

Scandals erode brand Japan

Quality-control fraud highlights need for innovation in advanced economies to tackle declining competitiveness

Officials from Japan's Ministry of Land, Infrastructure, Transport and Tourism have been busy conducting on-site checks at some Japanese companies as quality-control scandals tarnish the reputation of the country's manufacturers.

In the wake of irregularities at Kobe Steel and Nissan Motor Co, two factories of Japanese automaker Subaru acknowledged on Oct 27 that it had allowed unqualified workers to inspect its cars. As a result, 255,000 of its vehicles sold in Japan will be recalled for reinspection.



Cai Hong

For more than 30 years, final inspections of Subaru's Japan-made vehicles were sometimes conducted by uncertified technicians, violating the transport ministry's requirements.

On Oct 19, Nissan said it would suspend domestic production of vehicles for the Japanese market for at least two weeks to address misconduct in its final inspection procedures that has led to a recall of 1.2 million of its vehicles in Japan.

Among recent revelations of misconduct, however, this is the more catastrophic: On Oct 8, Kobe Steel admitted it had systematically faked product quality data about the strength and durability of some

aluminum and copper parts for more than a decade, while former employees said the data tampering dates back to the 1970s.

The 112-year-old steelmaker's fraud has very serious consequences as its aluminum and copper have been used by Japanese companies, and their overseas counterparts such as General Motors and Boeing, to make a wide range of products, from cars, bullet trains, planes and rockets to defense equipment.

Kobe Steel said the aluminum and copper data was fabricated because of delivery deadlines.

The United States Department of Justice has demanded that Kobe Steel submit its documents related to the fabrications. And the European Aviation Safety Agency has asked companies to suspend the use of Kobe Steel products if possible.

The US and Europe are also major markets for Nissan and Subaru.

Some analysts have ascribed Japanese companies' frauds to fierce competition from "newcomers" to the industry such as India and China.

Japan slipped one spot to ninth on the list of 137 countries and regions in the *Global Competitiveness Report 2017-2018* issued by the World Economic Forum (WEF) on Sept 26, while some other economies in the Asia-Pacific region, including China, moved up.

The decline in Japan's competitiveness can be partly attributed to the massive government debt, lingering deflation and inflexible labor

market, despite the country's comparatively high-quality infrastructure and workforce education level.

The WEF report warned that advanced economies, including Japan, are showing signs of declining productivity and stressed they need technological innovation.

Many large Japanese companies have expanded into too many areas and carry an inflexible labor force. *The New York Times* reported that Japanese enterprises' overseas acquisitions have doubled in value over the past three years, as declining business prospects at home have forced the previously inward-looking companies to venture into foreign markets.

At end-September, the number of overseas mergers and acquisitions by Japanese firms stood at 489, outpacing the record high seen in 2016, according to advisory company RECOF Corp.

Japan grew into a prosperous country after World War II by importing raw materials and making them into finished products for export globally. Later, on the strength of cheap labor, China attracted manufacturers and transformed itself into the "factory of the world".

Japanese goods, the *Mainichi Shimbun* said, have remained competitive because of their excellent quality, which is evidenced in meticulously detailed production processes combined with a sincerity of purpose among its workers.

But a string of corporate scandals

in recent years have soiled the Made in Japan label, which for decades has been a byword for quality, and show how some Japanese companies compete with their rivals.

In 2011, Japanese medical equipment-making company Olympus Corp admitted hiding massive investment losses. In 2015, the laptop-to-nuclear conglomerate Toshiba Corp admitted it had been doctoring accounts for years.

Last year, Mitsubishi Motors Corp said it had used noncompliant fuel-economy testing methods for decades. And in June this year, 84-year-old auto-parts supplier Takata Corp, whose faulty airbag inflators have been linked to at least 16 deaths and 180 injuries and triggered the recall of tens of millions of cars around the world, filed for bankruptcy.

A deeply entrenched corporate culture has been blamed for these high-profile scandals. Major corporations recruit students straight from universities, more often than not offering lifetime employment and high salaries. This employment system has resulted in unwavering company loyalty and employees' reluctance to report irregularities.

Experts say the Japanese government's measures to reform corporate governance may be partly responsible for the exposure of the scandals.

Japan adopted its Corporate Governance Code in 2015, setting rules on disclosure, shareholders' rights and independent directors

in an attempt to promote greater corporate discipline and cultivate a more shareholder-friendly environment for investors. The progress has been encouraging, as at least two independent directors occupy chairs on the boards of four out of five Japanese companies.

But successive revelations of corporate malfeasance have belittled the Japanese government's efforts to improve corporate governance, which is seen as the key to unlocking the country's productivity in the face of an aging population and shrinking workforce.

The rippling shockwaves made by Japanese manufacturers are not expected to end soon. Global automakers, aircraft companies and other manufacturers have scrambled to identify potential hazards in their products because of the falsification at Kobe Steel.

On Oct 26, Kobe Steel said 88 out of 525 affected customers had yet to confirm its products were safe. Twenty-six of them were overseas companies.

The *Mainichi Shimbun* rightly said there is a real danger that this string of scandals involving some of Japan's best-known companies will demolish the "Japan brand".

These cheating Japanese companies have a lot of in-house cleaning to do before trust in them will be restored.

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Party understands China's situation

Xi's thought is a practical, reality-based guideline for realizing the Chinese Dream of national rejuvenation

By HU ANGANG

Thought on Socialism with Chinese Characteristics for a New Era, which General Secretary Xi Jinping unveiled in his report to the 19th National Congress of the Communist Party of China on Oct 18, was enshrined in the Party's Constitution on Oct 24.

Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era reflects China's unique political democracy. The Party has solicited opinions of Party members, non-Communist parties and experts on the drafts of Xi's report at the Party Congress, as well as the Party Constitution's revision.

Xi's thought enriches Marxism-

Leninism, Mao Zedong Thought, Deng Xiaoping Theory, the Theory of Three Represents and the Scientific Outlook on Development, and is the guideline for realizing the Chinese Dream of national rejuvenation.

Based on China's real situation and conditions, the thought points out two historic shifts in Chinese society: That socialism with Chinese characteristics has entered a new era and that the country's principal contradiction has evolved to be one between "unbalanced and inadequate development and the people's ever-growing needs for a better life".

In the New Era, China has seen the promotion of comprehensive innovation for economic development, during which China has made

remarkable progress in its efforts to realize common prosperity, and thus moved toward global center stage to realize national rejuvenation.

Explaining the two-step approach to build China into a great modern socialist country, Xi said the country will basically realize socialist modernization between 2020 and 2035, and from 2035 the Chinese people have to "work hard for a further 15 years" to develop China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful. In other words, China will become a country with great talents and culture, a powerful military, innovative manufacturing, cutting-edge science and technology, and excellent product quality, and a

powerhouse in terms of cybertechnology, transportation, trade, sports and education.

China has made huge contributions to the world in terms of economy, innovation, culture and green technology. It is now the world's second-largest economy, with the highest foreign exchange reserves, and had the second-highest volumes of imports and exports in 2016.

Since the 18th Party Congress in 2012, China has been fostering comprehensive innovation to meet the diverse needs of the people, but still faces the problems of unbalanced regional and rural-urban development, income inequality, unbalanced investment and consumption, and environmental pollution.

China occupies top ranking in

terms of manufacturing output. But despite the advancement of its production forces, it still cannot meet all the people's needs for various products and services.

The Party is sober-minded, saying that China is still the largest developing country and in the primary stage of socialism.

The Party has an overall and objective understanding of China's situation, and it has made a practical plan to address that situation. And the plan will work to its full potential to boost China's development only under the Party's strong leadership.

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