

ROMANIAN ECONOMIC AND BUSINESS REVIEW

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The *Romanian Economic and Business Review* is the first peer-reviewed Romanian journal in the field of economics and business. This journal intends to provide a forum for academic analysis of the economic phenomena and institutions affecting the world economy in general, and Romania, in particular. *REBE* examines a wide variety of phenomena related to economic growth and business development and attempts to publish high quality research focusing on the role of institutions and public policy, within both a national and international context. *REBE* encourages cross-disciplinary research work of Romanian and foreign scholars.

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CONTENTS

REFLECTIONS

SYMPOSIUM: MULTIDISCIPLINARY PERSPECTIVES ON JAPAN'S ECONOMY AND SOCIETY

Editorial

FLORIN BONCIU

The Japanese Concept of Sustainable Development at a Global Level 7

Articles

HIROMASA KUBO

Recent development of japanese economy and its impact on japanese 14

LORENA POENARU

Law System in Japan..... 19

STELA TOADER

Considerations regarding the japanese tax system..... 25

ELENA BOTEZATU

EU – ASEAN FTA: regional cooperation for global competitiveness..... 35

GHEORGHE CARAIANI, MADUȚĂ GYONGYVER

Ethics in japanese business environment 45

ILIUȚĂ COSTEL NEGRICEA

Japanese consumer behaviour - general view 53

IUSTINA LUȚAN Japan and the OECD - A Lesson for Romania	60
BOGDAN GLĂVAN Japan's economy from boom to bust.....	67
VLAD CÂRSTEA Japanese cars' potential in Romania	72
GEORGIANA SURDU How japanese run their businesses?.....	77
SORINA COSTACHE, BOGDAN OPREANU The legacy of the kamon in the japanese management.....	83
VALERIU POTECEA Considerations on cross cultural negotiations.....	93
RALUCA BUGHEA The european social model.....	104

**THE JAPANESE CONCEPT OF SUSTAINABLE
DEVELOPMENT AT A GLOBAL LEVEL**

*Florin Bonciu**

Overview

After the end of the Second World War Japan was not only a defeated country but also a country that experienced the unimaginable shock of the atomic bombs. Despite all that, Japan succeeded to become the second economic power in the world and many people spoke about “The Japanese Miracle”. The miracle was even greater due to the fact that the country does not have many natural resources and therefore the Japanese development relied on Japanese human resources development.

The post war Japanese development has been impressive but not perfect in the sense that it generated, as well as in other countries, various forms of environment pollution. Japan is aware of this situation and this is why Japan supports a global approach to reducing pollution and designing a sustainable development strategy.

The Japanese specific related to a concept of sustainable development is that development is related to human development and the idea of sustainability is related to a global approach. Development with less pollution is a problem for all countries and all people of the world, not only for developed countries.

In this context Japan was to share its experience in development as well as in avoiding future mistakes. Based on this Japan has taken steps in drawing up and concluding the Kyoto Protocol and in leading efforts against global warming.

The sustainable development at a global level is seen by Japan as being:

- diverse in its solutions (each country may have problems and solutions that are different from others);
- related to good governance aimed at eradicating poverty and promoting liberalization and development of trade and investment;
- based on programs that are owned by the respective countries;
- supported by the experience of developed countries but without understanding by this a substitution of the efforts of the respective countries.

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Japanese view on relation between development and environment

Nature In The Shinto Tradition

In order to understand the position of Japanese people vis-à-vis nature and environment it is necessary to understand Shinto. Shinto is Japan's oldest and native tradition which expresses the basic spirituality of the Japanese people. Shinto reflects the respect for nature and its powers, the respect for ancestors as well as the sense of dependence of people upon nature seen in the flow of the seasons and the cycles of agricultural activity.

In Japan the traditional community life was centered around the local shrine (called **jinja**) which can be translated as “The place of **kami**”. The Japanese concept of **Kami** is often translated by Westerners as 'God' but this translation is not quite correct.

Anyway, for Japanese “**kami**” means any object, place, person or even creature who inspires a sense of wonder and respect. Therefore the concept of **Kami** can include trees, waterfalls, animals, the sun, moon, oceans or mountains. According to Japanese approach people can perceive the divine through these particular manifestations. In consequence, a shrine is a place where **kami** are celebrated in festivals and where the people symbolically make their offerings, report on their activities and seek the purification which will free their enterprises from misfortune and distress, thus enabling them to fulfill their human potential. As result, shrines are places and not buildings, such as churches or temples.

Due to this holistic content of **Kami** the idea of an opposition or confrontation between man and nature was absent from Japanese thought. In Japanese understanding, man and **Kami** (which includes nature) were seen as a continuum, as manifestations of the same Universe which are in a relationship of mutual dependence.

If this is the Japanese philosophy on man and nature and universe one could expect a type of society completely integrated with nature. But modern Japan do have problems with pollution. The question may be: Was Shinto forgotten ? The answer is a clear “No”.

But one has to remember that Japan has very few resources among them being also land. With a population of 128 million people, Japan is located on a land space representing about 25 % of the size of California. Development after the Second World War could not have been possible without an impact on environment.

But in the last decades the Shinto approach is coming back helping people understand their origins and their need to seek harmony with all that is around. The modern Japanese concept of development means that the people and society are in a state of creative equilibrium with the universe. In Shinto to speak of nature means to speak of harmony, well-being and peace. To achieve these means to respect and achieve “The way of Kami” (**kannagara**).

Sustainable development and positive attitude

In order to understand the positive attitude of the Japanese concept of sustainable development it is important to understand two other aspects: Shinto and renewal and Shinto and human nature.

Shinto and renewal.

Rebuilding and renewal are basic parts of Japanese culture. The centuries of Japanese life with Shinto rituals at the heart of the community have determined a way of thinking that helped the Japanese people face man-made or natural catastrophes with determination and the belief that it is in human power to successfully rebuild homes, cities, societies.

Shinto and human nature.

Shinto implies the view that human nature is essentially good. One illustration used by a 19th century Shinto leader was that of a mirror. Human nature should shine like a mirror. But if it becomes covered with dust, it ceases to sparkle. Once the dust is removed, it begins to shine again. Dust can continue to collect and so it must be removed from time to time.

The same can be conceived at a larger scale, for the whole economy and society. The message is that things can be cleaned and brought back to their shinny state. This ideal of purification, the ritual of **misogi**, is the specific heart of the Shinto tradition and can be found at the center of the Japanese concept of sustainable development.

The Japanese conceptual framework for global sustainable development

The Shinto spiritual concept is applied by Japanese people to today's world and it supports an original approach to sustainable development at a global level.

Japan considers that in order to achieve sustainable development at a global level simultaneous achievement of development and environmental protection is indispensable. Therefore all governments, organizations and stakeholders should share their understanding, strategies, responsibility, experiences, and information related to these two objectives (development and environment protection).

At a global level this goal can not be designed separately from existing plans. The countries should to pursue concrete actions in order to implement the existing agreements towards achieving the Millennium Development Goals. Japan considers that sustainable development can be achieved only by involving both developed and developing countries.

In order to achieve a global sustainable development Japan proposed a number of concrete measures in order to assist the efforts of developing countries, while expanding partnership with all other participants in the international community.

Main areas of intervention envisaged

People and Hope (Human Resources Development)

In order to achieve sustainable development it is necessary that the people of the world are motivated with hope to make full use of their ability under good governance. To that end, human resources development (in the fields of education, health and gender) is an area of the greatest importance: investing in people and sharing knowledge and technology are the keys to sustainable development. The main components of this human development area are the following:

a) Investing in People: "Human resources development is the basis of nation building"

The investment in people means investment in education and health:

Education. The Japanese plan has in view a number of concrete actions, such as:

- A Program called "The Decade of Education for Sustainable Development";
- Technical assistance of about \$2 billion over a five year period for education in low income countries. This assistance may include initiatives like "Basic Education for Growth Initiative (BEGIN)" (assistance for girl's education, for teacher training, and for science and mathematics education, etc.)

Health. This area aims to further support efforts to combat infectious and parasitic diseases with the target of allocating a total of \$3 billion over a five-year period beginning in 2000 (Okinawa Infectious Diseases Initiative).

b) Knowledge

Knowledge is seen as central to achieving sustainable development. The main components could be:

- Share Japan's experiences on pollution and its recovery as well as its successful experience of cooperation with other Asian countries, with Africa and other regions of the world;
- Promote the Initiative for Development in East Asia (IDEA) and share East Asia's successful experience of development with other countries and regions.

c) Science & Technology

In close relation with dissemination of existing knowledge, science and technology allow for finding future solutions to existing problems. Main actions would be:

- Promote Global Environment Monitoring through the Integrated Global Observing Strategy (IGOS) Partnership and Global Mapping;
- Implement environmental science & technology cooperation.

The relation Ownership and Solidarity - Development

In order to achieve sustainable development at a global level it is necessary to achieve a vast mobilization of various resources (Solidarity). This is essential for developing countries in order to promote sustainable development and poverty reduction through self-driven economic growth (Ownership). The concept is that external aid should complement not replace domestic efforts.

The domestic efforts should concentrate on:

a) Trade & Foreign Investment: Promote trade and private investment to realize sustainable development. As an example how Japan is market for developing countries one can mention that Japan's imports from developing countries amount to about \$150 billion per year. Measures to be taken:

- Expand support for trade-related technical assistance and capacity building by JICA and other bodies;
- Work towards the objective of duty-free and quota-free market access for all least developed countries' products.
- Make efforts toward establishing multilateral investment rules. Establishing multilateral investment rules is crucial for creating an international environment in which investment in developing countries can increase. Japan will take a leading role in establishing such rules;
- Encourage African countries to participate in multilateral trading systems (WTO). Welcome the announcement of the intention of African countries to promote the regional integration through the African Union (AU), support such integration by such means as capacity building support, and encourage Africa's further participation in multilateral trading systems (WTO).

b) Energy

As energy is vital for development global measures are necessary to promote efficient and environment-friendly use of limited energy resources, which forms the very basis of economic activities. Actions to be taken:

- Propose and promote the Energy Literacy Initiative

c) Agriculture and Food

Sustainable development is related also to eliminating poverty and food problems. Japan can contribute to improving food security through Green Technology Innovation. Actions may include:

- Promote the development and dissemination of NERICA (New Rice for Africa);
- Extend a grant aid of about \$30 million to tackle the food crisis in the southern Africa;

d) Development Assistance

Over the past ten years, Japan, as the largest donor country, has provided approximately \$120 billion - one fifth of the total ODA contributions of all DAC countries. Japan has extended \$4.8 billion - one fourth of the G8 contributions to the enhanced HIPC initiative. Japan continues to play a positive role as a leading donor, while ensuring effective and efficient implementation of ODA.

e) Africa

Japan considers that there will be no stability and prosperity in the world in the 21st century, unless the problems of Africa are resolved. Actions include:

- Japan supports NEPAD (New Partnership for Africa's Development) as a clear indication of Africa's Ownership.
- Steadily implement "Solidarity between Japan and Africa - Concrete Actions" - and endeavor to follow up the "G8 Africa Action Plan";
- Further strengthen support for Africa through TICAD III.

Challenges for Sustainable development in 21st century

The 21st century may be a very difficult time unless the issues of global environmental degradation and global warming, which are serious threats to the continued existence of humankind, are tackled now.

Japan has in view a number of initiatives:

a) Environment-related Assistance for Developing Countries: In addressing environmental issues, further enhance environmental cooperation, including capacity building in the field of environment. This will include:

- to establish and announce "Environmental Conservation Initiative for Sustainable Development (EcoISD)";
- to implement environment-related human resources development for 5,000 persons during a the five-year period.

b) Climate Change: For effective action against global warming, it is important to seek a set of common rules for the future by which all countries, including developing countries, will abide. Japan can:

- Take a leading role for the entry into force of the Kyoto Protocol (Japan became a party to the Kyoto Protocol on 4 June 2002.);
- Aid capacity building in human resources and sharing of information to promote Clean Development Mechanism (CDM);

c) Forest: Promote sustainable forest management, including tackling illegal logging, in recognition of the many benefits of forests (e.g. preservation of ecology, prevention of global warming, conservation of water, provision of forest products). Concrete actions may include:

- Propose and promote Asia Forest Partnership (AFP);
- Cooperate on forest conservation and other activities in the Congo Basin area;

d) Biodiversity: Contribute to full enjoyment of gifts from natural environment through protection of living organisms in danger of extinction as well as conservation of "hotspots" in various regions. Concrete actions:

- Intensify the initiative towards conservation of "hotspots";
- Work towards early ratification of the Cartagena Protocol on Biosafety to the Convention on Biological Diversity;

e) Water: Progressively work on the issue of water resources from various viewpoints such as drinking water, public health, agriculture, economic activities, natural environment protection and disaster prevention. Concrete actions:

- Assist in creating safe and stable water supply and development of hygienic facilities. Japan which has provided safe and stable supply of drinking water and access to hygienic sewage for more than 40 million people in the past five years, continues such efforts. Moreover, promote model projects exploiting water resources, including ground water supplies, and promote the transfer of technology to neighboring countries.
- Strengthen co-operation with NGOs and Women. Support the capacity building for appropriate water resource management (management in cooperation with NGOs, establishment of the management systems by local people, promotion of technical cooperation taking women's role into considerations, etc.);

f) Environment-related Treaties: Japan has in view to:

- Take a leading role for the early entry into force of the Stockholm Convention on Persistent Organic Pollutants;
- Work toward early ratification of the Rotterdam Convention on Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade.

As can be seen from above, Japan considers that sustainable development at a global level can be achieved by a combination of a more nature oriented way of thinking and a number of concrete initiatives to be taken by both developed and developing countries. In both aspects the experience of Japan can be of great assistance to all countries, including Romania.

RECENT DEVELOPMENT OF JAPANESE ECONOMY AND ITS IMPACT ON JAPANESE SOCIETY

Prof. Dr. Hiromasa Kubo*

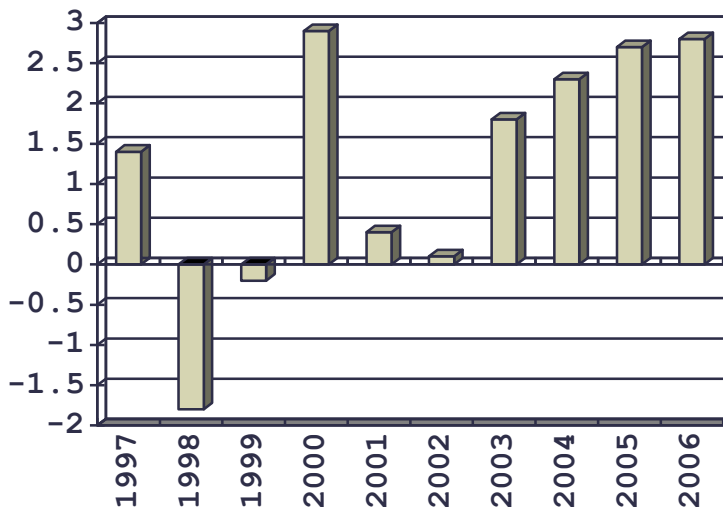
Abstract

The Japanese economy, which had suffered from a severe recession or almost zeros growth for over a decade, Japanese economy is now on track of its recovery. We will firstly examine factors behind the recovery, and secondly analyse its influences on Japanese society.

The Recovery of Japanese economy

The Japanese economy, which had suffered from a severe recession or almost zeros growth for over a decade, Japanese economy is now on track of its recovery. We will firstly examine factors behind the recovery, and secondly analyse its influences on Japanese society.

Figure-1 Japan's Economic Growth Rate



Source: Cabinet Office, Government of Japan

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Before we discuss recent changes of Japanese economy, it seems to be useful to overview the Japanese economy in the world. Table-1 illustrates three poles of the world economy, EU27, the U.S. and Japan. According to the table, Japan has its GDP as much as 4.6 trillion dollars, while EU27 as a whole has approximately 13.6 trillion dollars. Meanwhile, taking their populations into account, Japan's per capita GDP totals some 36 thousand dollars, which is below that of the U.S. but significantly above that of the EU average. Therefore, we can say, from this table, Japan is clearly a developed country and it has a significant share in the world economy in terms of, at least, GDP.

Table-1 Basic Figures of the EU, U.S. and Japan (2005)

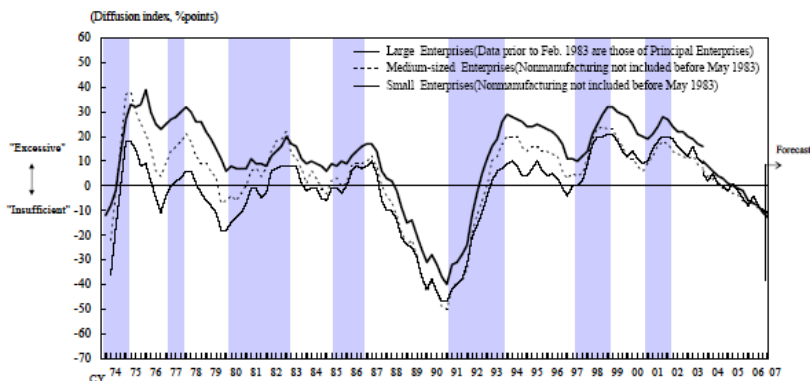
	EU27	U.S.	Japan	China
GDP (bil. \$)	13,628	12,456	4,567	2,234
Population (mil.)	490	297	128	1,308
per capita GDP(\$)	27,812	41,939	35,757	1,709

Source: International Monetary Fund

We can summarize the reasons for the recent significant improvements of the Japanese economy as follows. The first is the progress of the restructuring of private sectors, by reducing employments, production capacities and accumulated debts, thereby cutting average “breakeven points” remarkably. Amongst all, most striking restructuring measure is the reduction of employment; by giving incentives for early retirements, refraining new recruitments of young people and replacing regular to non-regular workers. In fact, in the past five years, the number of regular workers decreased by some 3 million, while non-regular workers, like part-timers, have creased by 4 million.

Figure-2 illustrates judgements by industries on the employment conditions, surveyed by the Bank of Japan. By the Figure, we can understand that Japanese industries had suffered over-employment during the 1990s. However, since the turnaround the 21st century, over-employment has wiped out and currently, they are suffering from even shortage of the workforce.

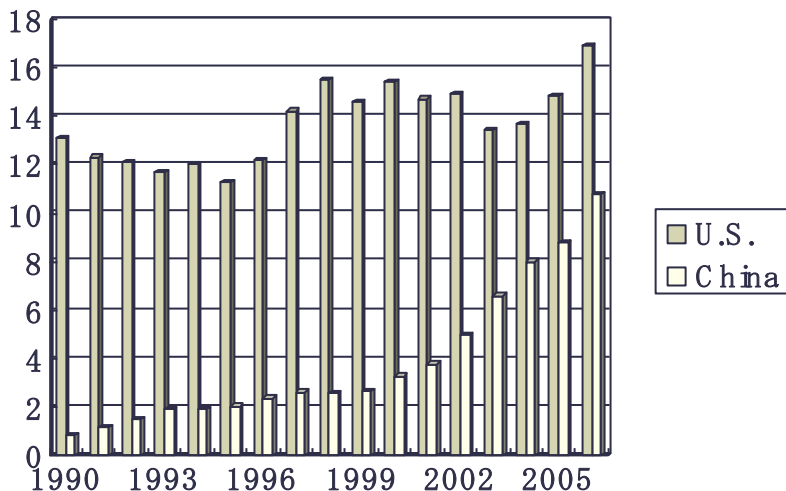
Figure-2 Employment Condition(All Industries)



Source: Bank of Japan

The second reason for the recovery is the significant increase in exports to the U.S. and China, reflecting booms in these countries, as is shown by Figure-3. The third is reviewing Asian production strategies of Japanese manufactures, by maintaining R&D centres and high value-added production processes in Japan, while deploying low value added processes in other part of Asia with relatively low level wages. As a result of it, R&D investments in Japan have increased significantly.

Figure-3 Japan's exports to the U.S. and China
(Trillion Yen)



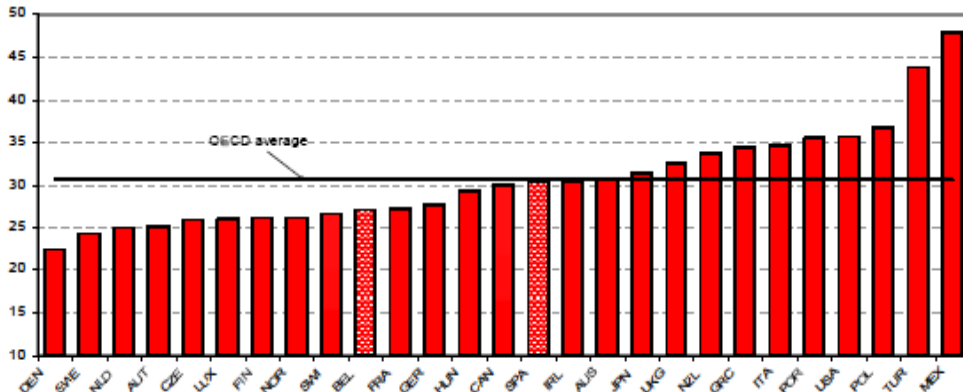
Source: Ministry of Finance, Government of Japan

Challenges of the Japanese economy

Although Japanese economy is in a recovery process, it faces the following important challenges. The first one is the rising income disparity. As a result of the above-mentioned restructuring measures of employments, to replace regular to non-regular workers, nation-wide income gap has increased. According to the OECD, Japan's Gini coefficient, an indicator of income gap, is fourth, followed by the U.S., Italy and U.K among major OECD nations.

The second challenge is Japan's rapid demographic change, caused by its low birth rate and long life expectancy. On the other hand, even in a favourable business cycle, Japan's budgetary deficit is still serious. According to European Commission, the ratio of deficit to GDP is predicted to be 5% in Japan. Under such an environment, people are cautious in the sustainability of Japan's pension system, thus restraining its private consumption, which could reduce growth potentials. It is, therefore, reasonably predicted that the medium-term economic growth of Japan should be somewhere between 1.5% and at most 2%.

Figure4 Gini Coefficients of OECD countries



◆ Source: OECD(2005), *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s*

Table-2

Age Structure of Population by Country

Country	(%)					
	2005*			2030 (projection)		
	0-14 years	15-64	65 and over	0-14 years	15-64	65 and over
Japan	13.6	65.3	21.0	11.3	59.2	29.6
Italy	14.0	66.0	20.0	11.9	59.0	29.1
Germany	14.3	66.9	18.8	14.0	59.5	26.6
Switzerland	16.5	67.6	16.0	14.9	58.7	26.3
France	18.2	65.2	16.6	16.1	59.6	24.2
Korea, Rep. of	18.6	72.0	9.4	12.7	63.9	23.4
Canada	17.6	69.3	13.1	15.6	61.1	23.3
Sweden	17.5	65.3	17.2	17.0	59.9	23.1
U.K.	17.9	66.1	16.0	17.3	61.3	21.4
Australia	19.6	67.7	12.7	17.4	62.0	20.6
U.S.A.	20.8	66.9	12.3	18.1	62.6	19.2
China	21.4	71.0	7.6	16.9	66.8	16.3
Brazil	27.9	66.0	6.1	20.9	66.6	12.5
India	32.1	62.7	5.3	22.6	68.1	9.3

Source: Statistics Bureau, MIC; United Nations; Ministry of Health, Labour and Welfare.

European economy also is facing very similar challenges; rising income gap under globalisation and rapidly changing demographic structure. Therefore, it should be useful that Europe and Japan could exchange their experiences and how to tackle with them.

LAW SYSTEM IN JAPAN

Andreea Lorena Poenaru*

Abstract

This article attempts to present and explain the main features of the Japanese law system. Japanese Law system was reformed during the domination of Tokugawa shogun family. In 1870, Foreign Governmental Systems Study Office was founded. By judicial sentences many french laws were introduced in Japanese law system. Roma-Tokyo-Berlin Alliance (1936) introduced a strong German influence in the law system. The Japanese judicial system has known five periods. In the first (1869-1888) were introduced many reforms; in the second period (1889-1899), the constitution after the German model was introduced -which remained until 1946 and Japanese customs were accepted through a Family code; in the third period (1900-1913) Penal code appeared; the next period (1914-1945) was determined by many constitutional and social reforms; in 1947 the modern Constitution started its legal effects.

Juridical *resemblance* represents the report between two subjects with identical elements. Juridical *relation* represents the essential similitudes which brings together law systems. Japanese system, despite its traditionalism, received new elements. In Assian societies, the life condition is harmony, assured by the respect for the traditional common law. Human behaviour is imposed by the conscience which respects the social ethics, not by the legal stipulation. In Occidental societies, the function of a law system is to assure social peace by a judicial confrontation of contrary and subjective interests. In Assian societies, social peace is ensured by avoiding conflicts by reconciliation. Every law system is the expression of a certain civilisation, with a historical basis.

Japanese Law system was reformed during the domination of Tokugawa *shogun* family. Local tribunals were subordinated to a central tribunal in Edo (Tokyo today). The legislation was divided into secret laws (procedural and political codes for high state clerks) and public laws (for only a social class or another). Legal stipulations were mostly penal norms and the civil ones were identical with fiscal stipulations. This period was until 1868. In 1870, Foreign Governmental Systems Study Office was founded. By judicial sentences many french laws were introduced in Japanese law system. Roma-Tokyo-Berlin Alliance (1936) introduced a strong German influence in the law system. The

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Japanese judicial system has known five periods. In the first (1869-1888) were introduced many reforms; in the second period (1889-1899), the constitution after the German model was introduced -which remained until 1946 and Japanese customs were accepted through a Family code; in the third period (1900-1913) Penal code appeared; the next period (1914-1945) was determined by many constitutional and social reforms; in 1947 the modern Constitution started its legal effects.

The Japanese *Judicial System* guarantees that "all judges shall be independent in the exercise of their conscience and shall be bound only by this constitution and the Laws". They cannot be removed from the bench "unless judicially declared mentally or physically incompetent to perform official duties". A *Supreme Court* justice may be removed by a majority of voters in a referendum that occurs at the first general election following the justice's appointment and every ten years thereafter.

Japan's court system is divided into four basic levels: There are 438 *Summary Courts* in Japan that mostly handle small claims civil cases and minor criminal offenses. They are only able to imprison defendants in a few special cases, but not for more than three years. Summary Courts are presided over by one judge. Civil cases in the Summary Court are appealed to the District Court (while criminal cases are appealed to the High Court). There is *one District Court* in each prefecture, except for Hokkaido which has four. District Courts have original jurisdiction in felony cases, in some civil cases and bankruptcy hearings. District Court trial is presided over by at least one judge: two associate judges are also called in for appellate cases, or for criminal cases where the maximum penalty would be in excess of 1 year in prison. There are *eight High Courts* (Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima, Takamatsu, and Fukuoka) that serve defined circuits of several prefectures each; there are "*branch offices*" in Akita, Toyama, Okayama, Matsue, Miyazaki, and Naha; there also exists the *Intellectual Property High Court* in Tokyo, - which is a special branch of Tokyo High Court. Each court is led by a President, appointed by the Cabinet. The *Supreme Court*, located in Tokyo, is the highest court and it has ultimate judicial authority. An appeal to the Supreme Court requires either an error in the interpretation of the Constitution, or an error in the interpretation of case law from the Supreme Court or High Court. It also decides issues of national law and it has the power of judicial review.

There is a *Family Court*, tied to each District Court, as well as in over 200 branch offices throughout the country -and they primarily deal with divorce and juvenile delinquency cases, although their jurisdiction encompasses all forms of domestic disputes. Their power is limited to mediation. The *Supreme Court of Judicature*, organized by the Ministry of Justice in 1875, was comprised of 120 judges in both civil and criminal divisions. The criminal division was the court of first instance for crimes against the Emperor and for high crimes against public

order. The statute of this court was abolished in 1947, when the modern Supreme Court was formed that year.

Civil law or *continental law* is the predominant system of law and as a legal system is often compared with *common law*. The main difference between the two systems is that common law draws abstract rules from specific cases, whereas civil law starts with abstract rules, which judges must then apply to the various cases before them. In the late 19th century, when many Asian nations were introducing civil law, the German Civil Code became the basis for the legal systems of Japan and South Korea. The main body of Japanese statutory law is a collection of the *Six Codes* : the *Civil Code* (1896), the *Commercial Code* (1899), the *Criminal Code* (1907), the *Constitution of Japan* (1946), the *Code of Criminal Procedure* (1948), the *Code of Civil Procedure* (1996). Japan's current corporate law is based upon the *Corporations Code*, implemented in 2006.

In May, 2004 the Japanese government changed the legislation and court system by introducing two major reforms: a new *Intellectual Property Court* was created (a domain with an already high level capability), - in order to be centered on the Tokyo High Court and *the trial by jury in serious criminal cases* was re-introduced in Japan, expected to be implemented in 2009 (Japan did have a jury trial system from 1928 to 1943). *The juries* will consist of six lay persons and 3 judges ruled on technical legal issues and the decisions will be made on the basis of majority vote. This new system is based on Franco-German systems. The criminal cases are those where the defendant could be sentenced to death or life imprisonment, but not including cases of negligence resulting in death. The jurors will also rule on the punishment; they will be 20-70 years of age and may be excused for serious inconvenience in work, childcare or care for the elderly. They must keep confidential personal information or any comments by jury members they learned in the cases and will be fined if they make public the jury deliberations. It is forbidden for ex-prisoners, members of parliament, police officers and members of the Self-Defense Forces to serve as jurors. Japan has decided in 2006 to introduce class action suits, in order to help consumer groups and to enable them to end unfair marketing activities and contracts. The parties are helped by a government advisory body to seek out-of-court settlements.

The Intellectual Property Court started its activity in April 2005 and has as a main objective a greater expertise and unity in intellectual property law in Japan and it handles cases involving company secrets and it can order the parties in litigation not to reveal company secrets learned during the trial. The new plan is modeled on the system in the UK and the court may utilize technical experts as lay judges. Technical experts such as engineers who are not qualified as attorneys could still be working together with regular judges as technical judges. In July, 2003 an amendment to the Code of Civil Procedure concentrated highly technical cases only in the Tokyo and Osaka courts, with the Tokyo High Court as the court of appeal. In the past ten years, the number of such intellectual property cases has

doubled and the Supreme Court has increased the number of such judges and researchers. The government is seeking, by *Unfair Competition Prevention Law* provisions, to permit cases where legal proceedings may be closed to the public (such as cases involving corporations revealing trade secrets and technologies), - although the Japanese Constitution requires that court proceedings be open to the public. The Supreme Court has decided to appoint lay judges with two years initial terms and possibility of re-appointment, to serve on *labor-industrial tribunals* and to handle *labor - management disputes*. Under the system, disputes will be settled at district courts through a regular litigation or arbitration with the labor lay judges. If the settlement isn't admitted, it is still possible to file regular litigation; the settlement could constitute a legally binding document.

The government makes the biggest change to the *Penal Code* in nearly a century, mostly involving strengthening criminal penalties and lengthening the statute of limitations making it more difficult to escape. Excluding the death penalty and life imprisonment, the maximum prison term may be raised to 30 years from 20 years. In addition, in part of its joining the *UN Convention against Transnational Organized Crime, Japan is likely to amend the Law for Punishment of Organized Crimes, Control of Crime Proceeds and Other Matters*. Japan's present Penal Code holds liable all parties to a crime, even those not actually carrying it out. But the parties can not be charged until after the crime is executed or serious stages, such as acquiring weapons, are completed. Legal wiretapping is still being utilized by the Japanese police, particularly on drug crimes. The *Tokyo High Court* upheld the legality of the wiretapping even though the wiretapping law only permits it if no other method of determining criminal activity is available. The Japanese government respects the interests of the crimes' victims (by keeping them and their families more informed, by giving them more participation in the actual procedures in the criminal cases and by cooperating with victims of traffic crime, especially when they pursue civil litigation for damages). The protection of the privacy of eye witnesses is very well taken into consideration. Following the successful conclusion of a treaty with the USA Japan has launched negotiations for a similar treaty with South Korea, hoping to make it possible for the police agencies to exchange information. Japanese police authorities have announced plans to build a DNA database of criminals. The first court case in Japan permitting the use of DNA was the Mito District Court in 1992 (the Supreme Court of Japan approved it in 2000).

The *Constitution of Japan* (1947) is based on the Constitution of the US State of Illinois, and Article 9 is very well known for its content- as Japan forever renouncing the use of force. The biggest issue is to seek to amend the Article 9, the war-renouncing clause, in order to permit the exercise of the right of collective defense. In order to actually achieve an amendment to the Constitution, there must be approval of 2/3rds of both the Upper and Lower Houses of the Parliament and then passed by a majority of the voters, in referendum. Another amendment is

being considered, that is the establishment of a court for ruling on *constitutional matters*.

The *Commercial Code* that took effect in April 2003 reduced the quorum requirement for general shareholders and permitted the establishment of compensation, audit and nomination committees to assist the Board of Directors. The committee system is optional and there is no general requirement for outside directors. The proposed revision of the Commercial Code would require only the approval of the representative director to issue bonds so long as the board in advance sets out the maximum interest rates and also make it much easier to establish stock corporations and limited liability companies. It is felt that it is not necessary to impose all the requirements established for large public companies for small and medium-sized firms. No auditors will be required for these firms and only one director will be enough. The Japanese shareholders may be compensated by cash or shares of the parent company, in order to ease the acquisition of Japanese firms by foreign corporations.

Japanese *contract law*, influenced by the German system, is based mostly on the Civil Code, which gives general definitions of “rights” and “obligations” of the parties. Thus, they need not to determine statutory presumptions -as a matter of practice, contracts tend not to be very detailed, and the parties work out complications as they arise. Japan places, like several other civil law states, a great emphasis on the *rights of the tenant*. Landlords are generally not allowed to unilaterally terminate leases without "just cause". Despite this emphasis on tenant rights, the government expropriate land for any public purpose as long as reasonable compensation is afforded (this power was famously used in the World War II). In comparison to other states, Japan has a unique *prosecutorial system*. Almost all criminal defendants are convicted in Japan, by following their own confession. Prosecutors tend to bring charges only with a signed confession from the accused, after a long questioning by the police. The basic forms of criminal punishment in Japan are imprisonment at hard labor, imprisonment, fine, detention (less than 30 days), and minor fine (less than ¥10,000). In 2004, the penalties in the Criminal Law were revised and reinforced.

In April 2005 a new law, regarding *protection of personal information data* went into effect. Therefore, the law required a new regulatory infrastructure for the appropriate protection of personal information by businesses and the government. The Financial Services Agency will create new guidelines suspending the operations of financial institutions if they leak personal information,-as fingerprints, political beliefs, medical history, criminal records and ethnicity/nationality and will determine employees to sign secrecy agreements, to limit employee access to client personal data. In order to achieve such objectives, the agency must seek amendments to the securities, banking and insurance laws. The Ministry of Economy, Trade and Industry also came out with its guidelines for the new 2005 law. Data to be protected include names, physical

address, telephone numbers, email addresses, financial data, employment related info and physical data, sounds and images or video from surveillance cameras. When provided data to other companies, even group companies, the individual's consent should be received. Access to personal data is to be tightly restricted and not used for purposes other than those originally authorized. Outsource companies must be strictly monitored. This new law is not applied to research institutes and there is concern over the abuse of private genetic information. Therefore, the Ministry of Education, Culture, Sports, Science and Technology, the Ministry of Economy, Trade and Industry, and the Ministry of Health, Labor and Welfare made an agreement to establish an experts study group, with the mission of studying a possible new law for these problems. The Ministry of Economy, Trade and Industry planned to expand the law's protection to personal computer schools and marriage ceremony services and to make the largest change to consumer protection laws in 35 years, by permitting consumer groups to file cases on behalf of consumers to enhance consumer information and stop companies from utilizing misleading marketing practices.

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CONSIDERATIONS REGARDING THE JAPANESE TAX SYSTEM

*Stela Aurelia Toader**

Abstract

In the 21st century the structure of the Japanese socio-economy is changing greatly because of the rapidly aging society and married couples having a smaller number of children, diversified life styles and globalization of the country.

To sufficiently respond to these various structural changes and to realize sustainable activation of the socio-economy, it is considered necessary to execute toward the construction of a desirable tax system based on medium to long-term viewpoints.

This paper presents the main points of the tax reforms and the characteristics of the main taxes in Japan.

In the tax reform in 2003, the first step of the reform toward the construction of “a desirable tax system” on corporation tax should be taken so that a sustainable socio-economy may be activated. Inheritance and gift taxes should be unified to achieve integration. Thus, measures such as the increased tax reductions for R&D and investment in plant and equipment to support growth of strategies to innovate in the 21st century and unification of the inheritance and gift taxes to help smooth transfer of assets to the next generation are taken.

In the Fiscal Year 2006 tax reform, in a continuous effort to implement a “desirable tax system”, a major transfer of source of tax revenue in personal income taxes from the individual income tax to inhabitants taxes, amounting to 3 trillion yen, was conducted as part of the trinity reform. Also the proportional tax credit, which had been in place since 1999 as a temporary and exceptional measure to boost the economy, was abolished in light of the economic recovery.

In corporation taxes, R&D-related taxation was revised to promote private research and development activities, and a new system was established to strengthen the information infrastructure and to increase competitiveness.

Current taxes levied by national and local governments in Japan can be classified into three groups: taxes on income; property, etc. and consumption.

1. Taxes on Income:

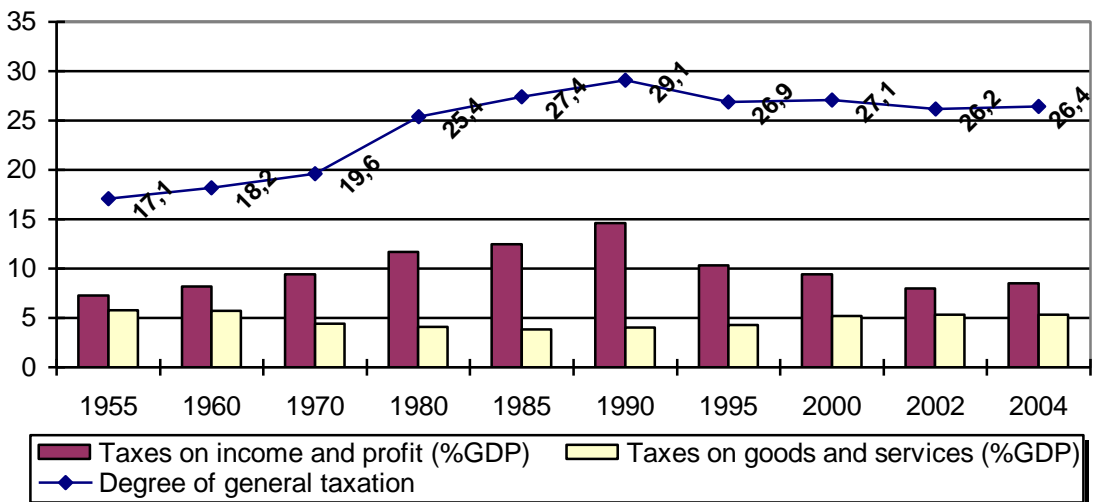
- a. National Taxes: Income Tax (Individual Income Tax) and Corporation Tax (Corporate Income Tax);

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- b. Local Taxes: Prefectural Inhabitants Tax, Municipal Inhabitants Tax and Enterprise Tax;
- 2. Taxes on Property, etc.:
 - a. National Taxes: Inheritance Tax, Gift Tax, Land Value Tax, Registration and License Tax and Stamp Tax;
 - b. Local Taxes: Automobile Tax, Mine-lot Tax, Property Tax, Light Vehicle Tax, Special Landholding Tax, Business Office Tax, urban Planning Tax and Real Property Acquisition Tax;
- 3. Taxes on Consumption
 - a. National Taxes: Consumption Tax, Liquor Tax, Tobacco Tax, Special Tobacco Tax, Gasoline Tax, Local Road Tax, Liquefied Petroleum Gas Tax, Motor Vehicle Tonnage Tax, Aviation Fuel Tax, Petroleum and Coal Tax, Promotion of Power-resources Development Tax, Customs Duty, Tonnage Due and Special Tonnage Due;
 - b. Local Taxes: Local Consumption Tax, Prefectural Tobacco Tax, Golf Course Utilization Tax, Automobile Tax, Municipal Tobacco Tax, Light Vehicle Tax, Bathing Tax, Hunter's Tax, Automobile Acquisition Tax, Light Oil Delivery Tax and Mineral Products Tax, etc.

The degree of general taxation, in Japan, measured as total tax revenues as percentage of GDP, represents, in current period, about 26%, on the decrease after '80-'90.

Figure no 1: Degree of general taxation in Japan



Source: OECD Factbook 2007: Economic, Environmental and Social Statistics, www.oecd.org

Taxes on Income

a. Characteristics of Japan's Income Tax

The individual income tax and the corporation tax (corporate income tax) are treated separately under the Income Tax Law and the Corporation Tax Law, respectively.

Taxable individual income, unlike corporate income, is computed on a calendar year basis, from 1 January through 31 December.

Under the Income Tax Law, taxable income is classified for the purpose of calculation into the following ten categories in accordance with the nature of the income, taking into consideration the capacity for taxation as well as the convenience of calculation:

- interest income;
- dividend income;
- real estate income;
- business income;
- employment income;
- retirement income;
- timber income;
- capital gains;
- occasional income;
- miscellaneous income.

Income tax is to be assessed primarily on the basis of an individual's aggregate income, regardless of its category. Individual taxpayers must pay income tax on the total income earned during the calendar year concerned.

Retirement income and timber, however, are taxed separately from the other categories of income under the Income Tax Law. Interest income is taxed separately from the other categories of income under the Special Taxation Measures Law. Dividend income and capital gains etc. are, or may be, taxed separately as well.

Income tax due is calculated applying tax rates to ordinary taxable income, taxable retirement income, or taxable timber income¹.

Table no 1: Individual Income Tax Rates (From Fiscal Year 2007)

Taxable Income (A)	Tax Rate (%) (B)	Cumulative Tax for Each Bracket (C)
< Y 1,950,000	5	-
Y 1,950,000 – Y 3,300,000	10	Y 97,500
Y 3,300,000 – Y 6,950,000	20	Y 232,500
Y 6,950,000 – Y 9,000,000	23	Y 962,500
Y9,000,000 – Y 18,000,000	33	Y 1,434,000
> Y 18,000,000	40	Y 4,404,000

Note: Tax liability is obtained by multiplying the excess amount (A) by the rate (B) and adding the amount (C). For example, income tax due on taxable income of Y 10 million is:

$$(Y\ 10,000,000 - Y\ 9,000,000) * 0,333 + Y\ 1,434,000 = Y\ 1,764,000$$

Taxpayers with respect to income tax are divided into resident taxpayers and nonresident taxpayers.

An individual who has a “Jusho” (domicile)², or has had a residence for one year or more in Japan must pay income tax on all of his income from both within and outside Japan. A resident who doesn’t have the Japanese nationality and who has had domicile or residence in Japan for no more that five years in the past ten years, however, is subject to tax on the total income derived from sources within Japan and on the income from other source paid in Japan or remitted to Japan from abroad.

An individual who has no Jusho and has had residence in Japan for less than one year must pay income tax on his income from sources within Japan.

For the determination and payment of taxes due, income tax is assessed under the self-assessment system, under which income tax liability is determined by the taxpayer’s declaration based on proper records of the tax base and the tax amount due, and payment is made on this basis. In the event a taxpayer fails to file a correct return, the tax authority makes an assessment through examination and conducts “correction” or “determination”. Almost all wage and salary earners,

¹ If a taxpayer has income from the sale or transfer of timber, such taxable income is divided by five and the amount of tax due an that amount is multiplied by five to obtain the total tax due.

² An official of the national or local government of Japan who resides abroad to have a “Jusho” in Japan for the period when he does not have a domestic ‘Jusho’

however, are not required to file final return, owing to the withholding system and year-end adjustment system.

A withholding system is frequently used. For the convenience of tax collection, a withholding mechanism requires the payer of the following categories of incomes to compute the amount of income tax, deduct that amount at the time of payment, and transmit it to the government:

- interest income;
- dividend income;
- profit from redemption of discount bonds;
- employment income;
- retirement income;
- miscellaneous income from public annuities, etc.;
- fees or other remunerations for certain services, such as writing or speeches, and the services of lawyers, movie actors, professional baseball players, etc.;
- income from business that provides the personal services of artists and public entertainers;
- contract deposits received by professional baseball, etc. for services to be rendered, prizes for advertising purpose, and prizes received by owners of racehorses;
- annuity from life insurance contract;
- quasi-financial products;
- distribution of profits from anonymous association.

b. Characteristics of the Japanese Corporation Tax

Under the Corporation Tax Law, corporate income tax is levied on the taxable income of corporations. The Special Taxation Measures Law provides certain special measures for specific policy objectives.

Corporations for tax purposes include not only those corporations in an ordinary sense, but also all types of juridical persons under various names such as cooperatives, public corporations, social welfare juridical persons, labor unions, and so forth. Organizations without juridical personality, such as unincorporated clubs or associations, are regarded as juridical persons for tax purposes so long as they designated representatives or managers.

Corporation tax is levied on the income of each accounting period³, income in liquidation, or in case of trust and insurance companies, Japan Mutual Aid Agricultural Co-operation (Zen-Kyo-Ren), etc., dealing with the Welfare

³ In Principle, taxable income is calculated according to the GAAP (Generally Accepted Accounting principle)

Pension Fund Plan, defined benefit pension plan asset management contracts, etc., the remaining balance of the retirement pension surplus reserve at the beginning of each accounting period. In the case of a family corporation, an additional tax is levied on the retained profits for each accounting period when these profits exceed a certain prescribed level.

Unlike the individual income tax, no preferential treatment is allowed for capital gains in computing taxable corporate income. Sales of the land are treated specially according to the holding period stipulated in The Special Taxation Measures Law. (This rule is not applied from January 1, 1998 to December 31, 2008)

Since the overall reform of the taxation system in 1950 that followed the Shoup Recommendations, the corporation tax system has been in principle based on the notion that a corporation is an aggregate of shareholders and that these should be an integration of tax burdens, though the method of mitigating tax burden has changes somewhat over the years.

In the early years, the alleviation of tax burdens was done wholly at the shareholder level. The corporation's taxable income was taxed at 35% whether it was distributed or not. The dividends received by an individual shareholder were included in this taxable income together with income from other sources. Dividends received by a corporation were included in the taxable income for a corporation due to tax purpose.

In 1961, a split-rate system was introduced in order to increase the equity capital of the corporation vis-à-vis borrowed capital. The underlying philosophy of the tax reform was to implement the mitigation partly at the company level and partly at the shareholder level. The tax rate on distributed profits was reduced from 38% to 28%, while the tax on undistributed profits remained at 38%. Correspondingly, the dividend credit with respect to income tax was reduced from 20% to 15% of the dividend received. It was subsequently stipulated that in case where the dividends received by a corporation exceeded those distributed, a quarter of the balance should be included in the taxable income of the corporation.

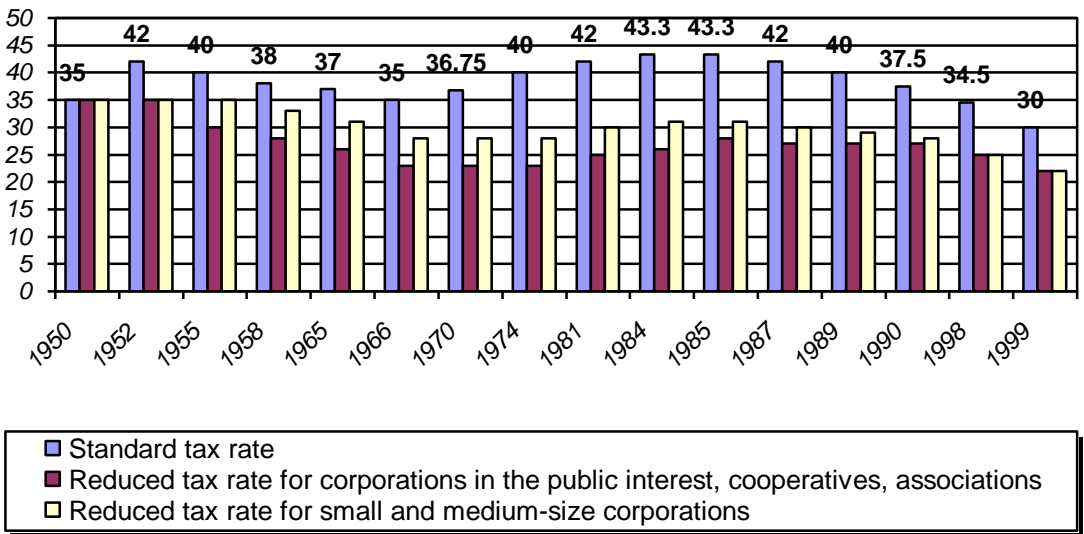
There have been some changes in tax rates since that point, but the basic structure of corporate taxation system remains unchanged.

In recent years, there have been various arguments about the corporate taxation system. In the tax reform of 1989, the reduced tax rate on distributed profits (which was 32% while the tax rate on retained profits was 42%) was abolished and a rate of 37.5% was applied to both retained and distributed profits from 1 April 1990.

The present tax rate is 30%, applied after 1 April 1999.

For corporation with capital of no more than Y100 million, reduced tax rates are applicable for income of no more than Y8 million. The tax rate became 22% after 1 April 1999. In addition, for public service corporations and cooperative associations a reduced rate of 22% is applied.

Figure no 2: Trends of corporation tax rates

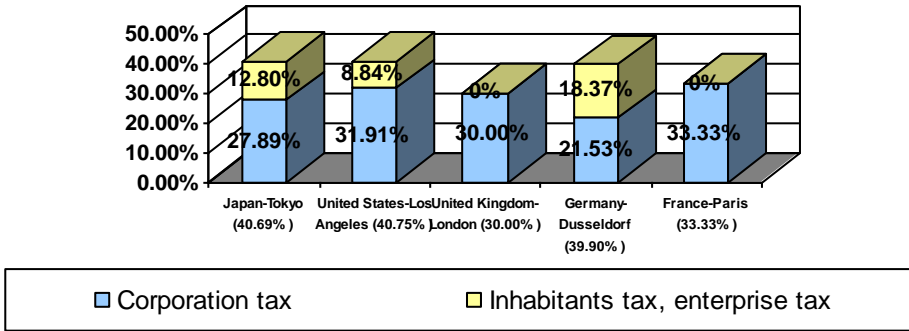


Corporation tax is paid under the self-assessment system. A corporation must file a corporation tax return, together with a balance sheet and a statement of profit and loss, to the Director of the Tax Office, in principle, within two months of the end of each accounting period, and must pay the tax as reported on the return. If taxpayers fail to file correct returns, tax authorities reassess returns through a procedure of correction or determination.

Local income taxes, which are local inhabitant tax and enterprise tax, are also imposed, by the local authorities, on corporate income.

The resulting effective corporate income tax rate for companies subject to the 30% rate is approximately 41% (42% if the head office is located in Tokyo).

Figure no 3: International comparison of effective corporate income tax rate⁴



For fiscal years beginning on or after 1 April 2004, Business Scale taxation (Gaikai Hyojun Kazei) applies to companies with a capital of more than Y 100 million. Under the Business Scale Taxation, a corporation is subject to tax on the basis of its added value, its capital amount and its taxable income. Under Business Scale Taxation for certain corporations, the effective rate will be reduced to approximately 40%.

General Consumption Taxes

Consumption tax is an indirect tax fairly and widely imposed on general consumption. In domestic transactions, taxpayers are business enterprises offering asset transfer, loans and services for consumption and these who receive foreign goods from bonded areas. Consumption tax is added on to the price of goods and services offered by enterprises and ultimately borne by consumers. Since this tax

⁴ The effective tax rate for each city takes account of the effect that the amount of the local taxes may be deductible in calculating national taxes etc.

Tokyo's Corporation Enterprise Tax uses a tax that is applied to corporations with capital of 100 million or over that are subject to pro forma standard taxation. It should be mentioned that an added value percentage and capital percentage are also levied.

Some cities in the United States levy a municipal corporation tax. The effective tax rate in New York, for example, is 45.95% when federal taxes, state taxes (7.5%, surtax [17% of tax amount]), and city taxes (9.95%) are combined. In addition to corporate income tax, a tax is also imposed on wages paid in some states and cities.

Germany's corporate tax is a joint federal-state tax (50:50); the surtax is a federal tax. The trade tax is a municipal tax, a tax is also calculated by multiplying a tax rate that varies with municipality (450% in Dusseldorf) by 5% of business profits.

France's effective tax rate is 34.43% when the social tax on corporate profits (3.3% of the corporate tax payment) is included. An estimated corporate tax and business tax (local tax) is also imposed in addition to the corporate income tax.

The figure for countries other than Japan are based on their tax systems of July 2006.

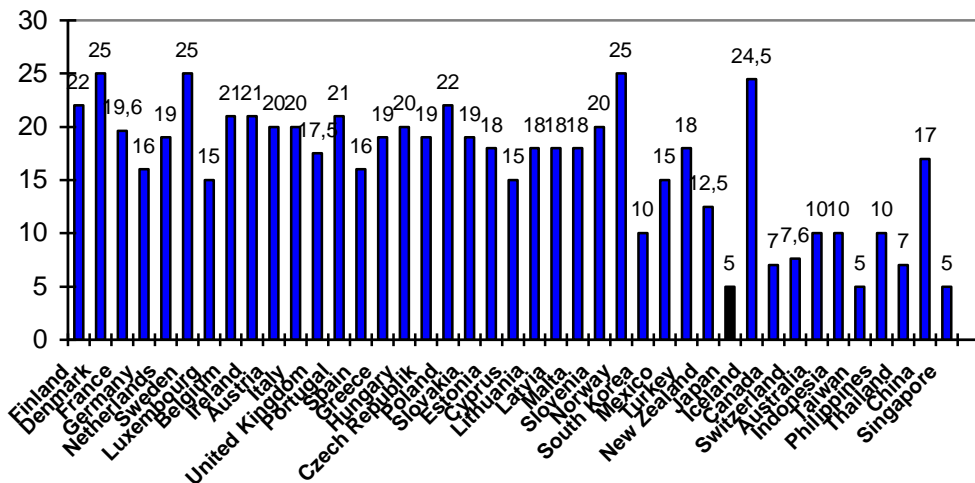
is assessed on transactions by enterprises at each manufacturing, wholesale, and retail stage, it contains a scheme for avoiding tax accumulation by way of deducting taxes on purchases, thus making it neutral to industry and the economy in general.

The tax period for the calculation of tax payable on domestic transactions is for individual proprietors, the calendar year which overlaps with the tax period for their income tax returns, and for corporations, the accounting period which overlaps with their corporate tax returns. Calculation of the deductible consumption tax on purchases is based on both book entries and invoices or delivery statements currently in use instead of invoices.

For small and medium-sized business enterprises, a simplified taxation system is utilized to alleviate the administrative burden on tax payers, thereby enabling calculation of the tax amount from the sales amount.

The rate of tax is a flat 4% (together with the 1% local consumption tax, a local tax, the tax rate reaches 5%). Various amendments were rendered in 1991 notably on the scope of exemption and on the simplified taxation system, which was followed by amendments in 1997 for the introduction of the current flat rate of 4% and abolition of the special deduction system for small and medium-sized enterprises.

Figure no 4: International comparison of value-added tax rates (standard tax rate)⁵



Note: The figures for countries other than Japan are based on their system of January 2006

⁵ In Canada, in addition to Goods and service tax (value-added tax), taxes such as a retail sales tax are imposed by almost provinces (Example:8% in Ontario). In the United States, state, country and city sales taxes are imposed (Example: New York City 8.375%). EC Directives provide that the standard rate should be 15% or more in EU member nations.

While taking into account the current economic and fiscal environment, the FY2007 tax reform fundamentally revise the depreciation system from a viewpoint of establishing the basis for growth of the economy and take measures in this areas including taxation of SMEs, international taxation, taxation of corporate reorganization and trust, taxation of financial assets and stocks, taxation of housing and land, and improved environmental for tax payment.

The general account budget for FY 2007 totaled 82,908.8 billion yen revenues, where tax revenues was projected of 53,467 billion yen, non-fiscal revenues of 4,009.8 billion yen and government bond issues of 25,432 billion yen.

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**EU – ASEAN FTA: REGIONAL COOPERATION FOR
GLOBAL COMPETITIVENESS**

*Elena Botezatu**

Abstract

The recent interest shown by the European Union towards the countries in South-east Asia, as well as the initiatives for setting up free trade areas in the region, come to confirm the uneasiness that portrays the situation at home, as well as the efforts that it set out to make in order to maintain its competitiveness on a global scale. Particularly, the attention that the EU has given to bi-regional cooperation, initiating talks for a free trade area with ASEAN, rather than with its member countries, strengthens the belief that the EU is currently seeking to consolidate its position in South-east Asia and to counter the increasing influence of China and Japan.

Introduction

For the first time in decades, the EU is facing a strategic challenge in its external policies, both in trade relations and on the strategic level. The rises of Russia and China as international actors – with India close behind – and the increasing difficulties upsetting the national economies are creating a serious threat to the EU’s ambition to become the most competitive economy in the world, capable of making its voice heard on the international arena.

This situation demanded a far-reaching rethink of the approach the Union takes to its external relations. If the EU is to remain a serious global actor, it will have to find ways to reconcile the imperative of internal economic revival with the need to establish new “bridgeheads” in the “hot” regions of Latin America and South-East Asia.

An test of the Union’s ability to meet the challenges of the shifting international order is taking the form of the EU’s relationship with the countries in Southeast Asia, a region which has recently emerged as an important focus for the EU for various reasons and with which it opened a series of negotiations for establishing several agreements, either bilateral, or multilateral.

These new and ambitious agreements proposed by the EU, focused mainly on investment and services, come in the context of the disappointment caused by the recent evolution of the Doha round of negotiations. The European Union has

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openly declared the objective of these agreements, in its strategy *Global Europe – Competing with the World*, defining them as “new competitiveness-driven FTAs [...] aiming at the highest possible degree of trade liberalization including far-reaching liberalization of services and investment”.⁶ However, this task is not easily achievable, considering the differences between the EU and its partners, not only in terms of economic development, but also politically, socially and culturally. Thus, although negotiations are under way, their outcome, if any, is still to be identified.

In this context, the question is not WHETHER a free trade area between the EU and the ASEAN (The Association of Southeast Asian Nations), one of the most important actors in the region and a significant trade partner to EU, but WHEN this will take place.

EU – ASEAN current relations

The European Union’s (EU) policy towards Southeast Asia is largely premised on strengthening its economic presence and securing market access and investment opportunities for its corporations in an expanding Asian market. Securing economic dominance in Asia is perceived as central to maintaining the EU’s leading role in the global market place.

In its 1994 ‘Towards a New Asia Strategy’ policy, the EU argued for a greater Asian priority and presence. The EU suggested that “the Union needs as a matter of urgency to strengthen its economic presence in Asia in order to maintain its leading role in the world economy. The establishment of a strong, coordinated presence in the different regions of Asia will allow Europe at the beginning of the 21st century to ensure that its interests are taken fully into account there”.⁷ However, its approach was based on developing bilateral relations with the Asian countries like Japan, China, Korea and India.

Only in the past few years, with the launching of the ASEM process in 1996, has the EU sought to deal with Asia as a region. There is increasing recognition of the fact that EU and Asia have to deepen their region-to-region dialogue, not least to balance the respective dialogues between the EU and the US and Asia and the US.

The EU TREATI scheme is an example of this trend, which comes to complement ASEAN’s own integration plans. This initiative is aimed at increasing the degree of harmonization between ASEAN member states and at

⁶ European Commission, October 2006

⁷ Towards a New Asia Strategy Commission of the European Communities COM(94) 314 final, Brussels, 13.07.94

bringing a progressive liberalization of regional trade, which is to culminate in the formation of an ASEAN Economic Community by 2015.

Also, the EU offers financial support for ASEAN's regional integration. There is a certain level of self-interest here: the EU favors trade agreements with regional blocs, as this allows EU corporate industry access to larger, integrated markets at a single stroke.

Common interests of EU and ASEAN

The EU shares many common features and interests with South East Asia. Both are seeking to deepen regional cooperation and integration between highly diverse Member States through the EU and ASEAN respectively. Countries from both regions cherish the respect for their cultural, religious and linguistic identity. Both regions are committed to a multi-polar world based on strong multilateral international institutions.

1. On the *political* side, the triangle formed by the US, EU and Asia is increasingly important in world affairs. Strengthening the EU-Asia side of that triangle would also strengthen the prospects for global governance based on multilateral institutions to which both Asia and the EU are strongly committed.

At the same time the EU and Asia must recognize the shortcomings of the multilateral system and seek to promote "effective multilateralism." This means more serious reflection on how to strengthen the UN, the WTO institutions; and also how to tackle the new security threats caused by "failed states."⁸ This requires a frank debate on when to use force to resolve international problems. Southeast Asian nations and Europe also share the same security concerns with regard to terrorism, drugs and illegal immigration. The EU's "soft power" and its ability to promote peace and security through development aid, economic assistance and non-military security cooperation is increasingly welcome among the ASEAN members.

2. For ASEAN, a key priority remains how it should deal with the *development* gap between its richer and poorer members following the enlargement with Vietnam, Cambodia, Laos and Burma/Myanmar in the nineties. Average per capita income in South East Asia is 1,217 euro: ranging from 215 euro in Cambodia to 3,900 euro in Malaysia and 23,500 euro in Singapore. The enormous disparity between the poorest and the richest ASEAN members places a direct restraint on economic and social integration. In this context, financial aid from the European Union is more than welcome while taking on the European model of integration is an opportunity not to be missed. So far, the EU is the only

⁸ Failed state is a term intended to mean a weak state in which the central government has little practical control over much of its territory. The US think-tank, the *Fund for Peace*, publishes an annual index called the 'Failed States Index'. (Noam Chomsky, *Failed States*, 2006)

economic organization in the world to have social solidarity and economic convergence as priority objective

3. The two regions also enjoy very strong *commercial* links. On trade, relations with the EU have increased ten fold since the early 1990s. The EU is now ASEAN’s third largest trading partner, accounting for 12.5% of ASEAN trade. Significantly, the EU is ASEAN’s second largest export market after the US. Also on investment, ASEAN remains a preferred destination for EU companies, in spite of the slight decrease in favor of China.

Table 1. ASEAN major trading partners (left) and export destinations (right)

Partners			Partners		
	Mio euro	%		Mio euro	%
World	968 484	100.0	World	519 332	100.0
1 USA	125 062	12.9	1 USA	78 367	15.1
2 Japan	121 395	12.5	2 EU	69 478	13.4
3 EU	117 004	12.1	3 Japan	58 372	11.2
4 China	96 803	10.0	4 China	48 773	9.4
5 Singapore	82 741	8.5	5 Singapore	35 968	6.9
6 Malaysia	67 636	7.0	6 Malaysia	34 331	6.6
7 Korea	42 145	4.4	7 Hong Kong	32 181	6.2
8 Hong Kong	42 040	4.3	8 Indonesia	24 123	4.6
9 Indonesia	39 621	4.1	9 Korea	20 611	4.0
10 Thailand	37 188	3.8	10 Thailand	18 516	3.6

Source: DG trade, 2006

ASEAN countries are again displaying impressive growth figures and are set to become one of the most dynamic growth engines for the world economy. With its growing export-led economies and a fast developing domestic market of 530 million people, ASEAN is a region of global economic importance that the EU cannot afford to neglect, especially at a moment when the trade balance is in favor of ASEAN. Surely, the establishment of a free trade area would significantly benefit the Europeans, as seen in *Figure 1*. Due to the quality requirements, property rights and other regulations on which the EU has the upper hand, there are enough reasons to believe that once the FTA is established, the trade balance will change.

Figure 1. EU-25 merchandise trade with the ASEAN



Source: Eurostat, 2006

Also, the prospect of using the euro more in financial markets and for trade has enormous potential. However, there should be noted that there are marked regional variations within this overall booming relationship, between the more and less developed countries in Southeast Asia. For example, if referring to investments, the EU FDI flows Singapore attracts more FDI than all the other ASEAN countries taken together and was the 4th largest destination for EU direct investment in 2003, after Russia and ahead of China.

4. Cooperation on *environment*, especially on the Kyoto protocol, has been good but there are many other problem areas to be tackled together, such as sustainable natural resource management (e.g. forestry), the management of urban development, and energy security. European experience and technology is advanced in this area and could be of interest to Asian partners.

5. *Migration* is an increasingly sensitive issue and Asia is the source of potentially significant migratory flows to Europe. The EU and Asian countries have started a dialogue on this common challenge in the context of ASEM and are beginning to develop common approaches.

Features of an EU-ASEAN FTA

From the perspective of the European Union, the two regions should establish a "deeper" FTA, constituting a reduction of tariffs and elimination of non-tariff barriers and technical barriers to trade. If possible, the EU will expand the FTA to include investment. Also, it should involve harmonization of trade rules and regulations and WTO-plus principles, regulatory market access restrictions and intellectual property. The ASEAN governments do not want government procurement on the negotiation table, contrary to the EU's demands. The EU's "deeper" FTA roadmap is already in place in the context of the Trans-Regional EU-ASEAN Trade Initiative (TREATI), which is a precursor to the establishment of a free trade agreement (FTA).

ASEAN nations are expected to make such fundamental changes to their economy in exchange for European market access. Furthermore, these changes are perceived as fundamental requirements to entice investments and limited FDI flow to the region. Also, it is argued that these changes are an absolute requirement to ensure foreign investors that their investments are indeed safe, certain and predictable. Basic concerns include Standards and Quality Control; Intellectual Property Rights and the negotiation of Mutual Recognition Agreements on standards, testing and certification.

Concretely, the scope of the ASEAN-EU FTA should *inter-alia* include the following:

- The progressive and reciprocal liberalization of trade in goods and services, which goes beyond the level of existing commitments in the WTO within an agreed time frame;
- The liberalization and facilitation of investment and creation of an open and nondiscriminatory environment;
- The elimination of barriers to trade and the creation of clear, stable and transparent rules for exporters, importers and investors. This includes provisions which aim at the facilitation of trade and as well as provisions on standards, technical regulations, conformity assessment procedures, and sanitary and phytosanitary measures;
- Setting up a pragmatic approach for addressing government procurement by enhancing transparency, as well as possible improvements in market access opportunities on a pluri-lateral basis;
- The adequate and effective protection and enforcement of intellectual property rights;
- The establishment of an effective mechanism for co-operation in the field of competition.

Opportunities for EU and ASEAN

Internationally, ASEAN continues to compete with MERCOSUR on the agricultural market. Should an EU-MERCOSUR FTA be established, the ASEAN would be the only large agricultural region in the world facing EU tariffs in this sector. Thus, ASEAN would lose in the absence of an EU-ASEAN FTA. The same is true for the EU: if ASEAN concludes an FTA with all other industrialized countries, the EU would be the only industrialized region facing tariffs on the ASEAN market. Therefore, an FTA between the ASEAN and the EU would not only mean more liberalized trade, but also *less discrimination* between significant trade partners.

The importance of concluding an FTA is magnified by the fact that the EU and other industrialized countries compete to provide the same kind of goods and

services, and within the same quality range. Thailand and the Philippines are large agricultural exporters. Hence for them, an agreement with the EU becomes crucial if the EU were to conclude an agreement with Mercosur.

Moreover, the Japanese government has recently floated the idea of an East Asia Free Trade Agreement. This involves ASEAN member countries including Japan, Korea and China, New Zealand, Australia and India. The Agreement will be the biggest FTA in the world involving as much as two billion people, providing a reason more for the EU to hurry the negotiations with the ASEAN.

Various studies⁹ commissioned to evaluate the impact of an EU-ASEAN FTA suggested that in 2020 the gains accruing to ASEAN members will be about 2 % of GDP. However, the gains for individual member countries would be different with modest gains for the Less Development Countries, namely Cambodia, Vietnam, Laos and Burma. Gains accruing to the EU will be positive. The bulk of the gains to ASEAN will come from the liberalization in services. An ambitious ASEAN-FTA would lead to a sizeable welfare gains including an increase in production and employment.

Also, several opinions state that an ASEAN-EU FTA serves ASEAN and EU strategically. The EU could consolidate its commercial presence of EU transnational corporations in a dynamic and expanding ASEAN. Also, the EU would be able to ensure a more stable and predictable environment for the protection of intellectual property rights and other regulatory requirements. ASEAN's strategic advantage would be to secure market access and commercial presence in Europe. An FTA with the EU could increase FDI attractiveness for ASEAN, a prerequisite to compete with China.

EU-ASEAN FTA-related risks

What is obvious in the ASEAN-EU FTA schema is that the ASEAN that needs to reform its economy if it wants to do business with Europe. European investments would find ASEAN attractive *only* if ASEAN meets European expectations. In fact, the roadmap towards an FTA dictates that ASEAN governments, notwithstanding the different stages of growth, commit themselves to embracing a development strategy that is going to place them and their companies in direct competition with powerful European TNCs.

Of course, the EU admits the existing asymmetries and declares itself ready to negotiate. However, it requires the ASEAN states to reach a common ground level from which negotiations will start. This kind of FTA certainly favors European TNCs with in-built advantages and are global market leaders in a variety of sectors by protecting their advantage.

⁹ It should be noted that these studies are not independent, but ordered by the European Commission, so their conclusions should be regarded with circumspection.

The need to adapt product design, re-organize production systems, and satisfy multiple testing and certification procedures can entail a significant cost (or technical trade barrier) for suppliers, and this will only affect ASEAN producers, since they are required to catch up with Europe.

If we take into consideration the other agreements initiated by the EU with its commercial partners, like Mexico, setting up a free trade area with ASEAN could mean the deepening of the commercial deficit in EU favor.

When the EU-Mexico Free Trade Agreement (FTA) came into force in 2000, the then EU trade commissioner Pascal Lamy touted its significance for the future of Europe's trade strategy. It has since served as a model for further Investment Promotion and Protection Agreements (IPPAs) between the EU and Latin American countries and regions. Seven years on, though, the impact of the EU-Mexico FTA is clear. Instead of the promised economic and social benefits, the treaty has left the Mexican state unable to implement policies to promote local small and medium size companies. Mexico's finance sector is now at the mercy of EU capital, while across various economic sectors the FTA has worked to the benefit of European transnational corporations and to the detriment of Mexican industries. The Mexican example is bound to repeat for the ASEAN members, as the partners are significantly different in their development levels.

In the case of the EU-Mexico FTA, which took effect in 2000, the European Commission delegation in Mexico had predicted that Mexican exports to the EU would increase from US\$4.8 billion in 1999 to \$30 billion by 2005. According to official data, in the first two years of the agreement, Mexican exports to the EU actually was in fact negative. Subsequently, Mexican exports did increase but only to \$10 billion in 2006, far below the \$30 billion predicted by the EU for 2005.

Moreover, Mexican imports from the EU grew rapidly, reaching \$27 billion in 2006. The result was a steadily growing trade deficit, from \$9.4 billion in 2000 to \$14.2 billion in 2004 and \$16.9 billion in 2006. Thus, that between 2000 and 2006, Mexico's trade deficit with the EU increased by 79.6 percent.

An FTA with the EU would force the 10 ASEAN members to adjust their investment regulations to meet the standards of the EU countries, which he said was inappropriate in the context of the ASEAN members, which had vastly different levels of development.

Moreover, although foreign investment might rise, this won't necessarily mean a higher employment level, or better wages, as investors count on the comparative advantage of cheap labour force and on the poor worker social protection.

A striking feature of the proposed EU-ASEAN FTA is that it is not – as has been normal EU practice to date – embedded in an association agreement, containing provisions on political, economic and development cooperation along with a focus on social cohesion, democratic principles and human rights. The fact

that the EU already maintains or is negotiating partial agreements on political and economic cooperation with individual ASEAN countries, and the urgency with which the Commission would like to conclude the negotiations (by 2009), has evidently sparked a feeling that a cumbersome negotiating of an umbrella agreement could be dispensed with, and separate FTA negotiations launched immediately.

The EU's willingness to sideline social and developmental issues in the interest of a swift conclusion of the trade negotiations may be interpreted as a reflection of the importance it attaches to the opportunities offered by the ASEAN market. Such an approach is fully in line with the policy shift indicated in the 'Global Europe' document, but certainly not in the ASEAN countries' interest.

Conclusion

The EU-ASEAN FTA talks must be seen against the backdrop of EU concerns that its economic interests in South-East Asia will be sidelined as the US, China and Japan are negotiating a widening web of bilateral agreements in the region. Therefore, it is of vital importance to the EU's objectives to consolidate its position as a global player to gain a foothold in this crucial emerging region.

With ASEAN emerging as the world's largest exporter by 2050, the EU has singled out the region as one of its priority targets. ASEAN is a key market for the EU, as expectations are that the world's economic centre of gravity will increasingly shift to the Asia-Pacific region.

In a global environment increasingly populated by region-to-region agreements, neither the EU, nor the ASEAN can afford to stand aside. The establishment of a free trade area would undoubtedly bring economic benefits and promote the European model of integration among the ASEAN countries, while it would also allow Asian producers an easier access on the European market.

However, taking into consideration past EU agreements, there are some concerns, including the failure to mention asymmetry in the negotiating mandate, the EU's demands for WTO-plus commitments from developing countries like ASEAN in total disregard of any development dimension to trade, the real possibility of bringing damage to Asian producers.

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ETHICS IN JAPANESE BUSINESS ENVIRONMENT

*Caraiani Gheorghe, Maduța Gyongyver**

Abstract

At first sight it is easy to understand that “ethics in business” is a field which aims at explaining problems of moral aspect which come up currently in the activity of economic agents from a market economy.

Considering the cultural variety of moral values and principles lengthwise and crosswise the planet and, since the adopted policies led to many unacceptable effects, the idea of drawing up international ethic codes appeared more and more substantial through the explicit agreement of some governmental and non-governmental associations in which the big transnational corporations have the main role.

The company system in Japan is so strict that it is quite hard, sometimes even impossible for a company to do business with another company with which it does not have personal, tight and previously established relations.

The Japanese philosophy is that only the company in which the human relations are good will succeed in while the one with bad human relations will go bankrupt.

In order to understand a Japanese company and to be able to cooperate with it, it is really useful for one to see it as an exclusive club, a cooperating union and a business enterprise because it incorporates features of these three aspects.

To put it in a nutshell, it is all about the great ambition and diligence of the Japanese, which are well-know around the world and also the basis of ethics in business in Japan. Still, what it is not exactly known is why the Japanese are so keen upon success: it is a mixture of historical factors and self-image according to which they have been superior and ambitious from ancient times.

Definitions of Ethics in Business

At first sight it is easy to understand that “ethics in business” is a field of which aim is explaining problems of moral nature which come up currently in the activity of economic agents from a market economy.

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R.T de George (1990) one of the most outstanding authors in this field defines ethics in business as “the moral perspective, whether implicit in a behaviour or enunciated explicitly, of a company or of an individual who does business”. The behaviour and the statements may contradict one another so that one may say about a corporation that although it displays an ethic credo, allegedly, in the service of community, the terrible damages done to the environment show which are its real beliefs. De George places ethics in business at the level of a simple description, the one which states and makes, effectively an economic agent in respect of certain ethic reasons.

P. V Luis has a different opinion. He defines ethics in business as “that set of principles or reasons which should govern the conduct in business at individual or collective level”. If we agree on the fact that there are many things that businessmen should not do, ethics in business in this second meaning refers to what people *should* do in business (Lewis 1985). According to Lewis, ethics in business delimits its problems at the level of *standards* of moral behaviour which show the economic agents what should and what should not do in their specific activity.

In Roger Crisp’s opinion, a praised philosopher of Oxford, chief editor at the ethics department of the imposing Oxford University Press, in the meaning most frequently used, ethics in business is a domain of philosophical investigations, having its own problems and subject of discussions, specialists, publications, research centres and, certainly, a variety of currents of thought or schools of thought. Crisp suggests that “ethics in business concerns the evaluation and support with reasonable arguments the values and moral standards which should govern the economic game”, hoping that his explanations may contribute to the improvement of moral practice in business environment (Cowton & Crisp, 1998).

Basic Principles of Ethics in International Business

Considering the cultural variety of moral values and principles lengthwise and crosswise the planet and, since the adapted policies led to many unacceptable effects, the idea of drawing up international ethic codes appeared more and more substantive through the explicit agreement of some governmental and non-governmental associations in which the big transnational corporations have the main role. Searches are more and more numerous but, the results are being, for the time awaited, at least on the practical field. The International Institute of Ethics in Business proposed to the firms of world-wide span the next three basic principles:

- INTEGRATION. Ethics in business must penetrate all the aspects of the organisational culture and must reflect itself in the management systems.

Companies must begin with the integration of ethics in the objectives' establishment and in the recruitment, hiring and promotion practices of personnel.

- **IMPLEMENTATION.** The ethic conduct is not just an idea, but it requires an effort to implement a plan regarding the change of attitude in the different divisions of activity of a corporation. Examples: modification of the systems of reward and stimulation of staff, promotion of some superior practices of environment protection, experts' consultation when needed.

- **INTERNATIONALIZATION.** The opening ever more extended towards the global market is necessary for every successful business of the 21st century. It may be accomplished through international partnerships, commercial blocks and through the implementation of GATT agreements or other similar agreements.

The clarification of one's definition of moral integrity, so that it may transcend national frontiers is necessary for every corporation which operates on the global market, having as result a programme of action and an ethic code without a cultural specific colour and which does not require essential changes when being put into practice in global contexts.

The last decade knew a real blast of ethic codes of behaviour of multinational corporations in international business. Most of them are drawn up in accordance with the principles established by OECD (Organization of Economic Cooperation and Development) and by ICGN (International Corporate Governance Network).

Unfortunately, many of these codes of conduct enunciate some quite evasive truisms and top managers and economic analysts admit the fact that there is still almost everything to be done regarding the effective implementation of the declared principles in the day by day activity of the firms which operate on the global market. Many problems are still waiting for a solution which has solid theoretical arguments and which is checked up in practice. However, the most important thing is that the pressing problems have already been formulated and accepted by the community of transnational corporations, which is not little. Undoubtedly, once put into movement, the process of evolution of ethics in international business will continue in an accelerated rhythm with, hopefully, positive results for as many and as wider categories of interactive groups in the global economy as possible.

Ethics in Japanese Companies

Kaisha - Japanese Companies

In Japanese the word correspondent to company <kaisha(kie-shah)> has, mostly, the meaning of community. When they refer to the place where they work, the Japanese, usually use the term <uchi(uu-chec)>, which means "inside" or "my

house” with possessive meaning ---uchi-no kaisha or “my company”. This means more than “the place where I work”. For those Japanese who work for big, acknowledged companies the place where they work <shokuba> is more important than their profession or what they work. When they are being questioned about the way they earn their living, the Japanese, generally, will not say that they are teachers, engineers, carpenters, sailors/navigation or anything else. They will answer that they are members of the personnel of the Chiyoda Highschool, of the Electric Company Sanyo, of the Construction Company or of Nissan Motors. Profession <shokugyo> comes second after <shokuba>.

The circumstances in which the Japanese identify themselves with their employers are, usually so powerful that hinder them to have or develop any other interests or connections with other people who have the same profession. In fact, in many professions, members of different organisations avoid to communicate with each other.

In the U.S., two persons may become friends very quickly, especially if they have the same profession, while in Japan this kind of interactions cannot even be taken into consideration.

Japanese are very loyal to their superiors and this determines a certain restraint towards those who do not belong to the company they work for. Most of the times, between Japanese and their business partners interferes a feeling of precaution, sometimes even hostility.

The system of companies in Japan is so strict that it is very hard, sometimes even impossible for a company to do business with another company with which it does not have personal, tight and previously established relations. However, when a situation like this occurs, they say that they “do business with the enemy”.

This taboo is so deeply rooted that, sometimes it leads to absurd situations such as a company which does not take into consideration vital information simply because it did not come from somebody with whom the company has personal relations.

Another practice in the business field which seems especially strange for the foreign directors is that in Japan the most capable and hard-working employee is not always the most likely to be promoted. In the leadership system, the “highly-positioned” Japanese do not agree with the fact that the professionally superior people should get promoted quicker than them. They worry that the people who get promoted will be, in this way more interested in themselves and not in their trade partners. The Japanese method is that of promoting the person who gets well with everybody, who is good at maintaining harmony, who is flexible and who is expected to be concerned of the well-being of everybody.

Recognition and promotion in the Japanese companies does not depend so much on the abilities or success as it depends on seniority or services for the company, age, education, the school which courses the employee has attended and

on demonstration of a straight attitude. For example, the young people who want to advance on the executive's chain of command do it by building in peace an image of "senior" and practising <jicho(respecting yourself)>. This also means that they will be cautious in order not to attract criticism or not to draw undesirable attention over themselves. They will never be ahead their superiors and they will not ask them questions as well. And, more or less, they will go on with the rest of the people and they will wait for their turn.

It is not a wonder that the key reason for which the relation superior-subordinate from the Japanese society is so powerful, as this makes all the workers to depend totally on their superiors but also on their subordinates. All the members must do their part/work to avoid putting the whole group into danger. Bearing these in mind, it is not hard to understand why the thirty-year-old employees of the Mitsui or Hitachi Company or of the Suzuki Electricity are not expected to disturb the harmony that they have with their Japanese, subordinates or superiors, as it is most likely to spend their entire life working with them. The employees content and success depend on the continuous good-will of the co-workers.

Shikomu (Training in the "Morality Company")

Japanese like to say that "people are the industry". This means that a company cannot be separated from the people who form it; that is the members of a company are connected through emotional, economic and social links which transcend them all. Japanese do not think that employees will give the entire contribution to the industry unless they are totally implied in the company's activities and unless they are totally loyal. This is another reason why the big Japanese firms prefer to hire workers directly from schools when they are young and "unspoiled" and much easier to inspire them with the company's philosophy.

The training to which Japanese companies subdue their new employees in order to inspire them with its own philosophy is known as <shikomu>. This is a special type of training which does not include only techniques, but also morality and philosophy of the actions necessary to complete an/a activity/job. Masters carpenters from Ancient Japan, for instance, used to send their apprentices to theatre in order to learn life's ethics. Afterwards, when the apprentices made mistakes with the saw or with the hammer, masters would rebuke them and they would ask them whether they have not learned anything from the theatre.

The Japanese philosophy is that only the company in which the interhuman relations are good will succeed while one with bad interhuman relations will go bankrupt. At least in theory, the good functioning of relationships within companies overpasses what the section, department and sometimes the entire company should accomplish.

This management of human relations preferred by the Japanese is based on physical interactions, face to face between groups and between individuals belonging to other groups and with whom they have established relationships. This, of course is another aspect of the role of introduction and of the “walks” from one group to another. It also explains why the system of Japanese businesses excludes doing business on the phone before a face -to -face meeting takes place and before the basis of a substantial degree of <amae> are put.

Shakai No Kurabu (Company like a Social Club)

Akio Morita, one of the founders of Sony Corporation noticed once that Japanese companies look more like social organisations than business enterprises. Of course, Morita referred not only to the vertical structure junior-senior, father-child of the Japanese companies but also to the famous organisation of big companies. In order to understand a Japanese company and to be able to cooperate with it, it is really useful for one to see it as an exclusive club, a cooperant union and a business enterprise because it incorporates features of these three.

Japanese industry, as a whole is characterized by a few large companies which dominate each industrial sector. Besides these, there may be average companies, independent or functioning as satellites of one of the big companies.

Ichi-ryu, Ni-ryu, San-ryu

All Japanese enterprises from the whole territory of the country are, first of all classified according to the industrial category, then according to their size and sale and, finally, according to other companies with which are affiliated. All big and important firms, irrespective of industrial category are classified according to those who form it but also by making a comparison with other firms from the same category. An important firm is called <ichi-ryu> or a “first-class” company. <ni-ryu> is a “fore-cabin” company and <san-ryu> is a “third-class” company. Those companies which are below third class are very rarely “classified”.

The difference between “first-class” and “fore-cabin” companies is great because the entire Japanese industry is formed of a few concerns and a lot of little and average firms. Hereby, a terrible fight develops so that a company may reach the status of ichi-ryu, fight which for the Western businessmen may seem madness.

Likewise the fight carried by the companies in order to reach the highest status, the fight between graduates from highschools or universities stands out. For these ones it is very important to work for a “first-class” company even if economically they are underprivileged; in other words the salary does not match up to the status of the firm. In Japan the social status is determined according to the place where one works, not according to the money one earns and the prestige

can be gained by anyone who works for a concern, from executives to common workers.

It is important that big firms have a lot of little firms affiliated, which they call in different ways; the relation between the affiliated firms and “father” is less intimate and precise than the relation established in the big firm, even if this one offers the necessary assets and some marketing policies. The relation between them is conditioned by the objectives which the little firm must reach.

“Japanese’s Success”

The Japanese’s great ambition and diligence are well-known around the world, but what is not exactly known is why the Japanese are so front upon success – apparently, it is a combination between the historical factors and self-image according to which they had been superior and ambitious people from ancient times.

Even from the Japanese feudally era (1192-1868) social classes and occupations were generally hereditary. The only accepted and promoted characteristics in that period were the dedication for the rough labour and loyalty for the superiors.

At the fall of the feudally system in 1868, the new government began an intensive campaign with the purpose of rising the industrial level of Japan at the level of the U.S. and at the level of the developed countries in Europe. A part of the campaign consisted of the deposition of some efforts regarding the Japanese children’s education in accordance with the concept “Risshin shusse” meaning “Rise in front of your enemy through success”. This phrase refers to the fact that an individual’s success depends on the success of a group, starting with teamwork and ending with the inclusion in work of the entire country. Professor Hiroshi Hazama, professor at the University from Tokyo adds the fact that the success (shusse) for Japanese is not measured in terms of wealth, but in the level of social position they have. The Japanese’s social status is gained by practising their professions: doctor, executive and professor, and the apogee is reached when an individual is the leader of a group or when he obtains the title of “cho” irrespective of the size of that group.

Hiroshi Hazama also adds the fact that the social status gained from being a simple employer is also of a vital importance in the Japanese system of values. This factor contributes to the Japanese’s vocation to form their own companies no matter how big or how precarious these may be.

The end of the Second World War had a profound effect over the Japanese’s attitude towards success. The family system in which the father was considered the absolute master ended. The introduction of the American democracy system led to equality of people in front of the law. The damages of

the war reduced the great majority of people at the same economic level – the level of poverty.

The new conditions after the war led to the quick replacement of the “shusse” or the concept of a group’s success with the individual success in terms of social position and wealth.

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JAPANESE CONSUMER BEHAVIOUR - GENERAL VIEW

Iliuta Costel Negricea*

Abstract

Human Society evolution determines adaptation to the modalities thru which the organization is able to know the market. The contact between organizations and consumer is made by the marketing activity, imposing a mutual long term relationship for both parties. The Japanese market had realized many changes in the last few years and in the same time the consumer behavior. To understand the Japanese behavior, their motivations needs you have to take into consideration the Japanese tradition, culture, economical, technological and human influences which are characteristics for Japan.

Establishing a relation mutually advantaged for a long period of time between 2 parties it is depending on value communication of both parties. Building a value is a complex process which implies amplexness of each initial activity. The way of understanding the value perceived by the other is controlling entire communication and mutually activity in our proof of being understands and efficiently communicating for obtaining needed answer.

The consumer is in the middle of all economical activities as individual or organization.

The question is how can you establish a long relation with the consumer? And the answer is simple: activities oriented towards market, towards motivations which may have as result the mutually convenience interaction with the market. Marketing has as result realising activities which will achieve the target and customer satisfaction. On other way, studying the customer behavior¹⁰ is shot for the individulas groups or organisations are selecting, buying or using and they are getting of the goods, services, ideasa and experiences which are satisfactory for their needs and wishes.

A consumer may be considered any entity that is oriented the behaviour towards consumer individual or group status (family, house) needs. Customer

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¹⁰ Kotler Ph., *Marketing Management*, Teora, Bucharest, 2005, p. 231

concept¹¹ is not considering only corporally area but also the individual and in principal cognitive process for all the elements that are determination consciously the buying activity.

The organization is in permanent seeking for the *truth* about the way the consumer understands the offer, about the ways of interpreting the messages towards market are understood and are generating an answer.

Having activities in a domain with internal direct human reactions it is difficult to determine the actual activity and the marketing mission. Here we are talking about elementary processes determinations as – perception, attitude, motivation, and decision – which in the acknowledgement present moment are not totally known. Many times it happens that the consumer does not know totally the form of his activities, inscrutability being the definitive word in most of the situations proper for consumer behavior.

In case of organizations we may discuss about a specific behavior which determines the marketing activities, in general. The decisional process in a company is under different influences, some of them coming from external environment and some from company's own departments and personnel.

Out of specific product characteristics, as price, service, operation costs and maintenance, the bidding company should consider the organizational environment and interpersonal influences.¹² Being a far cry from adopting a different, calculated and impersonal attitude the organizational consumers are represented finally by social and human beings which have reactions for all rational and emotional influences.¹³ In this way between the individual consumer behavior and the organizational one there is a strong relation, and the common element is the human being well known and in the same time inscrutable.

In the conditions of these realities what we would like to study are the general conditions of Japanese consumer way of behavior, general characteristics which are identified during time or which appeared following the Nippon society evolution (which may have influence in different situations for consumer behavior) and also a general presentation of Japanese economic environment.

During time there were various tentative from *occidentals* to understand the Japanese universe and how one of the most World Powerful countries has in the same time a strong market. Also to understand the unique characteristics of this country, with strong cultural influences and also to know the source of the Japanese energy – this is the human being.

¹¹ Raffée H., *Das verbraucherverhal ten*, în *Handwörterbuch der Absatzwirtschaft*, Ed. C.E. Poeschel Verlag, Stuttgart, 1974, in Balaure V. (coord.), *Marketing*, Uranus, Bucharest, 2003, p. 183

¹² Louis E. Boone, David L. Kurtz, *Contemporary Marketing*, Harcourt, Orlando, 2001, p. 307

¹³ Philip Kotler, Gary Armstrong, *Principles of Marketing*, Teora, 2004, p.318

Japan is on the second place in the world 'economy with a Gross Domestic Product of 4 897,37 billions USD (which is over 36500 USD/ head) this economical situation is because of strong economical discipline and the technological progress. The most important activities in Japan are the bank activities, insurances, real estate domain, retailing sector, transport and telecommunications. In Japan there is the headquarters of ones of the most important technological companies in the world, the biggest International World Bank Mitsubishi UFJ Financial Group, the second worlds Stock Exchange - Tokyo Stock Exchange, and ones of the most known transnational companies in the world - Sony, Mitsubishi, Toyota etc.

Japan population is 127, 7 millions people and this is one of the reasons for being an important market. . For 2007 they estimated a decrease of number of people rate (for about some thousands of people) and it is estimated that in 2050 the population will decrease until 100 millions people¹⁴. This situation will happened because of young generation which is not looking for having a family or getting married earlier. There are various tentative for straighten this situation, one is immigrations (which are not very popular in Japan) or the advantages for having children being some of the proposals.¹⁵

Other important elements from demographic distribution point of view is distribution on sex categories of people, 63.3 millions of men and 65.4 millions of women and the biggest hope for life in the world with 78.5 years for men and 85.5 years for women.

Most of Japanese society is uniform from linguistically point of view and cultural, with a slam amount of foreign workers: [Zainichi Koreans](#), [Japanese Chinese](#), [Japanese Brazilians](#) and others and some minority groups as: [Ainu](#) și [Ryūkyūans](#), and also other minorities such as [burakumin](#)¹⁶. The budism and shintoism are the most important religions in Japan with approximately 84% from total population. What is important for determine the influences on consumer behavior is also speaking of the second language and this is English. All these aspects are a very important factor for describing the Japanese consumer behavior and market for the form of organizing the activities of the companies' for this market.

The Nippon civilization particularity determines the adaptation of action instruments of companies on this market. Japanese culture is oriented towards groups and team work and not to individualism. The Japanese are not following the strong personalities. The modesty is the main characteristic of Japanese

¹⁴ Statistics Bureau, Ministry of Internal Affairs and Communications, <http://www.stat.go.jp/english/data>

¹⁵ Ogawa, Naohiro. "Demographic Trends and Their Implications for Japan's Future" The Ministry of Foreign Affairs of Japan. Transcript of speech delievered on (7 March 1997). Retrieved on 14 May 2006.

¹⁶ Wikipedia, Japan: http://en.wikipedia.org/wiki/Japan#_note-imf

behavior. When the Japanese have to buy products they select only known products, expensive products which are well known on the market and that may be satisfactory for their need and for obtaining respect in front of the other members of community.

Another significant aspect which is characteristic to the Japanese, connected to the same tight group affiliation, is his preference to conform to the opinions of other people, to talking about their own ideas and opinions. More often than not does this characteristic determine atypical consummation behaviors. During the last years, nevertheless, an opening towards communication has been obvious, towards expressing their own opinion, especially at the younger generation, but also at the other age categories.

When they go shopping, the Japanese would rather accept pieces of advice from their friends or from the sellers regarding the products' choice, than choose themselves. That is why the dealers must be endowed with a very significant characteristic, namely: obligingness and sociality.

The Japanese will never address you directly, because, in their view, it is not polite to address the other directly. Their mentality tells them that having a debate is equal to being impolite. Expressing a different opinion means lack of respect in Japanese tradition. Moreover, there is no such thing as negation in Japanese culture.

The Japanese population would much rather observe the laws and rules than rely on their own judgment. The law system in Japan requires a judge, who shall take the decision pursuant to the law. Being that Japan has lived for a very long time under a dictatorship, Japanese culture is called the "culture of sadness".

The Japanese consumer lays more stress on the finishing of a product than on the performance of that product, and this applies also to any kind of product, clothes, electronic products, houses and so on. The Japanese purchaser either chooses a very expensive product or a very cheap one, but they never show any interest in a middle category product. Thus, the market in Japan tends to have only two market segments: the high prices segment and the low prices segment.

The elements that determines the unique characteristics of Japanese consumer and which have a influence for attitude, design, preferences for products and in general for all challenges of the market are as follows:¹⁷

1. They tend to place themselves in their own exclusive and closed communities. Accordingly, they have introverted personalities and they pay serious attention to harmony and cooperativeness in the group. They feel comfortable with familiar people in the communities they belong to. They developed their sense of allegiance in the group consequent to be exclusive. The behavior of competition and appealing themselves is observed only within their

¹⁷ <http://www.intelbridges.com/japanesedisposition.html>

own community. On the other hand, they are enthusiastic in absorbing or imitating other cultures.

2. Japanese consumer is always adapting to the authorities requests, and this is because of following in cry feeling as a result of Japanese culture.

3. What is surprising is that the Japanese consumers are interested in emotional feelings and decision and not in scientific and rational decisions.

4. Japan has a population of about half of the United States with a land area about 90% of the state of California. Therefore, roads, parks, houses, etc. are designed in miniature size. This environment influences largely their lives. They tend to pay attention to precise details rather than the big picture. They are better at developing transistors than space development projects. Mini-component audio systems are essential in their narrow houses often referred to "rabbit hutches".

5. Japan is a country poor in natural resources but rich in hard-working and diligent people.

During the last few years we can observe a distribution of the Japanese society depending on social evolutions. The generations started to become different to one another. While the old generation is characterized by tradition the young generation is trying to be different to one another and the women are started to become independent. Also the traditional and healthy food is starting now to be replaced by the fast food.

From organizational the point of view for the Japanese consumer we can describe the following aspects which are related to individual aspects:¹⁸

1. Japanese people tend to accommodate others' opinions rather than speak up for themselves. They attach much importance to harmony. Corporate policies are preaching the the importance of harmony.

2. Many corporate systems are structured for cooperative employee performance. An employee submits an application for approval, for such things as a new plan, business trip or purchase (called "Ringisho") to the chief who passes it along to a higher level where it is again passed up the chain of command. If the application is approved, it is sent to accounting section, and then to purchasing section where the order is placed. In this way, responsibility is shared by many people. This system seems very inefficient, however, once the decision is made, the subject is performed in whole organization scale as a company mission.

3. The flagship is the Japanese Government. Companies are transport ships and ministries are the warships to protect and support the transport ships which carry the economy. Private companies are therefore highly regulated by the government.

4. The Japanese employment system has traditionally been operated as lifetime employment. Changing jobs is regarded as a lack of allegiance to the company and is dis-advantageously evaluated by next employer.

¹⁸ <http://www.intelbridges.com/japanesedisposition.html>

5. In Japanese organizations, as in homes, hosts invite their guests to take superior seats. It is supposed that this custom has been passed down from feudal times.

6. Within Japanese organizations, when speaking of other employees, the person's name is said without an honorific title even for high ranking employees. This comes from a strong group consciousness that every employee of a company belongs to the company and is a part of the company, and people are categorized as insiders or outsiders.

The Japanese consumer is characterized by a continuous search for any kind of gadgets, which have the role of keeping their notoriety amidst their acquaintances. Willing to pay significant amounts for the latest technologies, the Nippon consumers base their decisions on the brand's prestige and notoriety. Thus can be explained why brands such as Tiffany's and Louis Vuitton record some of the biggest sales in Japan. Amongst the foreign brands, there can be enumerated: Starbucks, Coca Cola, Haagen – Dazs, the Gap, Microsoft, Disneyland, McDonald's but also Rolex, Coach, Prada, Chanel.

Regarding the distribution modalities, the Japanese consumer would rather remain loyal to the old providers, dealers, even if the new distribution system offers better commercialization conditions and much lower prices.

Approximately half of the daily consumers' expenses are made in small shops in the residence vicinity, with at most five employees (which represent 58% form the total Japan distribution network).

Since 2005, in Japan has been taking place the final stage of the 'marketing reorganization'. At this stage, the advantage that the large Nippon distribution networks such as Daiei and Seiyu had once enjoyed, disappeared, (their importance in the Japan total distribution network decreased 10 %), on the other hand, due to the managerial errors of these corporations and on the other hand due to the difficulties met by the factors of governmental decisions, in the attempt of supporting them. There appeared strong networks at regional level or an extended number of small shops with a universal profile (from electronic products to garment and domestic items).

The important assets are distributed, traditionally, through the larger shops, known for their price reduction policy. The distribution system is characterized by a tight relationship between the importers and the multiple layers of traders and retail sellers. Lately, the direct import, performed by avoiding the larger markets and as many agents as possible, has become a more and more popular reduction method.

The interest that the international companies have for Japan is determined by the colossal purchasing of the Nippon market, the second one from this point of view, following the American one. The purchasing capacity of the Nippon population by means of the distribution networks amounts to 1.040 billion USD (compared to 2.330 billion USD in the USA and only 445 billion USD in China and 385 billion USD in Germany), which means that each Japan inhabitant purchases, every year, on an average, products of over 8.000 USD (similar to the

USA purchasing capacity and almost double compared to England, where every inhabitant purchases, on an average, products in value of 4.600 USD).¹⁹

Culture represents one of the most significant factors which determine the behavior of the Nippon consumer. The access to this market requires the product's adjustment, even if it is a standardized product spread on the international market. There is also the possibility of an undifferentiated demand for the international product, in the case of the consumers who wish to identify themselves with a certain lifestyle.

The Japanese consumer enjoys unique characteristics, regarding the manner of expressing the demand, the manner of perceiving and estimating the products or services, of the reactions to the promotion campaigns and so on. The development of long term activities on this market requires from the Organization the formulation of the marketing strategies adjusted to the features characteristic to the market.

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JAPAN AND THE OECD - A LESSON FOR ROMANIA

Iustina Luțan*

Abstract

The Organisation for Economic Co-operation and Development (OECD) is a unique forum where the governments of 30 market democracies work together to address the economic, social and governance challenges of globalisation as well as to exploit its opportunities. One of the most important advantages of the OECD over other intergovernmental organizations or academia is the fact that the work, expertise, and know-how is transferred from a wide range of participants, like member countries, senior officials from treasuries, economics, foreign affairs, in close consultation with business, labor and World Bank, IMF, WTO, UNCTAD as well as other non-governmental organizations.

OECD short profile

The Organisation for Economic Co-operation and Development (OECD) is a unique forum where the governments of 30 market democracies work together to address the economic, social and governance challenges of globalisation as well as to exploit its opportunities. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, and identify good practice and co-ordinate domestic and international policies.

For more than 40 years, the OECD has been one of the world's largest and most reliable sources of comparable statistical, economic and social data. OECD databases span areas as diverse as national accounts, economic indicators, trade, employment, migration, education, energy, health and the environment. Much of the research and analysis is published.

Over the past decade, the OECD has tackled a range of economic, social and environmental issues while further deepening its engagement with business, trade unions and other representatives of civil society. Negotiations at the OECD on taxation and transfer pricing, for example, have paved the way for bilateral tax treaties around the world.

The OECD is a group of like-minded countries. Essentially, membership is limited only by a country's commitment to a market economy and a pluralistic democracy. It is rich, in that its 30 members produce almost 60% of the world's goods and services, but it is by no means exclusive. Non-members are invited to subscribe to OECD agreements and treaties, and the Organisation shares expertise

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and exchanges views on topics of mutual concern with more than 70 countries worldwide, from Brazil, China and Russia to least developed countries in Africa.

Japan a member of the OECD

Japan signed the **Convention** founding the Organisation for Economic Co-Operation and Development on 28 April 1964, thereby pledged its full dedication to achieving the **Organisation's fundamental aims**, designed:

➤ to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

➤ to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

➤ to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

Like all **30 member countries**, the Japanese government maintains a **permanent delegation to the OECD**, composed of an **ambassador** and diplomats. As a member of the Council, Japan's ambassador, in consultation with his peers, agrees the program of work which is described in the **annual report**, validates **strategic work** and establishes the volume of the annual budget, **contributions** being assessed according to the relative size of each country's economy.

"A Strategy for Enlargement and Outreach," targeting non-member states, was adopted following OECD Ministerial Conference in May 2004 in Paris, also known as the Noburu Report, named after the Ambassador of Japan to OECD. It was brought to fruition by all OECD Ambassadors under the Chairmanship of Ambassador Noboru of Japan. The strategy provided for the actions needed to be taken with respect to OECD candidate countries and the corresponding reform of the Organization.

Members of the Japanese Delegation monitor the work of the OECD's various **committees** as well as the activities of the European Conference of Ministers of Transport (**ECMT**), the International Energy Agency (**IEA**), the Nuclear Energy Agency (**NEA**) and the **Sahel and West Africa Club**, of which Japan is a member.

Delegations thus play a vital communication role in providing liaison between the **OECD Secretariat** and national authorities. They represent their governments' positions in multilateral negotiations, indicate areas in which their governments seek OECD expertise and endeavor to help disseminate OECD recommendations in their respective countries. In doing so, they ensure that there is a good fit between OECD work and the issues of concern in their country.

The advantages of OECD membership

The benefits for Japan, as well as for the other member countries are many. Through its country surveys and **comparable statistical** and economic data, the OECD provides its member countries the necessary tools to analyze and monitor their economic, social and environmental policies. Countries can take advantage of the OECD's expertise, including **peer reviews**, and they can access the research works and analysis conducted by the Secretariat. Covering the full economic and social spectrum, this work could not be carried out by any one country alone.

In addition to its economic intelligence functions, the OECD is above all a forum within which countries can discuss and share national experience, identify best practices and find solutions to common problems. The OECD having working relationships with over **70 non-member economies**, members benefit from dialogue and consultations with all players on the world scene, in a context of **increased interdependence** that demands global rules of the game.

The **OECD Tokyo Centre** constitutes an additional advantage for Japan. As a regional contact point, the Centre's role in communications is paramount, in that it can address targeted messages to all components of society, often in their own language. The OECD Tokyo Centre was established in 1973 to market the publications of the OECD in Asia and the Pacific and to serve as an information center for this region. The Centre is engaged in public outreach activities and acts as a liaison office to the Japanese legislative and executive branches.

OECD recommendations for Japan

Japan is emerging from a decade of economic stagnation, but is left with a large GDP-per capita gap vis-à-vis the best performing countries due to a major productivity shortfall, although the economic growth is projected to 2% in 2007-2008, due to buoyant business investment underpinned by record corporate profits and private consumption. In this context, the OECD recommendations for Japan regard:

➤ Further liberalize retail and professional services through easing policies such as entry restrictions and zoning regulations that may have the effect of favoring small and less productive retail stores compared with new large-scale stores. Additionally it is advisable to expand the range of qualifications that permit foreign personnel to work in Japan and increase the number of sectors where foreign workers are allowed to include non-technical areas, such as caring for the elderly.

➤ Reform employment protection legislation for regular employment by removing judicial uncertainty that discourage the hiring of regular workers, establishing more precise and transparent statutory guidelines and reducing

employment protection for regular workers, thereby lowering the incentives to circumvent strict conditions by hiring non-regular workers.

➤ Further reduce the level of support to agriculture, while shifting its composition away from market price supports and towards direct support for farmers to reduce the distortion of trade and production decisions.

➤ Encourage innovation by improving framework conditions, including by removing obstacles to the development of venture capital markets. Upgrade the education system through further reducing regulation and removing entry barriers to foreign universities.

➤ Raise productivity through higher foreign direct investment: remove obstacles that potential investors may face by fully opening the M&A market to foreign firms and by easing product market regulations, especially in the service sector and network industries.

Romania and the OECD

One of the foreign policy objectives at the multilateral level is the development and enhancement of the relations with OECD as a means for Romania to meet the accession conditions for joining the working groups and structures of the organization. OECD accession is an objective outlined in the 2005 -2008 Government Program. On 28 April 2004, the Government of Romania officially applied for OECD membership.

Currently, Romania is part of the following OECD structures:

- Full-fledged member of OECD Development Centre and holding a position in the “Governing Board” (Centre’s co-ordination body);
- Member of the [Declaration and Decisions on International Investment and Multinational Enterprises – DDIIM](#) (together with the other 38 signatory countries);
- Full-fledged member of OECD Local Economic Employment Development;
- Observer in the Council Working Party in Shipbuilding;
- Observer in the Nuclear Law Committee within the Nuclear Energy Agency;
- Observer in the Steel Committee and undergoing full membership ratification procedure;
- Observer in Scheme II of the Committee for Agriculture (OECD certification scheme for fodder seeds, cereals, sugar beet, vegetables seeds and OECD regime for the implementation of international standards for fruits and vegetables);
- Observer in the Maritime Transport Committee;
- Observer in the Committee on Competition.

Romania member of OECD Declaration on International Investment and Multinational Enterprises

The OECD Declaration on International Investment and Multinational Enterprises is a political agreement among adhering countries for co-operation on a wide range of investment issues to improve the investment climate, encourage the positive contribution multinational enterprises can make to economic and social progress and minimize and resolve difficulties which may arise from their operations.

The Declaration consists of four elements, each of which has been underpinned by a Decision by the OECD Council on follow-up procedures:

- The Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises. They provide voluntary principles and standards for responsible business conduct consistent with applicable laws. The Guidelines aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to enhance the contribution to sustainable development made by multinational enterprises. Observance of these Guidelines is encouraged and facilitated by adhering governments through National Contact Points;

- **National Treatment** : Adhering countries shall accord to foreign-controlled enterprises on their territories treatment no less favorable than that accorded in like situations to domestic enterprises;

- **Conflicting requirements** : Adhering countries shall co-operate so as to avoid or minimize the imposition of conflicting requirements on multinational enterprises;

- **International investment incentives and disincentives** : adhering countries recognize the need to give due weight to the interest of adhering countries affected by laws and practices in this field; they will endeavor to make measures as transparent as possible.

The Investment Committee provides the structure where adhering countries meet to discuss application and implementation of these legal instruments through the unique peer review process.

Romania is a member of the OECD Declaration on International Investment and Multinational Enterprises since April 2005 and in this quality had to establish the Romanian National Contact Point. Romanian National Contact Point (RNCP) is responsible for encouraging the observance of the OECD Guidelines for Multinational Enterprises in the national context and for disseminate information on these in the business communities and others interested parties.

Romanian National Contact Point (RNCP) gathers the information regarding the national experiences of OECD Guidelines promotion discusses the questions raised by business community regarding OECD Guidelines and assists their solving.

The Coordination of the Romanian National Contact Point is assured by Ministry of Foreign Affairs. The executive function is assured by Business Environment Department and the President of the Romanian Agency for Foreign Investments. The technical secretariat is assured by Ministry of Foreign Affairs and Romanian Agency for Foreign Investments.

RNCP's activities from its establishment until present focused on promoting its role, responsibilities and structure as well as the OECD Guidelines for Multinational Enterprises. Thus, RNCP developed an ample information and promotion campaign towards central and local public authorities, multinational companies, Foreign Investors Council in Romania, regional development agencies, local and bilateral chambers of commerce, foreign embassies in Bucharest and Romanian embassies abroad, employers' associations, labor unions, professional associations. The RNCP's sub-site was developed starting from the Romanian Agency for Foreign Investment central site (www.arisinvest.ro) including information in Romanian and English such as: RNCP's role, responsibilities, structure, Resolution of Issues Related to Implementation of OECD Guidelines, OECD Investment Policy Review Romania, OECD Guidelines for Multinational Enterprises, Useful links and Contact coordinates. A leaflet presenting RNCP and OECD Guidelines for Multinational Enterprises was edited as well and presented at the first Annual Conference of Romanian National Contact Point (autumn 2005).

Conclusions

One of the most important advantages of the OECD over other intergovernmental organizations or academia is the fact that the work, expertise, and know-how is transferred from a wide range of participants, like member countries, senior officials from treasuries, economics, foreign affairs, in close consultation with business, labor and World Bank, IMF, WTO, UNCTAD as well as other non-governmental organizations. Moreover, the Investment Committee where Romania is present represents the investment policy community from countries which are the source of 90 per cent of global investment flow and provides a forum for international co-operation in the field of FDI.

Romania confirmed the relevance of the work done by the OECD Investment Committee involving high-level public officials in the investment policy evaluation document and establishing its own resource to follow-up, respectively the Romanian National Contact Point.

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JAPAN’S ECONOMY FROM BOOM TO BUST

*Șerban Georgescu and Bogdan Glăvan**

Abstract

Japan’s economic evolution for the last half of the century provides us with an unique occasion to test alternative theories for growth. This short article makes a review of the main economic events and their causes. It maintains that behind Japan’s slump and deflation was the state policy which encouraged a prior unsound expansion.

Japan’s economy boosted after World War II to reach the second position in the world. Many people expected Japan to become the first player in the world economy by the end of 20th century. However, this prophecy vanished in the bust that occurred in the 1990s.

The fascination of “japanese miracle” lead to the writing of many books and articles attempting to explain the reasons behind this formidable economic growth – Eric Vogel, *Japan as Number One*, William Ouchi, *Theory Z*, Eisuke Sakakibara, *Beyond Capitalism*, Herman Kahn, *The Emerging Japanese Superstate* etc.

Some economists believe that a strong work ethic as well as high saving and investment rates were decisive for Japan’s ascension in the top developed countries. Others think that state intervention in industrial development and export planning were the crucial element of this development.

As a matter of fact, “Japan has experienced both the genuine miracle of the market and the counterfeit miracle of the state for the past 150 years.” (herbener, 1999) after the world war II, the economic growth became so impressive that the expression “japanese miracle” was quickly adopted by professional analysts.

The real economic growth for three decades prior to the 1990’s was substantial. the 1960s marked 10% average growth, the 1970s with 5% average growth and the 1980s with 4% average growth.is the enlightened dirigisme of japanese government responsible for this record? As lal (2002) argues, the investment rate and the quality of the labor force are better explanation for this evolution.

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In the 1990s, economic growth was much smaller due to over investment in the 1980s and contractionary government policies. In 1996, growth increased in response to expansionary fiscal and monetary policies. However, despite the temporary increase, Japan entered a recession starting in 1997. The economy began to stabilize in 1999 as fiscal and monetary policies increased government spending and improved business confidence. However, in 2001, Japan finds itself again with a decline in industrial production, the sharpest since 1993, and an economy in recession.

But more important than simple calculations of GDP is how efficient are resources used in producing the goods that subsequently become part of GDP. According to Deepak Lal, between 1970 and 1998, the net savings of Japanese households amounted to 1250 trillion yen. At the same time, the change in net worth for this sector during the same period was 860.7 trillion yen. Put it differently, Japanese households lost almost a third of their savings. What is the explanation for this huge loss? The reason seems to be the huge rate of investment, or rather overinvestment, made by Japanese firms which, in time, proved to be less and less efficient. Thus, for example, in 1996, the same author quotes an estimate of the rate of return of only 1.6-2% for the overall economy. This rate of return to capital fell from the level of 12% in the 1952-1973 period.

Besides decreasing returns to scale, a second important factor for the declining rate of return was the monetary expansion engineered by Japan's government. Unsustainable credit expansion has led to malinvestments because the artificial decline of the interest rate has stimulated the adoption of investment projects with lower returns.

This event has its roots in the accommodative monetary policy pursued by the Bank of Japan (BOJ) in the mid-1980s following the Plaza Accord. The BOJ sought to stem the appreciation of the yen, which hurt its heavily export dependent economy. Rather than allow market forces to rearrange the pattern of production along more sustainable lines, the BOJ began its aggressive campaign to bring down the yen.

Meyer (2004) offers a good historical record of the effects of this policy. The BOJ reduced the interest rate from 5% to 2.5% between January 1986 and February 1987, a 50% reduction. The result was an uncontrollable expansion, as the stock market scorched its way upward. From January 1985 to its peak in December of 1989 (based on month-end index prices), the Nikkei nearly tripled. From 1986 through 1990, Japan's money stock grew by an average of 10.5% per year.

The BOJ inflated the yen money stock by 10.5% per year from 1986-1990 and lowered the discount rate from 5% in 1985, where it had been since 1983, to 2.5% by 1987. Japan exported the credit expansion to Southeast Asia and South Korea in the form of direct investment. The massive Japanese investment in Asia was augmented by loan guarantees made by the Export-Import Bank of Japan for

investment in and trade with Asia. By the end of the debt binge, Japan was the world's largest creditor nation manifested by having the world's largest banks and had the stock market with the world's largest capitalized value.

Despite the massive yen inflation, the yen appreciated 50% against the dollar from the beginning of 1985 to the end of 1988 and consumer-goods prices in Japan rose only 0.5% per year while wholesale-goods prices fell 4.6% per year indicating that growing yen money demand, international as well as domestic, was absorbing the monetary inflation. But supremacy of the yen was short-lived. Yen demand collapsed in 1988-1989 causing a 16% devaluation against the dollar and a surge of domestic price inflation.

The BOJ reversed its policy, and abruptly reduced inflation from 12.1% in 1990 to 4.1% in 1991 and then to 1.2% in 1992. The discount rate was raised five times, from 2.5% in 1988 to 6% by 1990. The end of the credit expansion doubled interest rates while the reduction in yen inflation helped push up the yen-dollar exchange rate 22% from 1989-1993. From a peak of 40,000 in December of 1989, the Nikkei tumbled to a low (again, based on month-end prices) of 7,831 in April of last year – a drop of 80%.

“Japan had experienced what America discovered in the wake of the collapse of Bretton-Woods: generating an international credit expansion succeeds so long as increases in money demand keep price inflation in check. Japan's restoration of a yen trading-block in Asia was cut short by America reasserting the dominance of the dollar, first in Canada, Mexico, Latin America, and South America and then in Asia and eastern and central Europe. The yen had little chance against the world's reserve currency and the yen-based credit expansion collapsed in 1990.” (Herbener, 1999)

The Bank of Japan attempt to inflate again in the 1990s. Despite the fact that the discount rate was lowered from 6% in 1991 to 0.5% by 1997, the banks refused to expand credit and instead simply absorbed the new money to hold as reserves against bad loans. As Herbener (1999) further explains, “blocked from domestic credit expansion, the BOJ tried to expand Japanese bank credit overseas with the yen carrying-trade. Investors borrowed yen at low interest rates, converted the yen to dollars and other currencies and bought higher-return assets overseas. This put downward pressure on the yen which increased the profitability of the strategy. The yen carrying-trade was active from mid-1995 to mid-1998 as the yen fell 83% against the dollar, but in July of 1998 the yen began to appreciate again, losses ensued and the trade dried up. This policy exacerbated the financial debacle in Asia by greatly expanding credit for three years and then suddenly shutting it off. The financial debacle in Asia then saddled Japanese banks with more foreign bad debt. In response, they cut foreign lending in the first quarter of 1998 by \$244.3 billion or 12%. This cut is the latest in a downward trend that has left the once dominant Japanese banks with the same global market share that they had in the early 1980s.”

In fact, banks stopped performing their natural role of financial intermediaries. Almost all the additional funds they acquired need to be used to pay down bad loans instead of expanding credit. From 1995-1998, bank bad loan write-offs were \$300 billion while banks reduced their loans 2.7% from September of 1997 to September 1998 and another 5.4% from May 1998 to May 1999. This is why enormous increases in the monetary base, 10% from mid-1997-mid-1998, have had little effect on broader monetary aggregates, which rose only 3.5%. Critics state that the root of Japan's banking problem is poor lending decisions. Since the 1990s banks have written down almost twice their entire capital and reserves to eliminate the bad debt.

Japan spent huge amount of public funds to prevent the economy from declining further. In 1995, the BOJ dropped its discount rate to 0.5%. In 1998, two spending packages worth 40.6 trillion yen were revealed. In 1999, came yet another fiscal stimulus package, this one worth 18 trillion yen. In 2000, another 11 trillion. Much of this deluge of money was put into public works projects or funneled through to politically favored businessmen. Japan's finances weakened as its debts grew.

Another determinant of the economic problems affecting Japan is the low return of its foreign investment. Japan's has become the largest creditor in the world, but unlike past big creditor nations – like Great Britain in the XIX century and USA in the XX century – it does not have a leading world currency. In other words, Japan has not used its currency to invest abroad, and consequently has borne to exchange rate risk. “With the dollar depreciating against the yen, their returns on foreign investments have been virtually wiped out over the 1980-1990's.” (Lal, 2002)

What could be said in the conclusion of this article. It is best perhaps to quote again from Lal (2002):

“In fact, the much touted Asian model of development – which combined an unholy alliance between parts of the government, large industries and the banking system – stored up the troubles which have led to the continuing slump. Because of the moral hazard created in such an economic system the financial system comes to be stuffed with more and more bad paper, as industrialists overinvest and undertake increasingly dicey investments. The bursting of the 1980's asset bubble has merely brought these chickens home to roost. What Japan needs is action to not merely clean up the ensuing financial mess but to turn its back on this doomed model.”

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JAPANESE CARS' POTENTIAL IN ROMANIA

*Vlad Cârstea**

Abstract

The Japanese cars are known for their reliability, small purchase prices, low maintenance costs and high fabrication quality. Will the Romanian market show the same attitude as the rest of the European countries regarding the Japanese cars.

The Japanese automotive industry's products are renowned for their quality, durability and low costs.

A good way to acknowledge the quality of a car is to receive international awards for it. Toyota, Honda and Nissan are manufacturers that got different awards, like "The car of the year" for Toyota, and Nissan, and for Honda "The engine of the year" award for the 2 liter engine, that is on their roadster, the S2000, and of course the diesel engine that revolutionized the way the engine is made. Another Japanese car manufacturer that got this award is Subaru, for its 2,5 liter turbocharged engine mounted on Impreza WRX.

Another type of award that is very important in the eyes of a future buyer and, why not, the present customer, is the quality award. These awards are given after surveys made by different companies

The most important name when it comes to quality car surveys is the American company, JD Power. They are also famous for developing an index called CSI which stands for Consumer Satisfaction Index. This index measures the car owner's satisfaction based on a survey made specific to every country.

The latest survey made by JD Power in Germany showed that Toyota models rank highest in satisfying customers in Germany in four of seven individual vehicle segments, while Mazda models rank highest in two segments and Volvo ranks highest in one segment, according to the J.D. Power and Associates 2006 Germany Customer Satisfaction Index (CSI) Study. Toyota's products and services are very well perceived here, so they won four awards in four different classes: small car (with the Yaris), lower medium (with Corolla, which for Toyota is the best sold car in the world), MPV – Multi Purpose Vehicle (Corolla Verso) and SUV (RAV4). Along with Toyota other Japanese cars got

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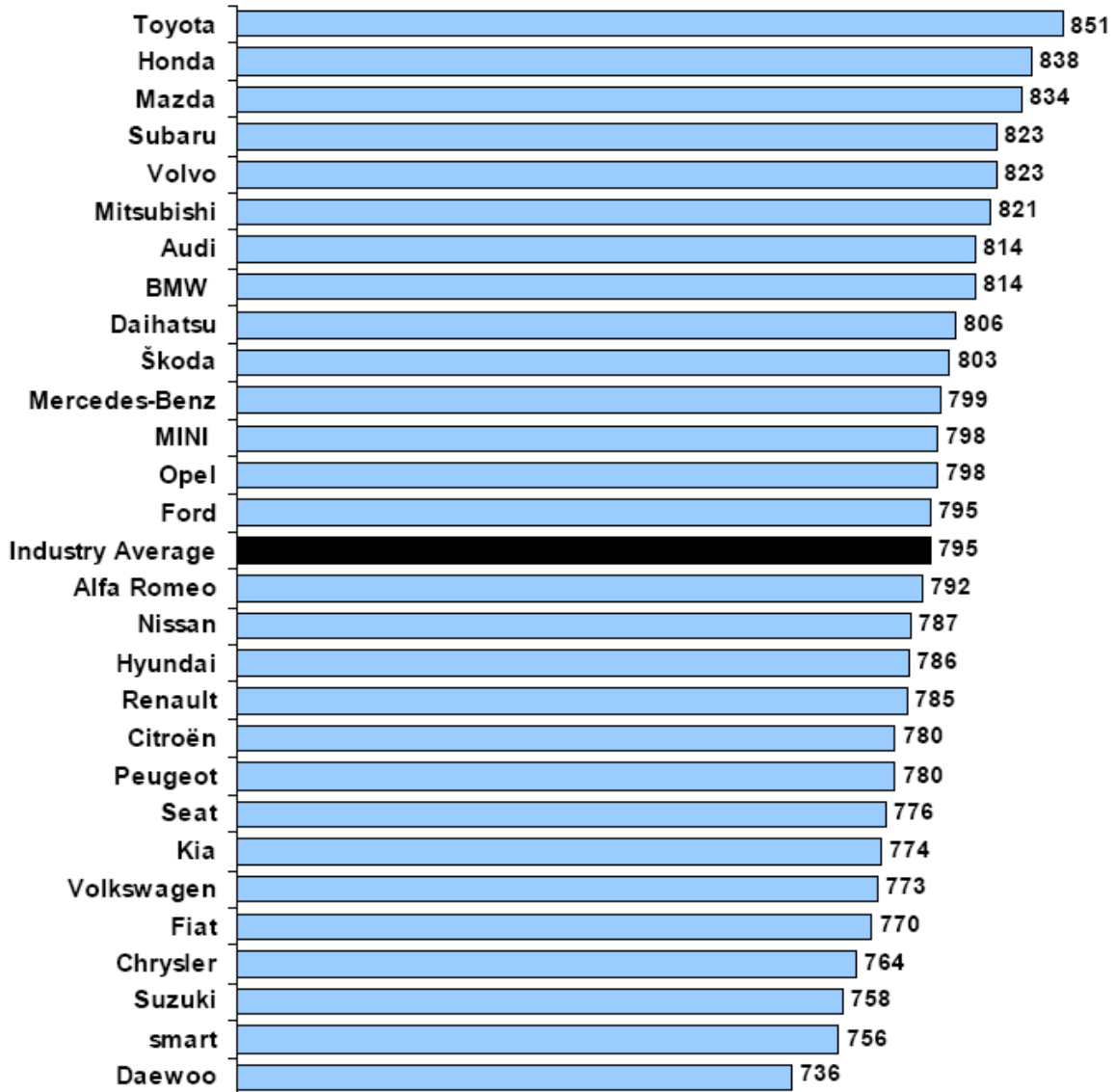
awards of best quality in their class. These cars are: Mazda 6 (upper medium), and Mazda MX-5 (sports car).

It is the fifth consecutive year that Toyota receives this award. The Japanese manufacturer leads the industry as the most satisfying brand to own for a fifth consecutive year, receiving an index score of 851 points on a 1,000-point scale. Toyota receives the highest ratings from customers in quality and reliability and service satisfaction. Toyota also performs well in vehicle appeal and ownership costs.

When we talk about consumer satisfaction on brands, the top is made like this: the first four positions are occupied by Toyota, Honda, Mazda and Subaru. Mitsubishi got a smaller score and had to settle with the 6th place, and Daihatsu on the 9th place. These brands are ranked beyond the average customer satisfaction. Unfortunately, the other Japanese car manufacturers Nissan and Suzuki were below this line and made it in the 17th and 27th place out of 29 possible.

Customer Satisfaction Index Score by Brand

(Based on a 1,000-point scale)



Unfortunately, in Romania, the Japanese cars don't have the same success, mainly because of the duty Romanians had to pay. Before the integration in EU

the level of this duty was of 30%, and the solution was a leasing contract. It offered the possibility of paying a much lower tax at the end of the contract. Now, that Romania joined the EU family, the level of the tax was lowered to 10%.

But this disadvantage is in some cases eliminated because the Japanese car manufacturers opened new factories in Europe. This allows them to get into a real competition with the European manufacturers with the purpose of gaining a bigger market share. Such cases are Toyota, with factories in Czech Republic, Poland, France, United Kingdom, Portugal and Turkey, Nissan that has factories in United Kingdom and Spain, Suzuki that opened factories in Hungary and Spain.

When we refer to the buying option of Romanians, the Japanese cars are unfortunately among the last in the list. The first are the French car manufacturers, mainly because of their prices, and after that we have the German brands. This is the result of a very old cliché that said the best cars are German.

Car manufacturer	2007 (4 months)	2006	2005	2004	2003
Toyota	3,1%	2,2%	1,7%	1,5%	1,3%
Nissan	0,8%	0,8%	0,8%	0,8%	0,8%
Suzuki	-	-	-	-	0,5%
Mitsubishi	0,7%	-	0,5%	-	-

If we take a look on the sales of Japanese cars in Romania, in the last four years, we would see that, except Toyota which had a constant increase of market share and Nissan that has the same sales figures for the last four years, the other producers like Suzuki and Mitsubishi are not a constant presence in the sales charts. The situation for Honda is even more dramatically, meaning that their sales were so small that they couldn't get a place at all in this chart.

These figures show once again that, in Romania also, Toyota is the most appreciated Japanese car brand.

About the same thing happens when we talk about second hand cars. If the French cars are on the first position, when it comes to new cars, German cars take the first place in Romanians option of buying a second hand car.

Regarding the price differences between the Japanese cars made in Europe and the European cars the gap is not that big. For example the base model Toyota Avensis with a 2 liter diesel engine can be bought with 19.410 euros and a base VW Passat with a smaller diesel engine, the 1,9 liter with 21.062 euros, or a Renault Laguna 1,9liter diesel with 19.064 euros. But, if we talk about cars that are made exclusively in Japan the price tag goes up. For example a Honda Accord with a 2,2 liter diesel engine is priced at 25.561 euros. But if the car is bought

with a leasing contract the price is lowered at 21.480 euros, because the taxes are paid at the end of the contract.

A very important criterion when it comes to buy a new Japanese car is the availability of a service network and the price of maintenance. All the dealers that sell Japanese cars have developed a service network throughout the country. The brand that had the most important development when it comes to dealerships and service facilities is of course Toyota. They have the biggest network spread throughout the country, in order to provide the best services for their customers. An interesting thing is that they offer their maintenance and repair services not only to Toyota customers but to other also.

When it comes to spare parts shops, unfortunately there is only one brand available. Probably this is a result of the low sales figures of Japanese cars both new and used.

The Romanian history of Japanese cars is very short, mainly because not all the Japanese manufacturers are present on the market. An example is the luxury brands of Nissan and Honda, Infinity and Accura. Of course, some might say that our market is not ready for these products, as they are pretty expensive due to the taxes the Romanian buyers have to pay (as these models are made exclusively in Japan), but a lot of people bought cars made by these manufacturers. They are imported by a dealer specialized in luxury cars. In my opinion, if Nissan and Honda follow the example of Toyota (that opened a Lexus dealership two months ago), they will have an important market share.

Another example of Japanese manufacturer is Daihatsu. I deliberately left it last because Daihatsu had a very small dealership in Bucharest a few years ago, but for some reason they restricted the activity and now there is no dealer that sales these cars.

Up to now the Romanians didn't gave the Japanese automotive industry any chance. But it looks like the chances are improving and more and more consumers are attracted to these brands. Of course the fact that the taxes are now smaller, the marketing strategies are more aggressive, the quality of the services before and after the sale is very good, the quality of the cars and the fact that you can get a better car for the same amount of money as an European car, is an important advantage for the Romanian consumers that buy goods depending on their price.

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HOW JAPANESE RUN THEIR BUSINESSES

Georgiana Surdu*

Abstract

The amazing economic results of Japan in the 20th century have determined an assiduous research of japanese evolution, only to prove that the main cause and factor for those results in japanese management. In this paper we try to reveal the main characteristics of this system and to compare it with other types of management.

“ All people are alike, only their habits are different.”
Master Kong Zhu (Confucius), Chinese, fifth century AD

The amazing economic results of Japan in the 20th century have determined an assiduous research of japanese evolution, only to prove that the main cause and factor for those results in japanese management. That's why is important to reveal the main characteristics of this system and to compare it with other types of management.

Much of the japanese culture- and the basis of working relationship- can be explained by the principle of “wa” (peace and harmony). This principle, embedded in the value they attribute to amae (indulgent love), probably originated in the Shinto religion.

Amae results in shinyo, which refers to the mutual confidence, faith, and honor necessary for successful business relationships.

Connected with amae in the hierarchy of any organization is an other characteristic feature of the japanese management, the oyabun-kobun relationship (oya- father, ko- children).

The essence of this principle is the existence of close relationships between people of different ranks in the company. The higher rank person is called oyabun, the oyabun can subordinate more kobuns, but a kobun can't have like bosses more oyabuns.

Every japanese organization is an complex of such type of relationships , which offers cohesion. Another major characteristic of japanese management and activities is “the groups” or associations, called habatsu.

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The Japanese economy has a dual structure, big companies such as Mitsubishi, Mitsui, Fuji, Sonwa etc, called zaibatsu or keiretsu cohabit with small and middle firms (these firms represent 98% of total economy).

The first keiretsu companies have been created in the Meiji period (1868-1945), when there were sold to some dynastic families for small prices, very advantageous for the buyers. With time these industrial dynasties developed even more, becoming industrial giants of today's Japanese economy.

These companies are the main pillars of Japanese economy over a century now. As an example, Mitsubishi has extended its keiretsu to include 25 companies in various industries in the United States. This group was responsible for the takeover of Rockefeller Center and is heavily involved in semiconductors, television productions, banking, food, and other industries in addition to its car manufacturing.

Each keiretsu has a complex structure (factories and works, bank and general commercial company). The most important elements are the bank and the general commercial company. The Bank has an important role in group's integration, assuring the financial resources, necessary for a further development. Another important role of the bank is the integrative function, through financial policies. So on, the Japanese companies, characterized by a quick development, are borrowing money. In exchange of its money, the bank wants to have a certain control over the company and appoints one of its employees CEO of the company.

The general commercial company has other functions and characteristics than the ordinary commercial functions because of its important role in the development and innovation process of the keiretsu. The main functions are:

- Marketing researches and products sales in exchange of a commission,
- It initiates new projects
- It creates mix companies in Japan and other countries
- It buys stocks from the bank for company's clients

The most important reason of this integrated group of companies (keiretsu) is to advance and develop on new markets, to divide the risk between all this companies and to avoid a bigger expansion of the main company.

The success of these groups (keiretsu) have spread it even outside Japan. In its process of reorganization, the Ford Company adopted the same principle, Ford included in its research-development dimension, the participation in eight corporations of research.

Although the keiretsu system is seen as a Japanese success, there were voices that called this type of organizations "governmental cartels". Keiretsu acts global and it is integrated both horizontal and vertical. Each keiretsu it is capable to control almost all the steps in the economic chain, in different industries. Horizontal keiretsu are controlled by the most important Japanese banks and include "the big six": Mitsubishi, Mitsui, Sumitomo, Fuyo, Dai-ichi Kangyo

Bank. Vertical keiretsu are industrial groups, connected to big producers and retailers such as Toyota, Nissan, Honda, Hitachi, Toshiba, Sony.

The Ringi System

The Japanese identify strongly with their work groups, where the emphasis is on cooperation, participative management, consensus problem solving, and decision making based on a patient, long-term perspective.

Open expression or conflict is discouraged, and it is of utmost importance to avoid embarrassment or shame as a result of not fulfilling one's obligations.

These elements of work culture generally result in a devotion to work, a collective responsibility for decisions and actions, and a high degree of employee productivity.

It is this culture of collectivism and shared responsibility that underlies the Japanese ringi system of decision making.

In the ringi system the process works from the bottom up. Americans are used to a centralized system where major decisions are made by upper-level managers in a "top-down" approach typical of individualistic societies. The Japanese process, however, is dispersed throughout the organization, relying on group consensus. The defining characteristics of the ringi system are:

- A high complexity generated by the large number of managers and various informations and decisions taken.
- The frequent proposals of top managers, even if there are not accepted always as solutions.
- The blender between formal and informal communication.
- Middle managers have a crucial importance in decisional process.

Although Japanese companies are associated in joint-ventures all over the world, especially North-American companies, they have kept the symbols and gestures in the communication process. They are into tradition and customs.

The communication process at the primary group level has a formal character; there is a very strict and well preserved ceremonial. The content of the communication process isn't an individual idea, the participants present their group point of view and not of their own.

If we extend this cultural profile to its implications for specific behavior in the workplace, we can draw a comparison with common American behaviors. As a result, Japanese businesspeople tend to think of American organizations as having no spiritual quality and little employee loyalty, and of Americans as assertive, frank and egotistic. Their American counterparts, in turn, respond with the impression that Japanese businesspeople have little experience and are secretive, arrogant, and cautious.

The Organization Structure

The structure of a Japanese company is highly influenced by the age of the employees. Inside the organizational pyramid, the middle management has a decisive role. Only the need of information leads them to the upper-management.

The Japanese experience demonstrates that the management is efficient when middle-managers are efficient, creating a bridge between the top and the bottom of the pyramid. Top-management includes the directors board, the president and the vice-presidents, and has three main directions:

- It initiates changes in the company's employment structure
- It solves company's crisis
- It promotes public relations with other companies managers and with the government

The human resources are very important for the Japanese management; the selection of the employees is seen as a long-term investment.

The employment system responds favorably to one of the most important requests of the employees: safety of the job. The big groups (keiretsu) promoted a life employment, but this system is not a generalized one, because the small firms don't have the necessary resources.

Even in big companies there are some categories – women and unqualified workers – that are excluded, usually, from life employment. In 1994 statistics showed that 70% of the employees were life employed, now only 25-40% benefit of a life job, and that is because companies tried to decrease this practice. There are three types of employees:

- Permanent employees, life employed
- Semipermanent or experimental recruits
- Temporary workers

The advantages of life employment conforming to Japanese culture and mentality are:

- The companies managers consider human resources very important;
- Because of the life employment they allot large sums of money for the employees training.
- They can calculate more accurately the wages on long-term;
- The employees are more loyal to the company and work in a harmonious climate.

On the other hand, this system has also disadvantages:

- High costs with human resources, more in recession periods.
- The professional development of the employees is insufficiently stimulated;
- There is a rigid recruitment strategy.

A very important characteristic of Japanese companies is the concern in employees training. They think that you cannot create high quality products

without qualified workers. The accent is not on specialization, like in north-american companies, but on job rotation, on a yearly basis.

The rotation advantages are lots: employees with a vast experience and knowledge of the company, a better development of human connections and relationship at work.

The wages are established conforming to employees' age and work experience. The differences between the wages of university degree employees and highschool diploma employees are not significant.

Today Japan is facing lots of demographic changes, especially with population aging and the slow down of economic boom; these will bring many changes, even in employees selection and will restrict life employment.

Kaizen- continuous improvement

Kaizen means continuous improvement of management and organization's activities by every employee. Kaizen is a multifunctional approach, based on a participative strategy. One of the areas in which japanese managers use this process of kaizen is quality control, which has been the hallmark of success for many japanese industries.

Kaizen is also japanese culture and customs, the way they think- you don't have to invest large sums of money in your company, but to pay attention to small details.

After 1991 the japanese management, including kaizen, have suffered some important changes. In the recession period big companies fired employees, set wages on contribution and performances, reduced the retiring age and modified the evaluation scale. All these have created, probably, an even more competitive economy than before 1991. Kaizen is different because:

- Every employee contributes
- All organization's activities are included
- It's continuous
- It's more than management, it is a life style

Japanese companies that operate in other countries have borrowed different management styles, far from japanese tradition.

What do we know about japanese leadership? One executive, who had worked ten years for japanese companies said that a key to japanese style success is "to take many small steps, consistently, every day".

Leadership refers not just to the manager-subordinate relationship, but to the important task of running the whole company. Japanese leadership is highly participative contrary to what sometimes appears to be authoritarian leader-subordinate behavior.

In this participative context, managers often look to subordinates for advice and managers are expected to be transformational- that is, to raise the aspirations of subordinates and to secure their respect and faith.

For some time, american managers and theorists have examined japanese management practices in an attempt to explain and emulate japanese economic miracle.

Recently, increased global competitiveness and further exposure to western culture and managerial practices, have led japanese firms to adopt more american practices.

The partial blending of management practices indicates a trend towards convergence of leadership styles. Nevertheless, management processes, while ostensibly similar, will usually manifest themselves differently as a function of the entire cultural context in which they are enacted.

Can the japanese style be successful elsewhere? Because japanese companies have had considerable success in managing their US operations and their american employees, the answer is apparently yes.

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THE LEGACY OF THE KAMON IN THE JAPANESE MANAGEMENT

Costache Sorina²⁰ and Opreanu Bogdan²¹

Abstract

Japan in itself but especially after the so-called “Japanese miracle” generated a frenzy of questions that searched for the hidden secret recipe for economic growth. Japan has limited land and natural resources, but something special must have led to their economic ascension.

Long series of works and studies were aimed at deciphering the inner workings of this amazing culture. Since Japanese culture is so unique and hermetic, it must also be the core reason for its economic successes after the Second World War. Indeed, their culture forged their peculiar type of management that seems to be the key to success. But what exactly did trigger their particular type of management that led to such high economic standpoint?

This paper aims to elaborate an explanation of the basis of the Japanese management and underline the reasons for its extraordinary results.

Japan’s power, the Japanese nation

Japan is the second economy in the world and the reasons for this exclude extensive land or natural resources, because the Japanese have none. Something else, something so special that it was able to boost a destroyed post-war economy to the highest levels, is the key factor to their soaring economic activity.

To achieve an insightful understanding of the morality of another culture is to go beyond the mere accumulation of factual knowledge. We can know all about Japan – its population, history, geography and managerial style – and still not understand it. Understanding goes beyond knowing; it includes feeling and imagination, the capacity to project ourselves into the place of the Japanese, to imagine at least for a fleeting moment what it is like to be Japanese (1).

To do so is to enter the sphere of intimacy, to stop thinking that a certain society is the sum of its individual members which can be studied piece by piece, and start realizing that it might be possible to face a different society, that cannot be divided and studied as a kinetic sum of parts. Intimacy involves inseparability,

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a belonging together and a sharing. Many things are in relation, but only some are intimately related, as the Japanese are.

In order to understand an intimist society like Japan, two things are necessary. First of all, we need to realize that cultural patterns applicable to Japan as a whole, can be detected in smaller units like families, companies or even in individual behavior. Second and most important point is that intimacy is based on the strong feeling of *belonging*.

We, as outsiders, have to maintain a certain occidental logic in the analysis of social phenomena, to be more precise to identify, point out, study the history, and understanding the results of deeper mechanisms which are moving the Japanese society.

Beginning with Y. Lotman's theory of text orientated society and grammatical orientated society (2), we have the first tool that provides a better understanding of the Japanese system, starting from the neighborhood of our own occidental culture. Lotman speaks about two different types of culture – text orientated (TOC) and grammatical orientated (GOC).

Our type of culture is a GOC, and has a certain set of characteristic rules that it is based on. Operating with rules that are used in any kind of relation or approach, a GOC type of society develops a predictable human behavior, because any individual will apply the correct (expected) rule in the giving situation. For this individual, only something that can be checked exists, and from this point of view even a text is a unity of parts following the rules of combining together. Everything can be explained using the scientific language.

On a TOC on the other hand (as in Japan) the rules of combining are not important. They are operating with a different set of determinants based on precedents (behavior models), practices, models, texts, and among these boundaries all that exist is correct. The rules are not used to create texts, but can be generated by the text itself, and because a TOC is developed starting from a text corpus, it will take this entity as a witness and base for any behavior. In a GOC, explanations are always necessary, and the analytic style is a common thing, but in TOC suggestions and the internal references between texts are the common way of interaction.

Japan is definitely a TOC and understanding this fact explains the tendency of valuing the tradition. At the traditional level they have the key of understanding this amazing society that seems to be ruled by ways of vague guidance. The text corpus and behavior models exist outside temporal borders, but the physical core can be found in the past, in times of gods at the beginning of history and literature. This is the part that Japanese have in common, this is the very core of their intimist society. In Japan the knowledge is not passed by way of many words, but by praxis and suggestion. The group is the central unit, and the sense of belonging dictates the behavioral pattern.

As we observed before, this cultural pattern can be detected in smaller units as groups, families, villages and in extended units as well – clans, provinces and even the Japanese nation. An outsider will always be an outsider, because he does not share his social and spiritual soul with the group, he is not intimus with the community developed over hundreds of years.

The history of the group centered culture, of the intimist society, starts in the time of primitive Shinto and agrarian communities. In that time, two different systems of belief can be traced. The first one, called the *uji-gami* type (guardian shrine system) was based on the particular family or clan system. Each family had its own shrine, as a central symbol of its solidarity, dedicated to the ancestral spirit who had been enshrined and worshipped by its ancestors (3). This type of belief applies the intimist pattern at the family level (exclusiveness), and aims towards the goal of integrating all the members into a patriarchal hierarchy. The maintenance of the good name of the hereditary family and the continuation of its ancestor's glorious work from generation to generation were the most important responsibilities. The emphasis on filial piety maintained even in contemporary Japan has its origin in this *uji-gami* system as well. The entire system of Japanese social relationships and values reflects family relationships, which are strictly controlled and regulated by the patriarch. The emperor himself is responsible to his ancestors for this behavior.

The second type of belief is called the *hito-gami* type (man-god system), and was based on the close relationship of an individual *kami* (god) with a religious specialist such as a shaman or a medicine man (4). Charismatic personages and their descendants entered into a special relationship with their *hito-gami* and made a kind of *uji-gami*, playing an important role in the politics of ancient theocratic ages. The selected person or family is believed to be a divine descendant or divine servant, which leads to the *uji-gami* type religion.

Beyond the intimist system of beliefs, there are other daily life routines and symbols which complete the concept of the Japanese inner-group society. For a better understanding of the Japanese system of thoughts, it is absolutely necessary to focus onto the traditional village unit, which is the prototype of physical and spiritual interaction between the *insider* and *outsider*. Furthermore, it will be easier to understand the concept of village conscience – *mura ishiki* – the base of any Japanese company.

For the ordinary Japanese the space is structured around a central point, the point he is standing in, and is gradually dividing into two distinct areas: *uchi* (in, inside) and *soto* (out). The outside borders of *uchi* are the borders of his own village, and everything beyond this border is *soto*. The *uchi* space is the intimate one, while the *soto* space is non-intimus. This double standard is applicable to any group at any level, starting with the family (in Japanese *uchi* has the meaning of home, as well), and extending the *uchi* concept to the Japanese nation in

opposition with *soto* – out – outsider. Talking about *soto*, there are again two different areas, the close one (*soko*, *sore*) and the distant one (*asoko*, *are*).

In the close outside region a similar system of values can establish a horizontal relationship (equality – marriages, conflicts etc.), but for the distant outside region – a space of interdiction for the villagers – only vertical relationships can be generated (superior – inferior). Sometimes there are visitors coming from the distant outside region, entities or humans that are either superior or inferior, or both in the same time, but they will never be seen as equals. Gods, demons and *daimyo* are always superior beings, beggars are inferior, and monks, artists and prostitutes are both superior and inferior.

It is now clear that the Japanese culture is a group centered one, a group with an intimate relationship among its members. Starting from the base of common values that are controlling and directing any action, feeling or thought, it is obvious that for any member of the group the sense of belonging and the security of the community are very important. In the Japanese society, any member of the group is perfectly integrated, everybody knows and understands everybody, and they are sharing almost all the information, and for this reason details and explanations are futile. All the elements which must be communicated are already in the conscience of the interlocutor, or present in the circumstances, and thus they operate with the minimum quantity of information.

The *Kamon*, between tradition and modern management

The sense of belonging is something that gained, because of its importance, some external expressions as well as internal ones. There are many external signs meant to link the individual with a certain group, but one of the most important is the *kamon*.

The *kamon* is basically a family crest, which symbolize the *uji-gami* system of inner relations among the family or clan members. The physical representation of it is called the *mon* and can be compared with the European heraldic symbols, sometimes having the same role in battles or alliances. The Japanese *mon*, as an exterior expression of the intimate perception of life and space, is traced in the 12th century (1100), when the noble class (*kuge*) started to use floral or plant symbols as a sign of recognition for their clans on battlefields and everyday life. Beginning with the Tokugawa Shogunate, a period of peace and cultural development, family crest spread among many people as an identity of families, and as a symbol of belonging. Although there are no rules for *kamon* exclusivity, the respect for others dictates the unicity of the family crest. For example the 16 petalled chrysanthemum flower is the sign for the Imperial Family, and nobody else would integrate this symbol into his family crest. The important dedication to support the Emperor can allow the honor of using the

modified symbol, but only one family has gained this right in the 14th century (Masashige Kusunoki), and nobody else ever since.

A woman does not have to adopt her husband's *mon*, but her family's crest must be traditionally smaller than her husband's. On the same level, the elder son will keep his father's *mon*, while his younger brother can modify the symbol, keeping it only to show his origin.

The *kamon*, with its visual representation the *mon*, has its roots deeply spread into the Japanese soul, and can be traced as any cultural pattern on an intimist society at any level of group joining. This is the reason for which any Japanese company has been ruled under this philosophical and traditional sign – a guaranty for the group power, and for the group conscience built by sharing and sense of belonging. The *kamon*, which became the company logo in our days, keeps the company together, being the company itself. It is well known that until the recent years, Japanese companies have been accused of bad management policies, as they applied *lifetime employment* system, and *promotion by age* system. As outsiders, coming from a non-intimist society, it is very difficult to understand such policies, but for the Japanese their traditional background dictates their behavior.

Deciphering the Japanese Type of Management

The culture of Japanese management so famous in the West is generally limited to Japan's large corporations. These flagships of the Japanese economy provide their workers with excellent salaries and working conditions and secure employment. These companies and their employees are the business elite of Japan. A career with such a company was the dream of many young people in Japan, but only a select few attain these jobs. Qualification for employment is limited to the men and the few women who graduate from the top thirty colleges and universities in Japan.

Placement and advancement of Japanese workers is heavily based on educational background. Students who do not gain admission to the most highly rated colleges only rarely have the chance to work for a large company. Instead, they have to seek positions in small and medium-sized firms that can not offer comparable benefits and prestige. The quality of one's education and, more important, the college attended, play decisive roles in a person's career.

Few Japanese attend graduate school, and graduate training in business per se is rare. There are only a few business school programs in Japan. Companies provide their own training and show a strong preference for young men who can be trained in the company way. Interest in a person whose attitudes and work habits are shaped outside the company is low. When young men are preparing to graduate from college, they begin the search for a suitable employer. This process has been very difficult: there are only a few positions in the best government

ministries, and quite often entry into a good firm is determined by competitive examination. The situation is becoming less competitive, with a gradual decrease in the number of candidates. New workers enter their companies as a group on April 1 each year.

One of the prominent features of Japanese management is the practice of permanent employment (*shushin koyo*). Permanent employment covers the minority of the work force that work for the major companies. Management trainees, traditionally nearly all of whom were men, are recruited directly from colleges when they graduate in the late winter and, if they survive a six-month probationary period with the company, are expected to stay with the companies for their entire working careers. Employees are not dismissed thereafter on any grounds, except for serious breaches of ethics.

Permanent employees are hired as generalists, not as specialists for specific positions. A new worker is not hired because of any special skill or experience; rather, the individual's intelligence, educational background, and personal attitudes and attributes are closely examined. On entering a Japanese corporation, the new employee will train from six to twelve months in each of the firm's major offices or divisions. Thus, within a few years a young employee will know every facet of company operations, knowledge which allows companies to be more productive.

Another unique aspect of Japanese management is the system of promotion and reward. An important criterion is seniority. Seniority is determined by the year an employee's class enters the company. Career progression is highly predictable, regulated, and automatic. Compensation for young workers is quite low, but they accept low pay with the understanding that their pay will increase in regular increments and be quite high by retirement. Compensation consists of a wide range of tangible and intangible benefits, including housing assistance, inexpensive vacations, good recreational facilities, and, most important, the availability of low-cost loans for such expenses as housing and a new automobile. Regular pay is often augmented by generous semiannual bonuses. Members of the same graduating class usually start with similar salaries, and salary increases and promotions each year are generally uniform. The purpose is to maintain harmony and avoid stress and jealousy within the group.

Individual evaluation, however, does occur. Early in workers' careers, by age thirty, distinctions are made in pay and job assignments. During the latter part of workers' careers, another weeding takes place, as only the best workers are selected for accelerated advancement into upper management. Those employees who fail to advance are forced to retire from the company in their midto -late fifties. Retirement does not necessarily mean a life of leisure. Poor pension benefits and modest social security means that many people have to continue working after retiring from a career. Many management retirees work for the

smaller subsidiaries of the large companies, with another company, or with the large company itself at substantially lower salaries.

A few major corporations in the late 1980s were experimenting with variations of permanent employment and automatic promotion. Some rewarded harder work and higher production with higher raises and more rapid promotions, but most retained the more traditional forms of hiring and advancement. A few companies that experienced serious reverses laid off workers, but such instances were rare.

Another aspect of Japanese management is the company union, which most regular company employees are obliged to join. The workers do not have separate skill identification outside of the company. Despite federations of unions at the national level, the union does not exist as an entity separate from, or with an adversarial relationship to, the company. The linking of the company with the worker puts severe limits on independent union action, and the worker does not wish to harm the economic wellbeing of the company. Strikes are rare and usually brief.

Japanese managerial style and decision making in large companies emphasizes the flow of information and initiative from the bottom up, making top management a facilitator rather than the source of authority, while middle management is both the impetus for and the shaper of policy. Consensus is stressed as a way of arriving at decisions, and close attention is paid to workers' well-being. Rather than serve as an important decision maker, the ranking officer of a company has the responsibility of maintaining harmony so that employees can work together. A Japanese chief executive officer is a consensus builder.

Problems with the Japanese economy affect the Japanese way of life

After the war, Japan reinvented itself, found innovative products to make and pushed ahead with its technological development. Expansion of its sales into the USA and later the European markets created a boom which continued through the 90's.

The crash came when property prices (which were over-inflated) peaked and then crashed.

The whole economy suffered in the resulting financial crisis and has stagnated through most of the 1990's, despite the fact that industry and technology are still in a strong position. Fundamental structural changes need to be made within the economy to pull the nation out of its slump. Such things as a huge corporate tax, 50% tax on property sales and a population which is not inclined to demand change are contributing factors. A lot of the money collected through tax is then spent subsidising domestic agriculture and then buying the products at a high price to sell back to consumers at a lower price. National debt also takes its toll.

But changes are now underway. Japanese companies are also forced to expand their foreign sales and production, which means an increased need for new employees in Europe, US and Asian operations.

Despite all these problems, Japan still has the second largest economy in the world.

Nevertheless, the more threatened aspect seems to be the Japanese way of life, which has been constantly under pressure from the western influences, ever since the 1950s.

A company's "core" workers in Japan can still expect jobs for life, but recession has brought an end to automatic progression up the corporation's hierarchy. The result is a growing army of "plateaued" middle-aged and older employees. Some fare even worse. They remain on the company payroll but are, to all intents and purposes, unemployed.

Some companies engage in "shoulder tapping" (katatataki) and urge such employees to resign voluntarily. Those who fail to take the hint are sometimes referred to as "window gazers" (madogiwazoku) and "marginal employees" (genkai shain). Many of those who do manage to find another job suffer reduced pay, with a smaller firm. Major Japanese companies with a number of affiliated firms often transfer middle-aged and older workers to the subsidiaries. Here, they can play a coordinating role between the parent and its affiliate, and pass on technical know-how. But the parent is also passing on to the subsidiary its problem of overmanning. Many Japanese companies now hold seminars to help prepare middle-aged and older employees for retirement. Some invite retired employees back to talk about their life after retirement. A number of firms give increased paid holidays to employees approaching retirement, for them to take part in voluntary work. The principles of lifetime employment, seniority-based pay and almost-automatic promotion for core employees have traditionally supported the growth of Japanese companies. Chipping away at these principles involves chipping away at the very essence of Japanese corporate society. Even if companies successfully overcome the current crisis surrounding middle-aged and older employees, the traditional Japanese industrial-relations and personnel-management systems are unlikely ever to be the same again.

If the old Japanese notion that the aim of a career is to get promotion is taken to its logical extreme, only the handful of company presidents are ever going to be satisfied with their working lives. The crisis facing middle-aged and older employees in Japan is perhaps beginning to force a collective realization that there is an alternative route to job satisfaction, which involves doing what one really wants to do for a living, rather than what society expects.

Is the Japanese culture in danger?

After the Second World War, Japan crossed a black era, a period of crises based on the feeling that the nation has lost its identity. It is strange to find out that a strong system of beliefs which sustained Japan for generations proves itself pointless, unable to prevent losing the War. If the occidental system is better, based on the results, it must be applied as well in Japan. This is the moment that triggered the beginning of “occidentalization”, but nobody can tell how deep the insertion of new values has penetrated the Japanese soul. The intrusion is obvious, but nobody knows if it is a temporal process or not. There are evidences that can sustain both answers, but the need for the sense of *belonging* comes from the beginning of time and will exist in this intimist society for ages to come.

It is true that *the American dream* has altered the contemporary Japan. The new generation has embraced almost all Occidental values, and the national sport in Japan passed from *karate* to baseball or golf... It is also true that the structures of Japanese thinking and acting mechanisms have also changed or are on the verge of changing as T. Hall’s recent study proves (5). Hall talked about poly-chronic and mono-chronic systems, comparing the two:

Poly-chronic	Mono-chronic
Multi task	One task at the time
Interrupting and changing of tasks are allowed	Individuals cannot be disturbed
Focus on context	Communication with little contextual links
Interrelation more important than the task itself	The task is the main focus and goal of the interrelation
The projects are easily changed or replaced, by direct interaction	The individuals have a distant behavior, trying not to disturb the others
Loans and changing of personal objects are allowed	Private property is very important
Punctuality is not an issue	Focus on punctuality
No patience, immediate action, spectacular beginning but the action and enthusiasm decrease in time	Slow start, methodic approach, long lasting action

Traditionally, Japan had a poly-chronic cultural system, but in the 20th century the mono-chronic system took control of Japanese behavior. Are we witnessing a process of dilution in this traditional society? Is this a temporal process? If we discuss the problems that Sony faced over the last years, we might

think that the traditional system rejects the occidental imported one. A big company ruled by non-intimist concepts is felt by the common Japanese as an intrusion into their very soul.

In conclusion, Japan as an intimist culture will always judge any situation starting from a common base, unknown and unintelligible for the outsiders. The accent is and will be on the group, and any individual is happy to melt his personality and will into and for the group (family, clan, company, nation). In the outside war of globalization, out of a long tradition and hermetic culture, the Japanese will always fight a guerrilla war, and the deep resorts of their common spirit purify and clean any outside form of intrusion. Japan is a multiple being with a common will, wearing the national *kamon* – *Hi no maru* – their national flag.

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CONSIDERATIONS ON CROSS CULTURAL NEGOTIATIONS

*Valeriu Potecea**

Abstract

Our world is getting smaller and smaller. Continuous improvements in transportation and communication make it easier for companies to become involved in international commerce. With the increase in cross-cultural interaction comes the need for both large and small companies to become versed in successful negotiations with the variety of cultures with which it may be exposed. This report is aimed at educating and assisting the reader in the process of cross-cultural negotiations.

This report will highlight three areas where companies and/or individuals will need to focus when engaged in cross-cultural negotiations. In the Planning and Preparation stage, the reader is encouraged to “know thyself” when it comes to knowing his or her own goals and preferred style of negotiation. Next, in Examining Cultural Dimensions the reader is invited to “know thy audience.” Here, the reader is exposed to different styles of negotiations, characteristics of major global cultures, and enlightened on etiquette at the negotiation table. Finally, in Negotiation Resources, the report steps back to examine the history of cross-cultural negotiations, discuss the use of simulation exercises and education in negotiations, and offer a list of available resources for the reader.

Planning and Preparation

Proper planning is the key to success in any negotiation, and especially with cross-cultural negotiations. There are several questions that you must answer for before you are ready to begin any negotiation. The first question is, what is the goal you wish to accomplish and why? Here, you are defining what you hope to achieve. For example, if you are negotiating a sale, you may be attempting to increase your profit margin through an increase in quantity sold or a reduction in your costs. Or, if you wish to form an international partnership, you would want to define your ideal results of the agreement. After you have defined your goals, you will want to state to what degree you will negotiate. If the negotiation involves a sale, then what is your lowest offer? Once you have looked

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at yourself, you will then need to spend some time looking at the other side of the negotiation answering the same questions for them that you answered for yourselves. Realizing that you do not have access to all of your competitor's information, you should look at the results of any earlier negotiations you can access and plan your approach accordingly.

Once we have established the base of your negotiation, you need to look at how cultural differences will effect your negotiations. The first step is to identify your style our negotiation. Do you approach negotiations with a high level of expertise? Do you have great deal of energy? Do you expect a quick resolution or are you willing to take some extra time to develop relationships at the bargaining table?

Examining Cultural Dimensions

After fully examining your motives and negotiation style, you will want to start the investigation into the culture and customs of the opposing culture. Here, we have offered several questions you may wish answer with your group or company before you start your negotiations.

Prevailing Business Protocol: Will they negotiate like the Japanese who take a long time (months, years) to warm up to you and call you a friend where in the United States friendships can happen in days or weeks? Are they going to give you the firm handshake and eye contact or are you going to get a limp wrist and no eye contact? Will women be treated as equals, subordinates or not at all?

Cultural Overtones: Will they expect meetings to end quickly or should you expect a more drawn out process? Does alcohol play a role in meetings as it does in Russia? Will there be religious overtones in meetings as in the Middle East? Will you be expected to be punctual or will time be flexible?

Scheduling: Remember that, while other countries do not celebrate our holidays (Thanksgiving, Labor Day, Fourth of July, etc.) there are holidays in other countries that we are not familiar with. We need to make certain we are not scheduling meetings at times that may cause problems for the other side.

Gifts: In some cultures, gifts are expected but problems can result if the gift is not appropriate. Also, you have to be careful when complementing possessions in some countries. In the Middle East, if you admire a picture or some other possession, you may be coming home with it. (If you slip up and something gets offered, do not refuse the gift!)

Body Language and Gestures: Be careful with how you make gestures because something as simple as an OK sign can be considered very rude in Brazil or may mean money as it does in Japan.

Academic Research into Cultural Dimensions

Geert Hofstede is a leading researcher in the field of culture and work. Hofstede began his research in the 1960's, and after surveying employees of a major United States multinational corporation in forty countries; he developed a framework of four dimensions of cultural variability that was originally published in 1980. Following is an overview of the four major areas of difference in work attitudes.

Power-Distance (hierarchical vs. egalitarian)

This dimension describes the manner in which individuals in a culture relate to authority at work. Through his research, Hofstede discovered that, in some cultures, individuals who hold power have very distant relationships with those they have power over (high power-distance); while in other cultures, those that have power have significantly closer relationships with their subordinates (low power-distance). The power-distance dimension encompasses the extent to which individuals with little power in an organization are willing to accept that power is distributed unequally. Some countries that would be considered high power-distance are Latin America, South Asia, and some Arab countries. High power-distance countries like these require respect for age and seniority and they employ paternalistic management styles. Some countries that would be considered low power-distance are the United States, New Zealand, Australia, and Nordic and Germanic cultures. Low power-distance countries often value competence over seniority and they are likely to employ more consultative management styles.

Uncertainty Avoidance (comfort with ambiguity and change vs. desire for regimentation and consistency)

This dimension measures a culture's comfort level with ambiguous or risky situations. Cultures which rank low in uncertainty avoidance are much more comfortable with unpredictability and the unknown. High uncertainty avoidance cultures are likely to have more rigid and complex rules that help to diminish uncertainty and decrease anxiety. The United States ranks fairly low on this dimension, but the countries that rank the lowest on the uncertainty avoidance dimension include Jamaica, Hong Kong, Singapore, and some Nordic countries. The countries that rank the highest in uncertainty avoidance include Japan, Portugal and Greece.

Masculinity-Femininity (assertiveness and materialism vs. quality of life)

This dimension relates primarily to the expected gender roles within a culture. According to this dimension, self-assertion and task orientation are considered masculine traits, while nurturing, quality-of-life and relationship

orientation are considered feminine characteristics. Masculine countries tend to rigidly divide sex roles. Self-assertion and task orientation are traits ascribed to males while nurturing and quality of life roles are ascribed to women. The countries that rate highest in the masculine dimension include Japan, Switzerland and Italy. The countries that rate the highest in femininity include Sweden, Norway, and the Netherlands.

Individualism-Collectivism (I vs. we)

This dimension measures the extent to which individuals in a culture work for their own benefit or for the benefit of the larger groups they are a part of such as their families, their companies, or their nation. Countries that rate high in individualism include the United States, Australia and Great Britain. Individually oriented countries tend to have task-oriented workers who desire individual reward and appraisal. Collectivist oriented countries tend to have workers who are motivated by a desire to advance their group; and they seek rewards for the group as a whole. Countries that rate higher in collectivism include Japan, Saudi Arabia, Venezuela and Peru.

Characteristics of Global Cultures

AMERICAS	
North America (USA and Canada)	<ul style="list-style-type: none"> - Prefer understanding under the shape of “gentlemen agreement” - They are cheerful, friendly, protocol is very important for them. - Their characteristic is “I am ‘I’ and I’m the best” - Financial factor is significant for them. -Have regular relationships between chief and subordinate and it is difficult to establish a real hierarchy. - North Americans use factual appeals – based on what they believe is objective information, presented with the assumption that it is understood by the other side on a logical basis.
South and Latin America	<ul style="list-style-type: none"> - The negotiations evolve at a slow pace; the basis concept is “certainly tomorrow will be a new day” - They appreciate the partners who are concerned about their culture - At the first meetings, they follow protocol and resort to the emotional elements, in their strategies - Brazilians are very talkative and have a spontaneous, passionate, and dynamic style. They particularly use the word ‘no’ extensively – in fact more than 40 times per half an hour, compared with 4.7 for Americans and only 1.9

	times for Japanese.
<u>EUROPE</u>	
Eastern and Central Europe	<ul style="list-style-type: none"> - Have a significant amount of respect for the staff of well-known foreign companies - They are very cautious; responsive to the price concessions - Appreciate humor
France	<ul style="list-style-type: none"> - They are punctual and nationalistic - The negotiators are chosen based on their status in society - French negotiators enjoy debate and conflict and will often interrupt presentation to argue about an issue even if it has little relevance to the topic being presented
England	<ul style="list-style-type: none"> - They are polite, punctual, and formal - British negotiators are very good organizers - They have schemes (charts) of negotiations and in this case don't based too much on the inspiration
Germany	<ul style="list-style-type: none"> - They are quiet, self-assured, meticulous - Their motto is "one man one word"
Sweden	<ul style="list-style-type: none"> - They are stand-offish and modest persons, very accurate
Italy	<ul style="list-style-type: none"> - They prefer bargain even if they are the winner - They become enthusiastic or angry too quick
Russia	<ul style="list-style-type: none"> - They want to tergiversate the negotiations - They aren't good organizers - Consider concession like a weakness - They have a formal and stand-offish relationship - Russians employ axiomatic appeals – their appeals are based on the ideals generally accepted in their society
<u>ASIA</u>	
Japan	<ul style="list-style-type: none"> - Very difficult negotiators - Often they prefer to be evasive in their declarations (statements) and don't say the truth directly, because in their opinions, this may offend the partners - They have a very strong principles and is a good idea to avoid the philosophical discussions, or jokes and irony - Sometimes they prefer to use an translator and in this case they have more time to think - They suffer by an inferiority complex - The role of wives in protocol actions is null - Japanese want to develop long term, personal relationship. They like to spend time in no task sounding – generate polite conversation and informal communication before

	meetings
China	<ul style="list-style-type: none"> - Negotiation teams are very numerous - Negotiation is like a chess game - They try to tire partners with numerous questions - Don't accept mistakes in their work nor defeat
<u>AFRICA</u>	<ul style="list-style-type: none"> - African negotiators begin negotiation with a general discussion - If negotiation partners are in a hurry, that is a bad sign for African negotiators because they think they will be cheat - Gesticulate too much and sometimes make some allegations - Sometimes the training of negotiators is superficially
Middle East	<ul style="list-style-type: none"> - Arabs use affective appeals – based on emotions and subjective feelings - Arabs consider that you do not bargain, you offend them and that is why they come back often to agreed issues

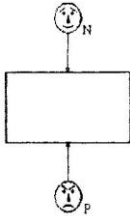
Characteristics of foreign cultures

KEY: Y = Yes N = No ? = Don't know	German	French	Spanish/ Portuguese	Russian	South American	American	Japanese	Chinese
Characteristic								
Formal	Y	N	N	Y	N	N	Y	Y
Punctual	Y	Y	N	Y	N	Y	Y	Y
Need to establish rapport	N	Y	Y	Y	Y	N	?	?
Speak language or use Interpreter	SL	I	SL	SL	SL	SL	I	I
Blue/Gray 'suiters'	N	N	N	Y	N	Y	Y	Y
Prefer bi-directional information exchanges	Y	Y	Y	N	Y	Y	N	N
Unique approach to contracts	Y	Y	Y	Y	Y	Y	Y	Y

Cultural Dimensions: Seating positions at the negotiation table

Seating Position # 1

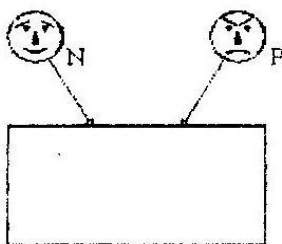
Partners are situated face to face



This is a classic seating position for partners being situated face to face, with one person on each side table. This seating position has the advantage of freedom movement and of direct and continuous observation of partner. This is the most competitive seating position because partners who are situated face to face with the table between them can become spontaneously competitive. This seating position is not recommended in encounters where conflicts want to be avoided. Negotiator advantages can be created through illumination angle, position of window, position of door and of heat source.

Seating Position #2

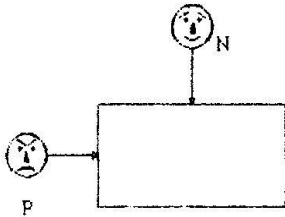
Shoulder to shoulder



This seating position is called shoulder to shoulder and has the signification of certain familiarity and friendship between partners. This position creates the feeling that they hold same position on issues being discussed. This seating position is used when there is a desire to elimination of partner's suspicion and to attenuate conflict in dispute. This seating position is not indicated in negotiation with a foreigner partner.

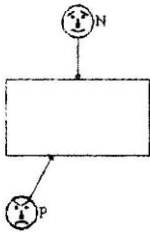
Position negotiator (on right) and partner (on left) assure a certain advantage to the negotiator by giving the negotiator a greater freedom of moving, better visibility and improved economy of motion when he displays documentation and evidences. Partner from left is obliged to make additional movements and to turn back (twist), a fact which leads to lower attention.

Seating Position #3



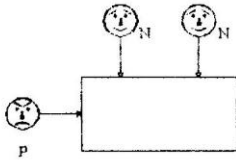
This is a good placement for the negotiation table, even though is rarely used. Usually, person placed on the longer side has an easy advantage, especially when he is sitting on high and commanding armchair, normally occupied during the office hours.

Seating Position #4



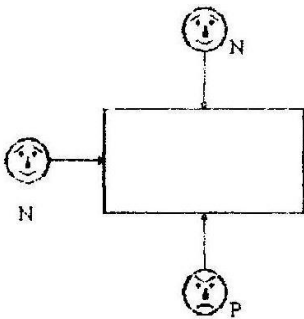
This is a combination of previous seating positions where the negotiator is at the center of one side of the table and the negotiating partner is off-center on the other side of the table. It is a good placement for friendly negotiations.

alSeating Position # 5



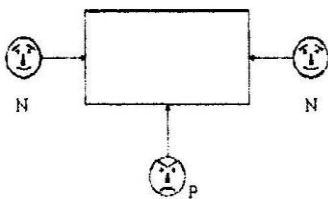
This seating position allows the partner to observe simultaneous the other two negotiators, without getting into competition with them. The negotiators will try to control, to manipulate, and to persuade the partner by changing roles, mimicry and gestures.

Seating Position # 6



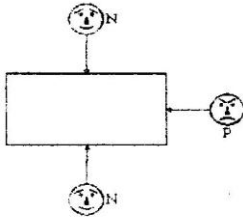
This is the most convenient seating position from the point of view of a single partner. This seating position represents a more complex placement scheme. The partner can view both negotiating partners and can watch their reactions and non-verbal messages.

Seating Position #7



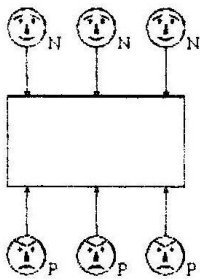
This is the most disadvantage seating position for single partner because he feels caught in the middle between the negotiation partners. Trying to observe two message sources, placed in opposite directions, he will tire, become impatient and his concentration and attention will decrease.

Seating Position 8



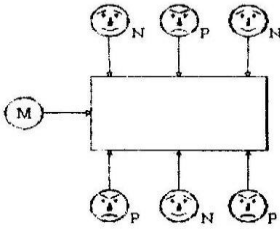
This is a “sweeter” form of seating position 7. The negotiating partner occupies narrower side of the table and the two-team members are situated face to face on the longer sides of the table. This creates competitive advantage for the negotiators.

Seating Position # 9



This is the most common seating position. This positioning doesn't arouse suspicion, and it has the same advantages mentioned related seating position #1. In principle, according to European custom, the boss is placed at the middle of table, with his teammates placed on his or her right and left side. It is the Japanese custom for the head of delegation to sit at the head of column.

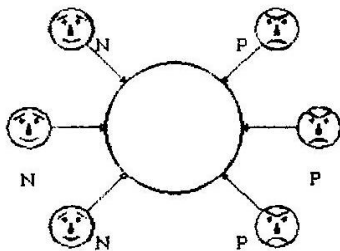
Seating Position # 10



This is an unconventional placement at negotiation table. This positioning can be used deliberate when previous negotiation rounds were not successful. In an effort to overcome negotiation difficulties, a neutral person is invited (M) and placed at the head of the table, to serve as a mediator. The disadvantage of this method is the fact that members of each team cannot consult discreetly, which can cause to the negotiation process to be less convenient and harder to control.

Ideal Seating Position # 11

Table of King Arthur



This is the ideal seating position for negotiators. It offers direct lines of communication among all partners, uniform visibility and equal maneuver space, which attenuates competition among partners.

THE EUROPEAN SOCIAL MODEL

Raluca Bughea*

Abstract

The European Social Model is a fundamental part of what Europe stands for, but a very important issue to know is that this model is not only European, not wholly social and not a model. The European Social Model is not limited to social policy in the narrow sense: welfare, healthcare, pensions, but it includes also employment policy such as labour market rules, equality policies, benefit rules. The European Social Model is only possible because Europeans accept the importance of the state.

The European Social Model is a fundamental part of what Europe stands for, but a very important issue to know is that this model is not only European, not wholly social and not a model. A *model* is a notion often developed in order to explain what one is not, rather than what one is. The European Social Model is seen as a political counterweight to the European Union fiscal rules limiting excessive government deficits. The European Social Model is not limited to social policy in the narrow sense: welfare, healthcare, pensions, but it includes also employment policy such as labour market rules, equality policies, benefit rules. And finally, the word “European” in European Social Model does have another dimension – the institutional one. Values and principles alone are important but not sufficient for effective action, there is also need for institution and rules to implement them. The European Social Model is only possible because Europeans accept the importance of the state.

What is means European Social Model? On one hand means having effective welfare institutions, limiting inequality, on the other means a community of values, an expression of the common characteristics of national welfare systems present in Europe. The Nice European Council of December 2000 elaborated a definition: “The European Social Model, characterized in particular by systems that offer a high level of social protection, by the importance of social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of Member States’ social systems, on a common core of values.”

The European Union has driven forward the European Social Model to make this continent a space of prosperity and social progress, and the solidarity

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and social justice are at the base of European integration since its beginnings. The Treaty of Rome made the achievement of equal pay for equal work one of the primary objectives of the Community. Nonetheless, the “European Social Model” as a concept began to develop precisely when the Anglo-American counter-revolution was beginning. The term “social cohesion” was used for the first time in the Single European Act (1987) at the insistence of poorer states and it referred to regional inequality, and only subsequently acquiring its connection to problems within existing societies. In 1989, the Charter of Fundamental Social Rights was adopted, establishing rights in relation to freedom of movement, employment and remuneration, improvement of living and working conditions, social protection, vocational training, equal treatment for men and women, the protection of children and adolescents, rights for elderly persons and disabled persons.

The European Social Model ensures universal protection against social risks such as unemployment, illness, poverty, or old age, through redistributory policies and insurance-based systems.

A lot of people think that the European Social Model is currently under great strain, or even failing. Some of the problems are internal, or at most only loosely connected with wider transformations that happens in the whole world such as demographic changes, especially the ageing population, the issue of pensions, decline of birth rates. There are also some other problems related family – there are more and more one-parent families than before, and more women and children are living in poverty.

Dysfunctional labour market and social policies are not only a threat to globalization and Single Market, but also endanger the currency union. Any European country is bound to suffer from structural changes caused by enlargement, globalization or technological progress, if its markets are inflexible and do not allow the necessary transfer of resources across sectors or regions.

There are some good reasons that support the conclusion regarding the sustainability of the European Model has become more and more questionable.

European Social Model is not a unitary concept, but is a mixture of values – protecting the most vulnerable citizens through active social intervention, accomplishments and aspirations. European Social Model has different institutional paths as *the continental path*, *the British path*, *the Nordic path*, *the Mediterranean path* and *the Central and Eastern European path*.

The *Nordic path* (Denmark, Finland, Sweden and Netherlands) it has often been described as a classical social democratic system. It is designed to provide a universal, high level of social protection – equality in high standards – rather than aiming to provide only for minimum needs. These countries feature the highest levels of social protection expenditures and universal welfare provision. There is extensive fiscal intervention in labour markets based on a variety of active policy instruments, and also the unions are strong ensuring highly compressed wage structures. There is generally a high level of services and benefits, giving low-

income and disadvantaged citizens the same quality of rights as higher income and privileged citizens. Work and welfare are strongly related, because financing the welfare system is strongly dependent on full employment and social safety nets include strong incentives to work. The Nordic countries are in last years in the top of the best performing economies in the world.

The British path (Ireland and United Kingdom) has its roots in the reform strategy implemented by the Labour government in the end of the 1940s and feature relatively large social assistance of the last resort. On the labour market side, this path/model is characterized by a mixture of weak unions, comparatively wide and increasing wage dispersion and relatively high incidence of low-pay employment. The UK's first minimum wage was introduced in 1997 and has risen above inflation to lift low-earners out of working poverty. Pensioner households are no longer at risk of poverty thanks to an increase in the minimum pension guarantee, among other measures. The tax-financed welfare state in the UK is not as extensive and universal as in the Nordic countries and more experimentation has been undertaken with the involvement of the private sector in the provision of public goods. The UK is moving towards a dual-earner family model, with higher gender equality.

The continental path (Austria, Belgium, France, Germany and Luxembourg) rely extensively on insurance-based, non-employment benefits and old-age pensions. Its roots are in the Bismarkian policies for workers and it has been described as a corporatist system. Non-governmental and para-state organization are involved in public service, social insurance organization and delivery. The continental path is historically very much centred on the idea of the male-breadwinner family, in which men work and women are staying home, taking care of the family. There are some differences between the countries regarding unionization and social dialogue – France has the lowest level in Europe, whereas the other countries have far higher levels and strong social dialogue. Also in the provision of child care there is far higher in Belgium, France and Netherlands than in Germany or Austria.

The Mediterranean path (Greece, Italy, Portugal and Spain) is characterized by a lesser role for the welfare state and centred on the premise of the male-breadwinner family. Their social spending is concentrated on old-age pensions and allow for a high segmentation of entitlements and status. The state and the economy are highly clientalistic, which can exclude the least advantaged. Their social welfare systems typically draw on employment protection and early retirement provisions to exempt segments of the working age population from participation in the labour market. Trade unions density is generally lower and social dialogue more conflictual than in the continental or Nordic countries.

The Central and Eastern European path is characterized by the recent past of these countries, their communist past. All of these countries shared a

highly collectivist welfare state, in which universal welfare rights were the rule. The condition for iN

International Monetary Fund (IMF) and World Bank loans was implementation of Washington Consensus – which consisted of establishing a free market economy with minimal state management or institutions. The result has been a sharp rise in inequality and a weakening of welfare state. Upon the opening of negotiations for European Union membership, they have worked to incorporate elements of the European Social Model, including an effective role for the welfare state in raising social and environmental standards.

As a conclusion the experiences of social policies during the first decades of the 20th century in Europe underline the important role of informal systems for income security and personal services at low levels of economic development. A very important role in public sector in Europe is played by social transfers in protecting citizens against risks; social transfers include pensions, disability and sickness schemes, unemployment benefits. This is one of the principal tools for ensuring inclusiveness in European societies and a main feature for European Social Model. European Union is facing with challenges as unification, globalization and demography that's way is necessary better economic, social and environmental policies to make European society inclusive and sustainable.

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