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Summary of
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"An Overview of the Japanese Distribution System:
The Case of the Automobile Industry" by Sayuri Shirai

The Japanese distribution system has been considered as one of the structural impediments inhibiting market penetration by foreign manufacturers. The system, characterized by a large number of retailers with a multilayered wholesale structure, has also been criticized for lowering social welfare in Japan, as it is inefficient and imported products have high prices. This paper surveys the recent literature on the Japanese distribution system and considers two propositions: first, that the system is inefficient, and second, that prices of imported products tend to be higher in Japan than in other markets. The paper observes that most of the literature demonstrates that the Japanese distribution system is as efficient as that of other developed countries.

The efficiency of the system has not necessarily resulted in high social welfare, however, as consumers have had limited access to various product lines. In fact, some studies show that the prices of a number of imported products have been substantially higher in Japan than in other developed countries. It has also been pointed out that the "sales-distribution *keiretsu*" system, as well as the sole representative import system, might have significantly affected such price differentials. In the sales-distribution *keiretsu* system, domestic manufacturers control dealers with exclusive dealership arrangements, territorial restrictions, complicated rebate systems, and resale price maintenance systems. As for the sole representative import system, foreign manufacturers sell their products to importers who distribute the products by obtaining exclusive sales rights.

As a case study, the paper examines the distribution system in the Japanese automobile industry, where it has experienced a small amount of import penetration and substantial net exports. The paper concludes that the sales-distribution system limited foreign manufacturers' access to the dealers owned by domestic manufacturers. Because of the high initial set-up costs to establish new dealer networks, foreign manufacturers depended heavily on the sole representative importers. This dependence may have provided retail price-setting power to these importers, which probably increased distribution margins. The high distribution margins set by importers or their dealers can partly explain the high prices of imported automobiles. Also, this paper predicts that the recent increase in parallel imports will help lower distribution margins through intense intra-brand competition and thus, will reduce price differentials.