). W/R ratio

W/R ratio (wholesale and retail ratio) is defined as:

$$W/R = \frac{\text{total revenue of wholesale}}{\text{total revenue of retail}}$$

This measures degree of distribution steps in a general distribution service. Then, the ratio helps to determine distribution effectiveness and the price gap especially of retail services.

Table 8 shows W/R ratio in Japan and the U.S.

Since the same investigation was practiced only in 1982 for the past fifteen years, there is a difficulty to compare Japanese and the U.S. conditions. Therefore, this argument will ignore the time differences. Japanese W/R ratio is as three times as the U.S. ratio on the table, and it suggests the Japanese distribution system as multistage and inefficient. If this ratio is considered as the price gap in retail services, the gap against the U.S. turns out surprisingly 3.62 times. However, we have to notice the following two points of W/R ratio definition.

At first, total revenue of wholesale contains revenues from industry and import business. Fundamentally, we have to look only at domestic consumption to determine efficiency of Japanese distribution market. Therefore, W/R ratio is redefined as:

total revenue of wholesale - revenue from import and industry sales

total revenue of retail

Then, this redefined ratio of Japan becomes:

1991 2.67

1994 2.46

The ratio is redefined slightly lower than that of the former definition. The price gap also decreases to 2.48 times.

W/R ratio can be rewritten as followed:

$$\frac{W}{R} = \frac{\text{revenue per one wholesaler}}{\text{revenue per one retailer}} \cdot \frac{\text{amount of wholesale stores}}{\text{amount of retail stores}}$$

For instance, original W/R ratio and above two redefinition of Japan(1994) and the U.S.(1992) are:

	original W/R	first W/R	second W/R
Japan	3.56	12.54	0.29
U.S.A	0.99	3.50	0.28

Second W/R (density ratio of wholesale and retail stores) does not have much difference, but first W/R is greater in Japan since small-scale retail and large-scale wholesale is major business in Japan. Therefore, W/R ratio gets higher in Japan as an inevitable consequence. Since the W/R ratio is influenced by wholesale and retail productivity in each store scale, it is not necessarily an index to measure degree of distribution steps.

Table 8-9 and 8-10 shows each store scale distribution structure both in wholesale and retail in Japan and the U.S.

Wholesale structure in Japan and the U.S. does not varied by comparing each scaled store amount. On the other hand, when we look at annual revenue, there is a difference. In Japan, stores with more than fifty employees get greater than fifty percent of total stores amount. Compared with the U.S, medium-scale stores (ten to forty nine employees) and large-scale stores (more than fifty employees) have the same weight. In the U.S.A,

medium-scale stores do well unlike in Japan. Wholesale productivity (revenue per one store) is higher in Japan in every scale, and it is twice as a whole.

Retail structure varied dramatically between Japan and the U.S. In Japan, small scale stores with less than ten employees hold ninety percent of total stores. Although small scale stores also have great percentage in the U.S.A, it is not as remarkable as in Japan. Annual revenues are also different. Japanese small-scale stores share equally with other scales but the U.S. large-scale stores have high market share. Retail productivity in Japan is low only in small-scale stores (one to four employees). However, the unproductive small stores have more than eighty percent of total retail stores. That is why the Japanese retail productivity is approximately half of that in the U.S. Other than that, everything else is higher in Japan, so the low productivity in Japan becomes unique characteristics.

Overall, there are more large-scale stores in a wholesale market and more small-scale in a retail market as a Japanese structural feature. Although the W/R ratio implies Japanese distribution system as ineffective, that is because small stores are the major retail source in the Japanese retail market. In fact, other wholesale and retail productivity are greater than those in the U.S. In this section, a goal was to measure the price gap directly, but W/R ratio is not capable for that matter. However, efficiency of Japanese distribution service is not low except for one part, and that makes it possible to assume the gap won't be wide.

(2). Distribution Margin Rate

Lastly, let's discuss the distribution margin rate. This indicates a price itself. The margin rate is:

$$\text{Distribution Margin Rate} = \frac{\text{distribution margin}}{\text{final price for consumers}}$$

$$= \frac{\text{final price for consumers - producers selling price}}{\text{final price for consumers}}$$

When wholesale, retail and transportation businesses are taken into consideration:

Distribution Margin Rate

= Business Margin Rate + Transportation Margin Rate

There are problems of margin rate calculation. Let us study the problems and the actual state based on claims by Nishimura (1996).

Note some points for a calculation using the Industry Table on the bench mark year as followed:

① Mending Service

A part of mending service is categorized into Manufacture not into distribution service. Therefore, the margin rate turns out lower than it should be.

② Manufacture Wholesaling as a Side Job

When a main branch and business bases run wholesale business as well, they are categorized into Manufacture. The margin rate again gets lower.

③ the Government Administrating Distribution

Distributions of rice and tobacco are controlled by the Government, so the margin rate decreases when these products are counted into the calculation.

After these points are taken into consideration, the comparison of distribution margin in Japan and the U.S. becomes as Table 8-11.

If distribution margin rate is regarded as relative price of distribution services, it is cheaper in Japan in the past even though it is more expensive recently especially on Investment. However, it is a fact that Japanese rate increased rapidly in this past thirty years. Because small-scale retailers had not eliminated under the Government protections, all these situations caused to keep raising the price on distribution services.

8.7 Conclusion

With liberalization moves and appreciating yen's power for this ten years, imports have been flowing into domestic markets with its cheaper price. Also, Japanese tourists and workers flow out endlessly to abroad especially to the U.S. and Europe in the global economy, and they have experienced societies with lower price level. Therefore, Japanese consumers have noticed the wide gap between domestic and overseas prices.

As it is proved in this paper, the price gap on goods and services is found very high against the U.S. Also, inefficient distribution system was thought as the cause to raise retail prices in Japan. As long as studying W/R ratio, we can conclude the situation that multistage distribution system raises the distribution cost, in turn, the retail price also reflects to increase its price. However, the wide gap does not necessarily exist as distribution margin rate backs up the hypothesis. Rather Japanese distribution system is determined as not inefficient at all and the price gap does not exist, since margin rates of Japan have been lower than that of the U.S.

Yet, it is also the fact that the Japanese margin rate has increased rapidly, and the cause of this increment should be cleared. Nishimura pointed out that distribution service has raised its price because its low productivity widen the productivity gap with manufacturers. Also, he said that entry regulation on large-scale stores and taxation system favoring small or medium-scale retailers have encouraged higher distribution price by constructing small-scale stores centered retail structure.

The Third Industry including distribution service is originally labor intensive industry. Therefore, every nations face the productivity gap between the Third Industry and Manufacture along with technology development. That is why it seems unreasonable to explain high prices of distribution service by productivity gap.

High price of distribution service is rather the result of regulations which prevent small-scale stores from competing in an international market and which give excess protection toward the inefficient small-scale stores. In fact, small-scale retailers hold large share of the total retail and wholesale store amounts in Japan, and that must have led low productivity among whole retail market. Small-scale retailers still have a large share even though the actual store amount decreases recently, for the Large-scale Retail Store Law and the entry regulation

on large-scale retail stores have been enforced after Department Store Law was abolished before World Wars. Moreover, Japanese consumers' behavior must have unintentionally supported small-scale retailers by purchasing small amount of good s and services frequently, for there are some incapable parts to explain only with regulation interventions. Those are the situation that more retail stores exist in Japan where contains only one twenty-fifth of the U.S. land surface and which population is less than half of it in the U.S.

In distribution service business, deregulation is actively employed rather than liberalization, and some regulations are actually repealed. In this movement, Large Department Law has deregulated repeatedly. Owing to entries of domestic large-scale stores and foreign retailers, small or medium-scale retailers will weight less in the future. Also, it is necessary to change Japanese purchasing behavior in order to construct new retail system like one in the U.S. Although very small-scale retailers will be eliminated under competitive market mechanism, general small or medium-scale retailers will still survive. Also, wholesalers which deeply relates to retail business may receive no influences of deregulation. In turn, the efficiency determined by W/R ratio will still sustain or even worsen inefficient level.

At last, it is the fact that foreign firms will have great difficulties to enter Japanese market when regulations on distribution service have strong power. Also, it is obvious that small retailers keep lower productivity than other stores with the Government protection. However, the price gap in domestic and foreign market is not that wide than we tend to think. Although distribution service market becomes more competitive with further deregulation, it may not be possible to prove the improvement by actual indexes.

Table 8-1 Distribution Services

4 ; Distribution Services

4 A : Commission Agents

(621, a part of 6111, a part of 6113, a part of 6121)

4 B : Wholesale Trade

(622, a part of 6111, a part of 6113, a part of 6121)

4 C : Retailing

(613, 631, 632, 6112, a part of 6113, a part of 6121)

4 D : Franchising

(8929)

4 E : Other

Table 8-2 Corresponding CPC
(CPC：Provisional Central Product Classification)

Section 6 ；Trade Services：Hotel and Restaurant Services

exclusion：A Class or a group of “Maintenance and Repair” （Class No.6112，Group No.633）and divisions of “Hotel and Restaurant Service”（Division No.64）

Group	Class	Subclass	
Division 61			Sale，Maintenance and Repair Service of Motor Vehicles and Motorcycles
611			Sale，maintenance and repair services of motor vehicles；sales of related parts and accessories
	6111		Sales of motor vehicles
		61111	Wholesale trade services of motor vehicles
		61112	Retail sales of motor vehicles
	6113	61130	Sales of parts and accessories of motor vehicles
612			Sale，maintenance and repair services of motorcycles and snowmobiles；sales of related parts and accessories
	6121	61210	Sales of motorcycles and snowmobiles and related parts and accessories
613	6130	61300	Retail sales of motor fuel

Division62	Commission Agents' and Wholesale Trade Services, Except of Motor Vehicles and Motorcycles
621	Commission agents' services
622	Wholesale trade services
Division63	Retail Trade Services；Repair Services of Personal and Household Goods
631	Food retailing services
632	Non-food retailing services

Section 8；Business Services；Agricultural, Mining and Manufacturing Services

exclusion： Division No.81～88 and group of "Financial Assets and Liabilities"（Group No.891） and Classes of "Patents", "Trademarks", "Copyrights"（Class No.8921～8923）

Group	Class	Subclass	
Division 89			Intangible Assets
892			Non-financial intangible assets
	8929	89290	Other non-financial intangible assets

Table 8-3 Main Regulations on Distribution Services

Economic Regulations

The Large Scale Retail Store Law

The Small or Medium - sized Retailers' Promotion Law

Resale Price Maintenance System
(an exception of the Antitrust Act)

Social Regulations

- For the safety of life
  - The Explosives Control Act
  - The Liquefied Petroleum Act
  - The Drugs, Cosmetics and Medical Instruments Act
  - The New Foods Act (The Food Sanitation Act)
  - The Agricultural Chemicals Control Act
  - The Fertilizer Control Act
  - The Staple Food Control Act
- For the removal of wicked trader and the prevention of crimes
  - The Antique Dealings Act
- For the guarantee of the public revenue source
  - The Liquor Tax Act
  - The Tobacco Business Act
- For Other purpose
  - The Government Monopoly in Salt Act

Table 8-4 Chuck List

Treatment		Mode	Market Access			National			
			1	2	3	4	1	2	3
4									
4A	Commission Agent	Warren	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		Legally	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		Actually	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
4B	Wholesale Trade	Warren	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		Legally	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		Actually	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
4C	Retailing	Warren	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		Legally	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		Actually	1.0	1.0	0.0	0.5	1.0	1.0	0.5	0.5
4D	Franchising	Warren	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		Legally	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		Actually	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5

Table 8-5 Domestic Price Differentials in Tokyo

(Times)

Goods／Sevices	**to New York**	**to St.Louis**	**to Europe**
Non-glutinous Rice, standard price	2.13	2.91	2.36
White Bread	1.06	1.57	1.71
Spaghetti	1.15	2.22	2.37
Salmon	1.56	2.17	1.24
Milk	1.82	2.12	1.87
Hen Eggs	1.73	2.03	0.83
Onions	1.68	1.29	1.70
Oranges	2.53	3.46	2.35
Bananas	1.19	1.47	1.44
Granulated Sugar	2.76	3.17	2.25
Tea	2.64	2.88	2.27
Cola Drinks	2.40	3.31	2.19
Hamburgers	1.65	2.10	1.23
Bier	2.74	3.50	2.61
Men's Suits (for autumn and winter)	1.88	1.94	1.39
Skirts (for autumn and winter)	2.29	2.11	1.33
Men's Business Shirts (long sleeves)	1.26	1.56	1.28
Men's Briefs	1.37	1.59	0.50
Men's Leather Shoes	1.47	1.62	1.20
Facial Tissue	0.54	0.70	0.34
Gasoline	2.87	4.48	1.18
TV Sets	1.37	1.88	0.76
Video Tape Recorders	1.45	1.41	0.62
Color Films	0.94	1.58	0.95
Compact Discs	1.65	2.11	1.33

Magazines	1.70	1.36	1.08
Dry Cleaning Charges(men's suits)	1.54	1.37	0.91
Domestic Help	1.01	0.70	0.98
Hotel Charge	1.06	1.08	1.05
Admissions, Movies	2.52	3.06	2.16
Photo Printing	0.48	1.45	0.55
Video Rental Fees	1.50	1.51	0.95
Men's Haircut Charges	1.36	2.36	1.18
Permanent Wave Charges	1.33	1.19	0.95
Total	1.69	2.07	1.34

Note).Europe consists in London, Paris, Berlin, Geneva.

Source).Economic Planning Agency(1996).

Table 8-6 Comparison between the Last and this Search (to New York)

Goods／Services	Increase or decrease in price differentials	Improvement rate in P.P.P.（%）
White Bread	0.22	3.86
Spaghetti	-0.49	14.52
Milk	0.23	5.86
Hen Eggs	0.21	5.60
Onions	0.41	2.90
Oranges	0.19	6.79
Bananas	-0.10	9.76
Granulated Sugar	0.98	-0.12
Tea	1.06	-1.58
Cola Drinks	0.99	-2.22
Hamburgers	0.49	0.05
Men's Suits (for autumn and winter)	0.60	-2.95
Skirts (for autumn and winter)	1.05	-6.67
Men's Business Shirts （long sleeves）	0.57	-6.24
Men's Briefs	0.04	7.88
Men's Leather Shoes	0.64	-2.94
Facial Tissue	-0.07	10.38
Gasoline	-0.16	9.25
ＴＶ Sets	-0.33	13.32
Video Tape Recorders	-0.03	9.07
Compact Discs	0.17	6.08
Magazines	0.65	-1.03
Dry Cleaning Charge(men's suits)	0.65	-2.40
Domestic Help	0.40	-1.34

Admissions， Movies		
	1.03	-1.82
Photo Printing	0.09	4.37
Permanent Wave Charges		
	0.45	0.54

Source).Economic Planning Agency(1996)

Table 8-7 Domestic Price Differentials in Tokyo

(Times)

Goods／Services	**to U.S.A.**	**to Europe**
Camera & Home Electric Products		
	0.99	0.66
Cars	1.01	0.77
Foreign Cars	1.33	1.10
Clothing	1.67	1.30
Clothing	1.45	1.44
Shirts・Underwear	1.65	1.15
others	2.01	1.17
Others	1.07	1.01
Cosmetic Products	1.40	1.17
Domestic Utensils	0.88	0.83
Personal Effects	1.03	1.09
Stationery・Toys	1.15	1.17
Sporting Goods	1.43	0.96
Energy	1.73	1.46
Publications・Software	1.56	1.16
Services	1.71	1.40
Total	1.46	1.19
(Last year)	1.64	1.34

Note).U.S.A.：Simple average of New York and Los Angels.
Europe：Simple average of London, Paris and Frankfurt.
Source).M.I.T.I.(1996)

Table 8-8 W/R Ratio
(Japan and United States of America)

Japan	**Year**	**1982**	**85**	**88**	**91**	**94**
	W／R	4.24	4.21	3.89	4.02	3.59
U.S.A.	**Year**	**1982**		**87**		**92**
	W／R	1.12		0.99		0.99

Source).Japan：Ministry of International Trade and Industry, “1994 Census of Commerce”.
U. S.A.：U.S. Department of Commerce,
“1992 Census of Wholesale Trade”,
“1992 Census of Retail Trade”.

Table 8-9 Employment Size of Establishments for Merchant Wholesale Trade (Japan and United States of America)

Japan 1994

Employment Size (number)	Establishments (%)	Sales (%)	Sales per a establishment (¥ million)
1～ 4	45.0	5.1	134.5
5～ 9	28.0	10.5	450.4
10～49	24.2	33.3	1,649.1
50～	2.8	51.1	21,953.0
100～	0.8	38.6	55,281.8
Total	429,302 (number)	514,316,863 (¥ million)	1,198.0 (¥ million)

United States of America 1992

0～ 4	43.1	8.1	11.4
5～ 9	25.2	11.8	289.2
10 ～49	28.1	40.1	881.4
50～	3.6	40.0	6,841.7
100～	1.1	25.4	13,793.7
Total	370,636 (number)	228,923,543 (¥ million)	617.6 (¥ million)

Note).The number of employment do not include a manager in U.S.A.

Average exchange rate in 1992 is $ 1 = ¥ 126.65.

Source).Japan：Ministry of International Trade and Industry, "1994 Census of Commerce".

U.S.A.：U.S. Department of Commerce, "1992 Census of Wholesale Trade".

Table 8-10 Employment Size of Establishments for Retail Trade (Japan and United States of America)

Japan 1994

Employment Size (number)	Establishments (%)	Sales (%)	Sales per a establishment (¥ million)
1～ 4	75.7	23.3	29.4
5～ 9	14.8	20.2	130.3
10～49	8.8	33.3	362.7
50～	0.7	23.2	3,302.2
100～	0.2	16.2	8,107.5
Total	1,499,948 (number)	143,325,065 (¥ million)	95.6 (¥ million)

United States of America 1992

0～ 4	40.4	8.6	37.5
5～ 9	26.8	13.2	87.1
10～49	27.6	13.6	86.8
50～	5.2	44.2	1,506.4
100～	1.6	25.7	2,784.1
Total	1,309,420 (number)	231,191,624 (¥ million)	176.6 (¥ million)

Note).The number of employment do not include a manager in U.S.A.

Average exchange rate in 1992 is $ 1 = ¥ 126.65.

Source).Japan: Ministry of International Trade and Industry, " 1994 Census of Commerce ".

U.S.A.: U.S. Department of Commerce, " 1992 Census of Retail Trade".

Table 8-11 Business Margin Rate and Transportation Margin Rate

JAPAN	**1965**	**1970**	**1975**	**1980**	**1985**	**1990**
U.S.A.	**1965**	**1967**	**1972**	**1977**	**1982**	**1987**
1. **Consumer Goods**						
Japan(Except on rice, tobacco)						
Business Margin Rate(%)						
	27.4	30.0	32.9	35.2	36.9	36.9
Transportation Margin Rate(%)						
	2.4	1.7	1.8	2.0	1.7	2.0
Distribution Margin Rate (Sum total)						
	29.8	31.7	34.7	37.2	38.6	38.9
U.S.A.						
Business Margin Rate(%)						
	35.3	37.5	36.3	35.7	35.5	37.2
Transportation Margin Rate(%)						
	3.9	3.1	2.2	1.8	1.7	1.7
Distribution Margin Rate (Sum total)						
	39.2	40.6	38.6	37.5	37.2	38.9
2. **Investment Goods**						
JAPAN						
Business Margin Rate(%)						
	10.7	14.6	16.0	17.1	14.8	18.4
Transportation Margin Rate(%)						
	1.4	1.0	1.6	1.1	1.0	1.3
Distribution Margin Rate (Sum total)						
	12.1	15.6	17.6	18.3	16.0	19.8
U.S.A.						
Business Margin Rate(%)						
	13.1	11.0	11.4	14.8	13.3	13.6
Transportation Margin Rate(%)						
	1.7	1.5	1.4	1.2	1.2	1.2
Distribution Margin Rate (Sum total)						
	14.7	12.4	12.8	16.1	14.5	14.8
3. **Export Goods**						
Japan						

Business Margin Rate(%)					
5.5	6.0	4.5	4.9	6.8	4.7
Transportation Margin Rate(%)					
1.1	1.0	0.9	0.9	0.8	1.1
Distribution Margin Rate (Sum total)					
6.6	7.0	5.4	5.8	7.6	5.8
U.S.A.					
Business Margin Rate(%)					
6.9	7.5	7.6	9.7	9.4	9.5
Transportation Margin Rate(%)					
4.7	4.1	4.3	3.0	3.7	3.1
Distribution Margin Rate (Sum total)					
11.6	11.6	11.9	12.7	13.1	12.6

Reference).Nishimura(1996)