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Travel Briefings: Japan - Travel briefs 02

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JAPAN'S ROLE IN A NEW WORLD ORDER

By Kei Wakaizumi

FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW



JANUARY 1973

character of Japan's diplomacy. Japan was the last of America's major allies to part from the United States on the question of Taiwan and China, having faithfully followed the U.S. policy ever since the War.

This was precisely why the Japanese were so disturbed when President Nixon announced one day in 1971 his intention to visit Peking. The President's announcement was dubbed "the Nixon shock." Nevertheless, the Japanese government showed enough wisdom and discretion to declare that it welcomed the Nixon move, and thus kept anti-American feelings from erupting among the Japanese people. The response proved perhaps that Japan had finally achieved a mastery of the technique of being thrown down without being hurt.

Now the situation in and around Japan is conducive, in my view, to more positive foreign policy initiatives, affording Japan perhaps the first golden opportunity in the quarter of a century since the War to carry out truly autonomous diplomacy of her own. For instance, the United States, rather shaken by the pervasive effects abroad of its dramatic actions, has apparently recognized the need to pay greater attention to other countries, particularly Japan. Perhaps in recognition of this new independence, the United States hastened to repair the damage of the "Nixon shock," and to avoid further difficulties over Japan's approaches to China or Japan's huge trade surplus. It is significant that last September President Nixon invited Prime Minister Tanaka to meet with him in Hawaii—halfway between Washington and Tokyo.

The Soviet Union likewise has a strong interest in Japan's moves. In Soviet eyes, the prospect of Sino-Japanese coöperation may be almost as unwelcome as that of Sino-American coöperation. It was to counter the latter that Soviet Foreign Minister Andrei Gromyko hurriedly visited Tokyo immediately before President Nixon's visit to Peking, and agreed with Japanese leaders to open negotiations within 1972 for a Japanese-Soviet peace treaty and to endeavor to realize an exchange of visits by the prime ministers of both countries. Japan and the Soviet Union continue to differ over their territorial claims to the northern islands off Hokkaido, and this has prevented them from concluding a peace treaty. Indeed, as some foreign observers point out, the Soviet Union must reckon that an inflexible position on the northern islands could delay not only a peace treaty

but also economic and technical coöperation, including the development of Siberia with Japanese assistance. For their part, Japanese sense that too rapid a rapprochement with China could impair Japan's relations with the Soviet Union, thereby making it more difficult to achieve the reversion of the northern territories.

The confrontation between China and the Soviet Union seems to be very serious and deep-rooted. From a purely theoretical point of view, it has provided room for Japanese diplomacy to maneuver, although the Japanese government naturally maintains a stand of strict neutrality and nonintervention on the Sino-Soviet conflict itself.

Since the several dilemmas with which the United States and the Soviet Union seem to be faced in their relations with Japan are not products designed by Japan, they appear fairly strange in the eyes of the Japanese people. However, this is perhaps only one aspect of the so-called multipolarization of the world. The influence of the two superpowers, which maintained dominant power and prestige during the cold-war years, has gradually declined in recent years, whereas the diplomatic options and influence of other countries have increased. Of course, it cannot be denied that only the United States and the Soviet Union have the capability to destroy mankind, and this fact still carries much weight in international politics. Japan realizes that she must come to grips with both old and new great-power situations in the world.

Most basically, however, it is Japan's rapidly growing economy and the vitality of her people that attract the attention of other countries. In a war-devastated Japan, the people concentrated their postwar energies on economic reconstruction and national rebuilding. Although they were aware of the importance of economic growth, they did not pay much attention to the significance and influence of Japan's growing economic power in the field of international politics. During the quarter of a century since the War, it has been the wistful dream of most Japanese that Japan would be able to make some positive contributions to the world. It took considerable time before they came to realize that many peoples around the world had begun in recent years to show very great interest and concern about the future course and international role of Japan, still very much an unknown quantity.

Within the last few years, the Japanese have come to gain growing confidence in their economic and technological capabilities, together with a better understanding of the pressure and urgency of expectations of various other nations about Japan. At this juncture it seems imperative for the Japanese to define their intentions and national objectives in a fluid world, and to ask themselves what role and responsibility they should assume.

II

"Will Japan go nuclear?" This has been a favorite question in much of informed and uninformed speculation about Japan's future foreign policy. Foreign analysts who answer this question in the affirmative usually argue, first, that Japan's economic power, science and technology are fully capable of undertaking nuclear armament, and second, that the Japanese are a proud nation with a strong desire to be independent in world affairs. They also note that some public opinion surveys have shown substantial percentages of the respondents, while not necessarily desiring this outcome, believing that Japan would eventually have to go nuclear.

My answer to this question is in the negative for the following reasons. Unlike the United States, China and the Soviet Union, which are all continental countries, Japan is a small insular country with a large, heavily concentrated population and industrial facilities; she is, therefore, highly vulnerable. Also, it is nearly impossible for Japan, which has no substantial uranium resources, to secure uranium in large quantities in order to build an arsenal comparable to those of the United States and the Soviet Union. Moreover, it would entail huge spending to acquire an effective nuclear-weapons system with second-strike delivery capability, for which Japanese would be forced to make a tremendous sacrifice in their personal lives.

Various nations are still feeling the traumatic effects of World War II and are still unable to shake off the nightmare of a "militaristic Japan." They are strongly opposed to Japan's nuclear armament. The United States and the Soviet Union, which have been coöperating in the nuclear field despite their differences in other fields, would attempt to prevent Japan's nuclear armament, and the opposition of other Asian nations would be particularly strong. China, despite her position that nuclear proliferation is theoretically desirable, in practice would undoubtedly feel the

gravest threat from a nuclear-armed Japan. If nuclear armament is a means to assure a nation's security against international tension, then what is the "tension" that requires nuclear armament that will create a new tension?

If Japan went nuclear, some Japanese fear there would be a real danger of being isolated from the rest of the world militarily, politically and perhaps even economically. All Japanese, recalling in part 1940 and 1941, are acutely aware that their economy depends on other countries for most key raw materials, such as oil, iron ore, copper ore, bauxite, cotton and wheat, and is extremely vulnerable to international isolation. And utter economic chaos would result if Japanese goods were shut out of foreign markets.

Finally, the Japanese people's deep-rooted "pacifist" sentiment, stemming from their unique experience, serves as a brake on nuclear armament. This earnestly felt pacifist sentiment, born of their miserable experience in World War II, reflects their deep soul-searching and determination never again to be made victims of militarism and never again to attack other countries. Although the arguments against nuclear armament are gradually shifting in emphasis to cool and rational reckoning of merits and demerits, the pacifist sentiment has a deep-rooted bearing on this issue, and no politician can ignore it.

The Japanese national opinion polls concerning nuclear weapons appear to indicate not only that a clear majority of Japanese are absolutely opposed to their acquisition, but that public opposition to nuclear weapons may even have increased. In an April 1969 *Mainichi Shimbun* poll, 46 percent responded that Japan absolutely ought not to have nuclear weapons; in April 1972 the proportion taking this position had risen to 58 percent. In the 1969 poll, a combined total of 45 percent felt that Japan should acquire nuclear weapons (now—2 percent, in the near future—16 percent, sometime—27 percent). In the 1972 poll 35 percent favored acquisition (now—2 percent, in the near future—11 percent, sometime—22 percent).

Among those in the 1972 poll who are supporters of the ruling conservative Liberal-Democratic Party (LDP)—which is expected to remain in power for a considerable period of time in the future—45 percent are opposed to nuclear-weapons acquisition. Thus, if a conservative government decided on Japan's nuclear armament, it would face the alienation of one-half of its

own LDP supporters as well as the almost total opposition of all four opposition parties.

That the majority of the respondents in this opinion poll flatly opposed Japan's nuclear armament under any and all circumstances merits attention. Probably no similar opinion poll in any other country that has the potential ability to go nuclear would show such a high percentage of absolute opposition to nuclear armament.

Thus, it may be natural that the LDP leadership has concluded that nuclear armament by Japan is neither realistic nor desirable. The four candidates in the LDP presidential election in July 1972 (which in fact meant the election of the Prime Minister) all issued lengthy statements declaring that they would never opt for the road to major military power, thereby winning the support and sympathy of the overwhelming majority of the people. Prime Minister Tanaka pledged that he would put Article 9 of the Japanese Constitution (which perhaps is the most thoroughgoing pacifist provision in the world) at the very heart of his foreign policy. This trend seems to form a strong undercurrent within the LDP.

The Japanese government thus intends to ratify the nuclear nonproliferation treaty just as soon as negotiations with the International Atomic Energy Agency have been concluded on safeguard arrangements on a par with those of other nations concerned with the exchange of information on technology for peaceful purposes. I hope this will dispel any remaining doubts that Japan seeks to retain the option of nuclear armament.

All factors being taken into account, it is exceedingly difficult to find any important stimulus that would lead Japan to alter this course, at least in the 1970s, unless the situation should change in some drastic way now hardly conceivable—for example, the unilateral abrogation by America of the Japanese-U.S. security treaty or the use of nuclear threat or blackmail by the nuclear-weapon states. Japan's security policy in the age of multipolarization should thus be essentially as it was forecast in 1969, by myself among others.¹ In brief, Japan will continue to maintain the security treaty, as confirmed at the Japanese-U.S. summit talks in Hawaii last summer. More concretely, we will continue to depend on the U.S. nuclear umbrella and the U.S. Seventh Fleet, and will maintain the effectiveness of the

¹ See Kei Wakaizumi, "Japan Beyond 1970," *Foreign Affairs*, April 1969.

treaty by allowing the United States to retain its key military bases in Japan. On the conventional weapons level, it is desirable for Japan to reinforce qualitatively her minimum requirements for purely defensive purposes to the extent that she can at least initially deter external aggression involving the use of conventional weapons. This, and only this, is the meaning of Prime Minister Tanaka's first military budget.

To be sure, some Japanese advocate the abrogation of the security treaty, asserting that it is a product of the cold war. They demand that "cold-war diplomacy" should be scrapped now that Sino-Japanese relations have been normalized. However, this kind of argument will not win majority public sympathy as long as the treaty is operated flexibly and effectively for the maintenance of the peace and security of Japan and of East Asia by accommodating it to developments in the international situation. The North Atlantic Treaty and the Warsaw Pact still remain in effect, although tension is easing there. Furthermore, it is significant that both China and the Soviet Union, highly critical of the security treaty in the past, have come to refrain from criticizing it and even seem tacitly to condone it.

III

Proceeding from this security posture, how do the Japanese propose to fulfill their role and responsibility in the international community? Prime Minister Tanaka once observed: "Japan will stake its fate on world peace." To foreigners, this may sound too idealistic or meaningless, flowery words of the kind often uttered by politicians. In contemporary Japan, however, idealism is realism. It is the absolute truth, and forms the basis on which Japan wants to achieve her second postwar miracle. In the light of modern history, one would expect a big economic power like Japan to acquire military power commensurate with her economic strength. Japan's national policies run counter to the traditional point of view. In what deserves to be called a "grand experiment," Japan is determined to try a new path, that of economic power without a major military establishment.

Quite frankly, this even sounds odd to Japanese. They know that no nation has ever done it before; they also know their own past excesses. So cynics might argue that this experiment is nothing more than idealism without any relationship to the realities.

Nevertheless, the policies which I am about to elaborate are not just casual ideas or dreams, but the product of thorough discussion in political, business and academic circles since the latter half of the 1960s—gradually shaped into their present form in the melting pot of serious deliberations and reappraisal. They spring, above all, from a felt need for boldness, for a new and imaginative sense of purpose.

It is clear at once that Japan can contribute most to international society in the field of economic and technical coöperation. Ironically enough, Japan has been criticized most in this field, for the exclusive pursuit of her own economic growth through aggressive industry-oriented, export-first policies, and for lack of consideration for the economic conditions and national feelings of her trading partners. While flooding markets of the world by her overwhelming international competitiveness, Japan has been reluctant to open her domestic market to foreign goods and capital. While amassing dollars earned by exports, she has been close-fisted in giving foreign aid. This attitude has many aspects that lend themselves to criticism.

In recent writings and statements, political and business leaders, as well as influential newspapers, have come to recognize these shortcomings frankly and to call for a more positive Japanese role and greater responsibility in her economic relations with other countries. Japanese leaders, including some influential business executives, have now come to realize that Japan must aim for an expanded equilibrium of world trade and stabilization of the international monetary system even if this means sacrificing in part more immediate gains. Japan must realize that, as others see it, a voracious economic power sometimes can pose a greater threat than a well-controlled military power.

This involves major and sharp change, starting with a much reduced emphasis on exports and far greater stress on national welfare and social overhead capital. Next, Japan must endeavor to create a favorable climate for well-balanced trade by taking drastic trade and capital liberalization measures, lowering tariffs and reducing or eliminating nontariff barriers on her own initiative. This means that we must carry out to the full our announced intent to work with the United States and the European Community (EC) to ensure the success of the New International Round in 1973, to be conducted within the framework of the General Agreement on Tariffs and Trade.

More broadly, as Prime Minister Heath of Britain suggested when he visited Japan in September 1972 (as the first British prime minister to travel here), it is indispensable for Japan, North America (the United States and Canada) and the expanded EC to hold close consultations on a wide range of problems of common interest for the development and stabilization of international economic order. In this connection, it would surely be useful if leaders of these major advanced countries were to hold summit talks regularly, in order to strengthen solidarity among them. I propose that Japan take the initiative in realizing this idea.

The proposed summit talks should discuss not only economic problems, but also a wide range of other matters that require international coöperation, such as urban problems, environmental pollution, resources and energy. Japan should be able to make great contributions and benefit greatly in these fields.

As regards bilateral problems, the balance of payments in Japanese-U.S. trade is particularly important. In 1971, Japan's balance of payments in her trade with the United States registered a surplus of \$3.2 billion, and the imbalance is expected to grow further in 1972. The Japanese now realize that this abnormal imbalance is a major factor underlying a series of international moves, including President Nixon's drastic economic measures announced in August 1971 and the multilateral currency realignment at the end of 1971, which resulted in the revaluation of the yen, and indeed the continuing pressure for another upward revaluation. Economically, Japan needs to listen and respond to the argument that countries with excessive international payments surpluses are partly responsible for the deficits of other countries. Politically, it is imperative to prevent the worsening of relations with the United States.

Hence, I am of the opinion that Japan should remove trade barriers, make even greater efforts to increase imports and export her goods in an orderly manner and try to reduce her excessive surplus in bilateral trade by 1975 below \$2 billion a year. (The figure was suggested by U.S. Ambassador Ingersoll in a speech in Tokyo after the Hawaii talks.)

Worldwide, Prime Minister Tanaka has spoken (at Hawaii) of reducing Japan's surplus in current international transactions to about one percent of her gross national product (perhaps \$3 billion) within a few years. This compares with a 1971 trade sur-

plus in current transactions of \$7.7 billion. It is an ambitious goal, whose realization would entail many difficulties; the statement can be taken as expressing the Japanese government's thorough recognition of the gravity of its responsibility and also its uncommon determination to carry it out.

Next, Japan is greatly expected to extend her economic coöperation with developing countries and to increase her aid. At the third UNCTAD in May 1972, Japan pledged to achieve by 1975 her previously stated goal of increasing her foreign aid to the equivalent of one percent of her GNP. This should certainly be welcomed: in my opinion, Japan should go further still. Japan's total economic outflow to developing countries in 1971 amounted to the equivalent of 0.96 percent of her GNP. However, her official development aid, which contributes to the improvement of social overhead capital in recipient countries, was the equivalent of only 0.23 percent of GNP, a level much lower than those of other advanced countries. The bulk of Japanese foreign aid was export credits intended to increase Japanese exports.

This self-centered aid policy should be corrected promptly. The Tanaka government should increase Japan's official development aid to the equivalent of 0.7 percent of the GNP by the end of 1975. This will be a decision of enormous magnitude. In realizing this plan, Japan must eliminate tied loans and offer aid on concessionary terms—and also improve promptly her present system of preferential duties. As Japan's GNP in 1975 is estimated at somewhere between \$350 and \$400 billion, the proposed official development aid would be between \$2.5 and \$2.8 billion.

To achieve this aid target, it is absolutely necessary for Japan to shift the emphasis of her overseas effort from the conventional industry-oriented, export-first principle to a new approach oriented to welfare and international coöperation. In this connection, I consider it essential for Japan to review thoroughly and critically the role of the Ministry of International Trade and Industry, and to establish a new Ministry for International Coöperation, as suggested by some government leaders.

The problem facing Japan is not only how much to spend but in what manner. To avoid criticism for neocolonialism and economic aggression, Japan must show maximum respect for the industrial-social structure, culture and national feelings of the recipient country, coöperate with it in its efforts for self-help

and regional coöperation, and offer aid from the point of view of the long-range development and prosperity of the recipient country or of the region concerned.

For this purpose, it will be most effective to channel aid through international organizations, such as the Asian Development Bank, instead of using the conventional bilateral aid formula. It may be necessary to create new multinational bodies to handle such aid. As another example, in the reconstruction and development of Indochina, including North Vietnam, after the Vietnam War, Japan should take the initiative in creating an international fund and announce her readiness to contribute half of the amount required.

Japan will inevitably come to put greater emphasis on Asia in her economic activities and foreign aid in the future. But it will run counter to the interests not only of other Asian countries, but also of Japan in the long run, if these Asian countries, especially those in Southeast Asia, become too heavily dependent on Japan. Although the American military presence in Asia will gradually diminish, in line with the Nixon Doctrine, a self-controlled and receptive American economic presence will remain indispensable and should be welcomed. Already, Japan is beginning to face in East Asia the same economic problems that the United States apparently has in Latin America, and these problems, which will become more pronounced in the future, require special emphasis.

IV

Japan normalized her relations with China not only to end the long abnormal state of affairs but also to contribute greatly to the easing of tensions in Asia and the world. On this point, the Japan-China joint communiqué states that "the normalization of relations between China and Japan is not directed against third countries." Prime Minister Tanaka stressed at Honolulu the need for a continuing dialogue between Japan and the United States, and Foreign Minister Masayoshi Ohira visited the United States in October. As these actions indicate, whatever meaning the normalization of Sino-Japanese relations may have from the standpoint of Japan's national interests, it must not impair basic Japanese-U.S. relations of friendship and coöperation. This attitude of the Japanese government has won the strong support of the people.

Many Japanese observers in the mass media—some officials as well—are increasingly critical of the continuation in world affairs of inflexible “cold-war diplomacy” and “power games of big-power egoism,” despite changing world realities. Japan does indeed turn away from such traditional diplomacy, which seems to many to have outlived its usefulness; she wants to adopt a new foreign policy that may be called an “all-directional foreign policy for peace.”

The normalization of Sino-Japanese relations should be understood as part of this new diplomacy. Japan intends to seek positive diplomatic relations even with countries with different social systems and to work with them in fields where this is possible, thus eliminating unnecessary mutual distrust and apprehensions, and creating coöperative ties of a highly stable and resilient nature. In the present international political situation, the classical idea of a military power balance has become less valid than ever before. Diplomacy today requires the striking of a political and economic as well as a military balance. Japan intends not only to strike such a balance, with emphasis heavily on the economic and political, but also to make constructive contributions to the maintenance of this balance, especially in Asia.

Specifically, most Japanese, while continuing to regard the security treaty with the United States as crucial to the peace and security of Japan, are beginning to think that it may be useful to supplement that treaty by added insurance. Thus, Japan may try to conclude bilateral treaties with the Soviet Union and China based on the principles of nonaggression, non-use of force and peaceful coexistence. The possibility of concluding such treaties is by no means small in view of the fact that leaders of both China and the Soviet Union have expressed their readiness to do so. Those who remember that nonaggression and antiwar treaties were easily abrogated before World War II may doubt and distrust the effectiveness of such treaties. However, one must not lose hope for the future out of disappointment with past events.

Since the summer of last year, Japan has established diplomatic relations with the Mongolian People's Republic and the People's Republic of Bangladesh, and is now considering establishing diplomatic relations with Albania. Japan intends to promote cultural, scientific and commercial exchanges with countries with which it is difficult to maintain diplomatic relations (for instance, Taiwan, with which Japan had to sever diplomatic

relations as a result of the normalization of Sino-Japanese relations; and North Korea and North Vietnam).

Japan is second to none in hoping for the peaceful reunification of divided countries, a holdover of the cold war. In the light of the close and varied relations Japan has had with the Korean peninsula, Japan welcomes independent moves of late for the peaceful reunification of the two Koreas. Japan intends to maintain and promote her relations of friendship and coöperation with South Korea, while opening a dialogue with North Korea and promoting as much as possible economic, cultural and personnel exchanges with her. This dual course naturally is not easy, and calls for the understanding and coöperation of other countries concerned. But it is necessary and by no means impossible.

Government and business circles continue to work on plans to offer bank loans totaling about \$1 billion and technical aid to the Soviet Union for the development of the Tyumen oil field as one project in Japan's future involvement in the development of Siberia. It is also reported that Japanese business circles are studying various plans for economic coöperation with China. These projects could be a touchstone of Japan's all-directional diplomacy. A proposal has been made for a tripartite arrangement among Japan, the United States and the Soviet Union in the development of Siberia. American participation is desirable to make the plans a success; a coöperative arrangement could have a great and favorable bearing on future possibilities.

To reinforce this diplomacy, there is a need to review the role and functions of the United Nations. Although the United Nations' activities and achievements since World War II have disappointed many, it remains a vital forum for discussion, and no one can deny the reality that in the long run there is no substitute for it, as U.N. Secretary-General Waldheim has said. U.N. achievements in the economic, social and cultural fields have been significant if not spectacular, and it has proved that its limited peacekeeping function can work effectively depending on circumstances, as evidenced by U.N. forces in the Middle East and the Congo.

Perhaps the first thing Japan could do would be to make a unilateral and unconditional contribution toward an emergency fund to cover the \$65 million deficit of the United Nations in response to Mr. Waldheim's appeal. Of course, this would be

a temporary relief measure only, and Japan should spare no effort to put the finances of the United Nations on a firm basis by effecting an equitable and amicable settlement of the problem of contributions by member countries.

Earnest discussion will have to be conducted to reorganize the United Nations and strengthen its functions, to accommodate it to changes in the international community. In this connection, I believe that Japan, together with other influential non-nuclear countries, should formally seek a permanent seat on the U.N. Security Council in the future in order to represent opinions of the non-nuclear countries and speak on behalf of many countries desiring to make positive contributions to world peace through nonmilitary means. That the permanent members of the U.N. Security Council are all nuclear powers is undesirable because it gives the impression that nuclear armament is the passport to big-power status and gives prestige to the possession of nuclear weapons. It is encouraging to note that a considerable number of countries, including the United States, seem to favor the idea of seating Japan as a permanent member of the U.N. Security Council. If given that seat, Japan will usefully discharge her due obligations and full responsibility.

In or out of the Security Council, Japan is bound as a non-nuclear state to have a particular concern for the issue of nuclear disarmament in the international arena. After she ratifies the nuclear nonproliferation treaty she will surely then take an active lead, inspired by moral conviction and fortified by self-restraint, in calling upon the nuclear powers for a broad halt to the nuclear arms race and for international management and control of nuclear weapons. Inevitably, it appears to the Japanese gravely inconsistent for the nuclear powers to discourage other nations from gaining access to nuclear weapons while maintaining and building up their own nuclear armaments. Although the SALT agreement between the United States and the Soviet Union is a significant step forward, it is far from satisfactory from the Japanese point of view.

Moreover, Japan is also bound to be extremely anxious to have China and France participate in the partial nuclear test ban and nonproliferation treaties. To that end, Japan and other non-nuclear countries will call on the nuclear powers to promise that they will not use nuclear weapons against non-nuclear countries or threaten them with nuclear weapons. In view of the attitude

of the nuclear powers, this will not be so difficult to achieve provided they are determined to do so. If this is realized, it will raise the possibility of securing the participation of China, which has declared that she will never use nuclear weapons first, in a nuclear arms-control and disarmament conference.

It seems ironic that a country must maintain armaments in order to seek disarmament. The Japanese people, who have rejected such a notion, are poignantly aware that the possible role and influence of non-nuclear Japan are extremely limited in nuclear arms control. Nevertheless, Japan will continue to oppose the nuclear "chauvinism" of the nuclear big powers that reflects their "arrogance of power," and to make tenacious and steady efforts, in coöperation with other non-nuclear countries, toward disarmament including nuclear disarmament.

V

In 1972, Japan got the reversion of Okinawa and held summit talks in Hawaii on her relations with the United States; normalized her relations with China; and opened negotiations with the Soviet Union for a peace treaty. She thereby entered a new, epoch-making phase in her post-postwar diplomacy. The holding of such high-level political negotiations simultaneously with the three big powers should not suggest that Japan intends to keep the United States, China and the Soviet Union at equal diplomatic distances. A leading Japanese newspaper, discussing Japan's relations with these countries in an editorial, likened Sino-Japanese relations to cutting a path in a place where there has been no road, Japanese-Soviet relations to paving a road already built and Japanese-U.S. relations to repairing an existing highway. It would be not only meaningless but a great loss to destroy a highway to build a new one. It is equally useless to close an existing road. Maintenance of Japan's relations of friendship and coöperation with the United States is absolutely necessary for Japan's security, economy and technology in the foreseeable future. It would seriously undermine the peace and prosperity of the world if the present Japanese-U.S. relationship, built through the strenuous efforts of the peoples of both countries over many years, were impaired.

It is neither possible for Japan to play a military game of power politics with the United States, China and the Soviet Union nor conducive to Japan's national interests in the long

run. It is very encouraging that Japanese leaders and the nation as a whole seem to be politically mature enough and have the wisdom to appreciate this point sufficiently.

Indeed, in line with the all-directional concept, Japan must deal not only with the three big powers but also with other countries as well. It is very important for Japan to make the distant road to the EC-member countries into an expressway, broaden the road to Australia and New Zealand and improve the narrow and complicated roads to the developing countries, including those in Southeast Asia, in order to eliminate blind alleys and mazes. As already mentioned, Japan's close coöperation with the EC in the economic field is indispensable to the stabilization and development of the shaky international economic-monetary system. And Japan's responsibility and role are great in helping Asia in nonmilitary fields to achieve peace and stability. The Japanese people, therefore, earnestly hope that the rupture of her diplomatic relations with Taiwan—the most serious issue in the process of normalizing her relations with China—will not threaten the peace of Asia and that the future of Taiwan will be decided peacefully between the Chinese themselves.

Accepting that the Sino-Japanese rapprochement must not be at the sacrifice of Japan's relations with the United States, the Soviet Union or other Asian countries, how will Sino-Japanese relations develop? Some people predict that Japan and China will inevitably become rivals on the international scene, especially in Asia. However, they will not become incompatible rivals in the military, political and diplomatic fields provided that Japan carries out, with sincerity, the various measures mentioned above and provided that China observes the five principles for peace and lives up to her announced policy of not becoming a superpower and opposing hegemony and power politics of any kind. Both countries pledged in their joint communiqué that they will not seek hegemony in the Asia-Pacific region. The Japanese are determined to live up to this pledge. It is possible that both countries will emerge as friendly rivals to compete with each other in the field of economic and technical aid for the developing countries. This kind of rivalry is to be welcomed. It is most unlikely that Japan and China will enter into some kind of alliance with each other, because it seems difficult for two countries with different political, economic, cultural and social systems and outlooks on life to have close relations in all fields.

The Japanese people hope to maintain as close relations of coöperation as possible on the basis of peaceful coexistence and mutual understanding.

As is evident from the measures of the Japanese government already mentioned and also the proposals made by this writer, Japan's basic foreign policy is "international coöperation" in the true sense of the word. It is noteworthy to find it in complete agreement with President Nixon's words in his U.S. foreign policy report to the Congress in 1972:

The unprecedented advances in science and technology have created a new dimension of international life. The global community faces a series of urgent problems and opportunities which transcend all geographic and ideological borders. It is the distinguishing characteristic of these issues that their solution requires international coöperation on the broadest scale.

Only great progress in international coöperation can provide mankind with a possibility of survival in the twenty-first century on a planet made smaller but increasingly interdependent by revolutionary advances in communication and transportation. This is becoming a belief common to all peoples, including the Japanese. They see their country as a member of the world. Such problems as security, international politics, international trade, science and technology, culture, education, population, resources, energy and environmental pollution (the most pressing problem in Japan) should be dealt with from the global point of view.

Yet the contemporary international community remains an underdeveloped society where sovereign states seeking their own interests alone are still involved in the game of power politics and where there seems to be a deep gap between ideals and realities. By setting a bold example for all to see, Japan seeks to help move the world from almost total dependence on essentially military power politics to a new reliance on economic, political, social, scientific and cultural coöperation. This is the essence of what I have called Japan's grand experiment. No doubt it will be faced with great difficulties and obstacles and attended with risks one after another. But it is the role that Japan can best play: we wish the rest of the world to understand it and strongly welcome it. Not only is the alternative for us much worse, but also, perhaps, among the major powers, Japan is the only country which can attempt this experiment.

A special strength



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No one quite like them

For 20 years the loudest noise from Japan has been the quiet ticking over of its superbly efficient economy. That is not going to be true much longer. Brian Beedham, the foreign editor of *The Economist*, went to Japan to find out where Japan is going to use its wealth—and why

By one of those accidents that everyone else thinks is the result of careful planning, *The Economist* writes a survey of Japan almost exactly once every five years. The first of these five-yearly attempts to describe how things are going in this most enigmatic and self-contained of great countries, this cat that walks by itself, came about after my own first visit to Japan in 1957. As a result of that visit, I wrote the larger part of a series of articles which earnestly reported that the Japanese were really coming along commendably well after their recent unfortunate experience; that a number of their industries showed signs of being very competitive, thanks to a high level of investment and what appeared to be an

uncommonly well trained labour force; and that their salesmen seemed to be able to sell quite a lot of exports to the rest of the world. The only thing to be said in extenuation of this is that it was written a bare two years after Japan's industrial production had at last climbed back from the ruins of 1945 to the level it had reached before the second world war.

Then, five years later, Norman Macrae, the deputy editor of this paper, realised just how extraordinary the Japanese miracle was, and what an object-lesson it ought to be to countries like Britain, tottering along with a pitifully low growth rate because consumption was throttling investment and a phrase like "export-led expansion"

was just so much Japanese. So, in 1962 he wrote "Consider Japan," the first of his two long analyses of what it was that made the Japanese economy work the way it did, which is still being quoted in books written in the 1970s. Five years later again, in 1967, he wrote his second survey, "The Risen Sun," which offered an even fuller explanation of the forces that had thrust this prodigy of an economy head and shoulders above any of its competitors, capitalist or communist. Between them, the two Macrae surveys say most of what there is to be said about this phenomenon of a very special sort of capitalism redivivus.

The reason for this latest in the series is not to give yet another account

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Not just a hangover

It is important not to be misled by the argument that this very special Japanese form of society is merely a temporary survival from the feudal past, which will swiftly and inevitably change as Japan moves into the modern world. Of course, no social system lasts for ever. Of course, the two centuries during which Japan isolated itself from the world in the Tokugawa era, which ended only a hundred years ago, froze the country's life hard into the patterns of the time. But Japan has been back in the world for a hundred years since then, and those patterns of society have proved to be far more enduring than can be accounted for on any theory of a temporary period of transition.

The system of lifetime employment, by which most Japanese workers join a company when they leave school and stay with it until they retire (and which in fact did not become really widespread until after 1918), shows few signs of erosion. Most of the businessmen I talked to carefully produced examples of people changing jobs in mid-career, but most of these turned out to be small numbers of skilled technicians or junior managers. The growth of genuinely nationwide class-based trade unions, which seemed possible for a few years after 1945, actually seems to have been turned round in its tracks. There are still some militantly class-conscious unions, but most of them are in dying or static industries, which is predictable enough. In the new growth industries that have shot up in the 1950s and 1960s the unions are mostly company-based ones. Since Japan stopped having a surplus of labour in the mid-1960s, these things cannot be explained on purely economic grounds. They exist, apparently, because they suit the way Japanese like things to be.

Nor is there much force in the other objection to the idea that there is something very special about Japan—the argument that in fact things are much the same in most Asian societies. They are not. India's caste system is a perfect example of a society still divided, with terrible effects, into horizontal layers. The countries of south-east Asia, which have been open to western influence for very little longer than Japan has, have been much readier to adopt western systems of social organisation. Even pre-communist China did not divide itself up into these neat self-contained units of communal loyalty sitting astride class differences; compared with the Japan-

ese, the Chinese are a highly individualistic lot. Neither Asianness nor historical development is a sufficient explanation of the Japanese peculiarity.

It kept them sane

If one looks at Japan with this peculiarity in mind, a great many things fall into place. It is part of the reason why, whatever alliances and trade groupings it belongs to, there is always something a bit isolated and detached about Japan: it really is *sui generis*. As one very senior American official once put it in a private conversation, "The Japanese aren't a nation, they're a very large tribe." The emphasis on group-identity also explains the curious muffling of individuality that so many observers have noted in the Japanese. Some of my Japanese friends are going to be offended by this, especially those who have lived in Europe or America, but it does seem that the sense of personal identity has not developed the same way in Japan as it has there. That may not be true at the very top of Japanese society. It is true lower down. The way so many Japanese like to travel in large groups, following a leader with a little flag, is no accident; they feel more secure, it might almost be said more themselves, when they are part of a visible collectivity.

On the other hand, the very same thing has been invaluable in keeping the Japanese sane during the extraordinary transition they have gone through in the past hundred years. To have moved from a near-feudal society to a super-modern one in a single century, including the cataclysmic experience of 1945, needed a lot of psychological cushioning; and the security of the group system seems to have provided just that.

People looking at Japan from abroad tend to assume that this must be a neurotically tense society, because the same experience would have driven most other people up the wall. In fact, although the sort of figures that statisticians are able to assemble (see page 24) shows that there are indeed a lot of things in contemporary Japanese life that might be expected to irritate people, the curious thing is how well the Japanese appear to stand up to them. By most of the usual tests—the amount of mental sickness, or tension-related illnesses, or the number of psychiatrists around the place—it is a surprisingly un-neurotic country. This is not just because there are not enough psychiatrists in Japan to detect how much twitching is going on.



Rally round the flag, please

The impression the visitor gets, once he travels a bit farther than his first Tokyo traffic jam, is that this is, despite everything, a pretty well adjusted people. Here is an unexpected object-lesson for the new left: a society that actually seems to protect its inhabitants against the alienation of industrial life.

This is why it is worth spending a lot of words to explain what one means by calling Japan a very special place. This special quality has to be taken into account in any forecast one makes about the way the country is likely to go in the future. It has to be set in the balance against the prophecies of political doom that so many foreigners utter when they survey a country seemingly divided between a rather authoritarian conservative government and a far-left opposition. In fact, the vertical Japanese view of society affects the way the left behaves in opposition, not to mention its chance of actually winning an election and the way it would behave if it did win a majority. It also means that any government in Japan, whoever forms it, possesses to an uncommon degree the power to shape a national consensus and lead the country the way it wants—even if the policies it follows are liable to be pretty inflexible once the consensus has taken shape, just because it needs a lot of time to change the consensus again.

The Japanese peculiarity is, in fact, a considerable force both for stability and for decisive action. The later parts of this survey will consider what this could mean over the next few years in terms of politics at home and Japan's foreign policy. But first it is necessary to look at the way it might affect the very odd turn the economic scene has taken within the very recent past.

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Point the hosepipe somewhere else

Any reasonably inquisitive visitor going to Japan in the past year took with him two books by well-known Americans, and a question. The two books were Herman Kahn's "The emerging Japanese superstate," which was published in Britain in 1971, and Zbigniew Brzezinski's "The fragile blossom," which came out in 1972. The question was which of them was right about the likely growth rate of the Japanese economy in the years up to 1980.

Mr Kahn's guess was that the average annual growth rate for the 1970s would be between 11 and 12 per cent in real terms, which is only a bit lower than the world-beating 12.2 per cent that was actually achieved in the second half of the 1960s, and is pretty well exactly the same as the figure for the 1960s as a whole. Mr Brzezinski, who is altogether more sceptical about Japan, reckoned that it was more likely to be about 8 per cent in the first half of the 1970s and about 6 per cent in the second half. This would still be a lot better than most other industrial countries can manage, but would be a major comedown by Japanese standards. Both men were unlucky in their timing, since the first revaluation of the yen in the summer of 1971, which affects any such calculations, happened after Mr Kahn had written his book, and when Mr Brzezinski was just finishing his. Still, the difference between 11-12 per cent and 6-8 per cent seemed interesting enough to provide a good question to put to the Japanese themselves.

The smaller part of the answer is that, given the new circumstances in which Japan finds itself after two revaluations and the inauguration of Mr Tanaka's welfare programme, the true growth rate that will be achieved in the 1970s probably lies somewhere between the Kahn and Brzezinski figures, but with Mr Kahn getting the benefit of the doubt on most of the points at dispute between them, so that the upshot is likely to come closer to justifying his confidence than Mr Brzezinski's scepticism. The much more important part of the answer, however, is that this is no longer really the question to be asking. The real question is whether the economy can be reconstructed in the 1970s, whatever the growth rate is, so that it ceases to be a hosepipe squirting a jet of exports on to the world, and so that some of the pressure generated by that extraordinary Japanese energy is diverted to cleaning up Japan itself.

There is no need to repeat at length the things which have made the Japanese economy a marvel of export-led expansion, and which are now causing so much trouble to the United States (and could soon be causing as much to Europe) because for the past 10 years Japan's exports have been growing twice as fast as the importing capacity of the rest of the world. The chart below sums it up. It is the story not of a vicious spiral but a virtuous one.

The Japanese save, and therefore invest, much more of their national income than most other people; they are encouraged to do so by such

curiosities as their early retirement system (half the big companies still pack their men off at the age of 55, and although the average retirement age is slowly getting older there are precious few Japanese who can count on staying in their job until they are 60), and the practice of paying a large chunk of each year's wage as a huge Christmas bonus. The labour force which uses all the gleaming new equipment provided by this investment is one of the best-educated in the world, and certainly the most energetically enthusiastic in its loyalty to the firms it works for. The fact that it is relatively immobile, because most workers stay with the same company until they retire, is apparently no impediment to efficiency. The labour force is increasingly well paid—earnings have been growing by an average of 8.9 per cent a year since 1965, after allowing for price rises, even in the "recession" year of 1971—but productivity has kept pace with earnings because the investment rate is so high. And this extraordinarily efficient combination of labour and capital is supervised by one of the world's most intelligent government machines, which knows what it wants businessmen to do and, by virtue of the authority it wields in Japan's social system, by and large gets them to do it.

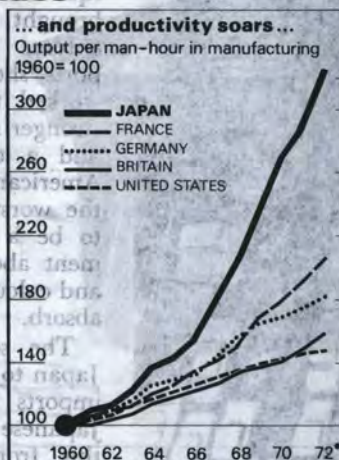
The result has been an economy explicitly designed to pump out large amounts of well-made exports in whatever field of industrial production the government machine and the business community between them decide Japan ought to be dismayed its competitors with next. And, until very recently at any rate, the pump has been fitted with a supercharger, in the shape of

The four cardinal virtues

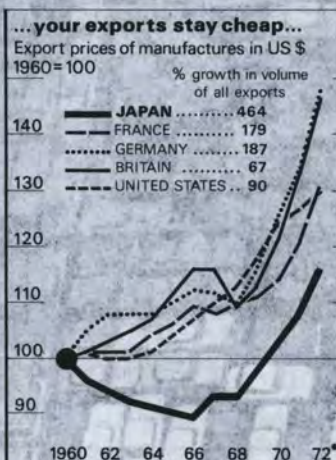


* estimates based on OECD forecasts

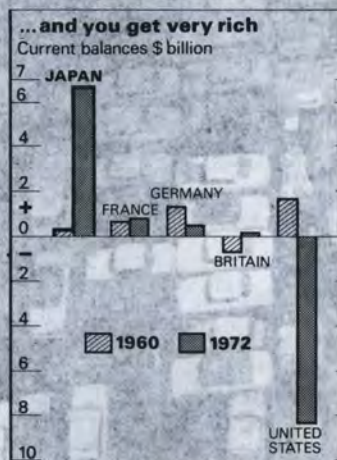
† excludes govt. spending on machinery & equipment



* estimates based on first three quarters



* estimates based mainly on first three quarters



Japan's rather unusual credit system.

To an uncommon degree, this is an economy run on credit. The consequence is that when the Bank of Japan decides to impose a squeeze on liquidity, and money suddenly gets tighter, the credit notes with which firms pay one another inside Japan get longer in duration—the payee may have to wait up to 10 months before he gets his money—and the discount rate he has to pay in order to convert them into cash rises sharply. In these circumstances the best way of laying your hands on ready money is to put your goods into the export market, where foreigners will pay cash for them, even if your profit margin is very slim indeed. So in times of squeeze the usual gush of exports becomes a torrent. Fortunately, this credit-system supercharger may now be starting to lose some of its punch, because the big companies are beginning to build up larger cash reserves out of retained profits, and this increase of liquidity means that the economy is a bit less dependent on credit than it used to be.

The false solutions

But the basic problem remains: the fact that the economy as a whole has been created to pour out a flood of exports. One of the arguments of this survey is that getting Japan's export surplus properly under control is likely

to require a change in the basic character of the economy.

To be specific, it requires the diversion of a substantial amount of resources out of the sort of investment that creates cheap, well-made exports—and if this means diverting these resources into government spending at home, that fits into Mr Tanaka's domestic plans neatly enough. It may also require a rate of inflation which matches that of Japan's main competitors, in order that Japan should not continually be gaining an advantage over them in the cost per unit of the things that are produced for export. This is a painful prescription. It means calling on the Japanese to abandon, to some extent, the Protestant virtues that have been so admirably reproduced by this Shinto-Buddhist society. But in fact there may be no alternative. When you look closely at them, the other "solutions" that are put forward for dealing with the export surplus appear, with one possible exception, to be no more than temporary palliatives. Three different approaches have been talked about, and tried.

The first method is for Japan itself to impose self-denying quotas on those of its exports that cause most trouble abroad. The Japanese have made some sort of attempt to do this on several occasions, most notably towards the end of last year, when they put con-

trols on the dozen or so big items whose sales expanded most rapidly in the first half of last year. The main difficulty with this is not that it runs counter to the principle of free trade that the non-communist world still likes to think it believes in. So it does; but then it looks as if the approaching round of worldwide trade negotiations, which are supposed to begin in September if Mr Nixon's trade bill is going well by then, will be less concerned with making exports easier than with setting internationally accepted limits to the more painful sort of imports.

The real difficulty with any such self-denying ordinance lies in Japanese politics. The businessmen do not like these restrictions to last for long (the quotas on those dozen items, for instance, were never meant to last beyond next September). And because the governing party is a coalition of factions, the businessmen can always make their voices heard through one or two powerful groups of Diet members. The result is a nagging and in the end successful pressure on the government either to end the quotas altogether, or to grant regional exceptions—so that the exporters can sell to Europe, say, what they are forbidden to sell to America.

The variation on this approach, which is for the importing countries themselves to slap quotas on imports from Japan, is even more explosive. If this is done by one country alone, the result is simply to push the exports, and the problem, on to somebody else's doorstep. But if all the main trading nations gang up together against Japan, the result could be a trade war that might cause the whole international system to collapse. This is what the Japanese call the "black ships" technique, referring to the squadron of ships Commodore Perry brought to Japan's shores in 1853 to enforce the west's demand that its ports should be opened to trade. It worked then. But Japan is infinitely stronger now; it can retaliate in kind; and a trade war that snapped the American-Japanese alliance would be the worst possible end of what ought to be a rationally manageable argument about how many Japanese cars and calculating machines the world can absorb.

The second possible course is for Japan to open its own markets to more imports from other countries. The Japanese made further concessions on this front, too, in the package of measures they announced late last year: tariffs on four-fifths of their duti-



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able imports were cut by 20 per cent, and the permitted import quotas on the relatively few items that are still subject to quota were increased by an average of nearly a third. But it is doubtful whether any combination of such measures will make a decisive inroad into the export surplus.

One trouble is that most of Japan's tariffs are not particularly high, and reducing them does not make all that much difference; last year's 20 per cent cut was expected to bring in only an extra \$200m-\$300m of imports, to set against the latest year's current account surplus of \$6½ billion. And of the 33 items which are still covered by import quotas—fewer than there are in France or Germany, and only a third of what the number was in Japan itself three years ago—all but nine are agricultural products. The removal of quotas on these would give some help to the Americans (although it would also play havoc with the Liberal Democrats' farm vote) but not much to western Europe, which is not particularly interested in selling food to Japan. And although a lot of people would like to get the protective quotas removed from the nine non-agricultural items, especially computers and the things that go into them, it is still by no means clear that the Japanese are ready to remove this cocoon from around their favourite growth industry.

Anyway, there is an even more basic difficulty with the whole import-encouraging approach. It is the fact that no less than 60 per cent of Japan's imports consist of fuel and raw materials—much more than Britain's, even—and the demand for these things depends far more on the state of the Japanese economy than on variations in tariffs or quotas.

More could come from a determined attack on non-tariff barriers to trade. To hear British and American businessmen growling about the way Japanese bureaucrats manipulate these non-tariff barriers is an education in itself. Make any change at all in the brand of car you are trying to sell, even a change in the radiator grill, and the whole thing has to go through a six-month test all over again. You can in theory sell light planes to Japanese firms, but you are liable to find that the firm you want to sell them to has been refused a flying licence "because we are not sure it is financially reliable." Do you want to sell antique furniture? Fine, but you have to show that it is at least 100 years old, and there are only two experts in the country who can verify that, and one



If only they'd consume more themselves

of them is usually unavailable. The complaints are endless. And foreign businessmen, while rightly complaining that Japan keeps out imports unjustly, also rightly want to be allowed to bring foreign capital in (which in the short term would make Japan's payments surplus even bigger)—and at present it is virtually impossible for foreigners to get into the computer and data-processing industries or into the chain-store business.

The third possibility, if neither self-control in exports nor a more liberal approach to imports is enough to do the trick, is yet more revaluations. Of course, the problem would be solved if the Japanese were willing to let the yen float indefinitely, and to float it cleanly, without the Bank of Japan intervening to keep the rate artificially low: the yen's value in relation to other currencies would then move to whatever level was right to keep Japan's commercial dealings with the rest of the world in balance. But one major consequence of a dearer yen is that big Japanese industry might move a lot of its production and investment into cheaper labour areas than Japan, either through Japanese multinational companies or through sub-contractors. And, at that point, Japan's competitors might not feel at all happy at the thought of cheap Japanese exports being replaced by even cheaper exports from Japanese-sponsored firms abroad.

Anyway, so far the Japanese have shown no taste at all for clean floating; most of the people at the Bank of Japan and the finance ministry are still mesmerised by the attractions of a cheap yen, and are still fighting a rear-guard action, in their chainmail of

exchange controls, against a permanent decision to let its value be settled by the market. So long as these attitudes persist, the exchange rate will be a blunt weapon for dealing with the problem of over-exporting.

It is not only that many Japanese have an almost moral objection to upvaluing (because in terms of the yen, which is what they understand, it apparently reduces the value of the exchange reserves they have built up with all that hard investment and hard work). The more fundamental difficulty is that so long as the Japanese keep on pouring so much investment into the export industries, and so long as the cost per unit of the output of these industries rises more slowly than that of their foreign competitors, there will have to be another revaluation every year or so, just to cancel out the new advantage Japan has won for itself since the last one. In these circumstances revaluation is like taking slimming pills one week a year and eating three rich meals a day for the other 51 weeks. The two large revaluations that were forced on Japan in 1971 and in February this year have reduced the waistline somewhat. But can the Japanese be relied on to reach for those slimming pills often enough? Probably not.

The needed change

So the Japanese will have to reconsider what sort of shape they consider desirable for their economy to have. They are in fact doing so, spurred on by Mr Tanaka's desire to be recorded by the history books as the prime minister who used Japan's wealth to improve Japan itself. It may be the

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is not changing at all, because these bonuses are such splendid things for the trade unions to bargain about in their annual negotiations with the employers. No doubt the improved social security benefits that Mr Tanaka is now offering to old-age pensioners (see page 39) will make it a little less necessary for people to save for the long years of retirement. But this effect will be marginal, and the main consequence will probably be to reduce the number of over-55s who have to hunt around for rather badly paid new jobs to stay alive.

It is sometimes claimed that today's young Japanese want to spend more on enjoying themselves, and save less, than their parents did. Well, they can afford to spend more, all right, out of an 8-9 per cent rise in real earnings every year. But this has to be set against the fact that more of the younger generation seem to want a home of their own when they get married, rather than share one with their parents. That is a powerful incentive to save. So is the astonishing and undiminished determination of Japanese to send their children to the universities, most of which are private fee-paying institutions and require substantial savings by parents in their thirties.

Anyway the total figures speak for themselves. The propensity to save, measured as a proportion of annual income per household, rose fairly steadily through the 1960s, and reached a high point in 1968; and although it has now fallen back from that high point, it has not done so by very much.

This is important for the "momentum" argument about the Japanese economy. This is the argument that success feeds on success. When an industry is growing fast, so much of its equipment is new and efficient that its prices can undercut those of its competitors, which means that it earns such big profits that it can put in even newer and more efficient machinery, and so on all over again. And the big Japanese firms keep large staffs of people whose sole job is to think how soon they can put new machines in. Even a moderately sustained national propensity to save and innovate can keep the virtuous circle rolling for a long time. The Japanese appear to have it.

The second reason for believing in Japan's staying-power is a backhanded one. It is the fact that the so-called technology gap between Japan and the United States is nothing like the barrier



Yes, they're right, aren't they?

to future growth the pessimists have assumed it to be. It is perfectly true that the Japanese are not a nation of inventors and discoverers; they are a nation of superb adapters. It is also true that since the end of the second world war they have obtained something like \$3 billion worth of technology from the United States, in licence deals and knowhow arrangements, on remarkably easy terms; and the Americans are not going to be so generous in lending the goose that lays the golden eggs in future. But this does not mean that the Japanese miracle is about to lose an essential ingredient.

The point is that the twentieth century has already built up an impressive body of basic inventions and discoveries, even if the list should now stop growing. The trick of harnessing nuclear energy to man's purposes has been discovered. The technique of using valves, and now integrated circuits, to imitate the human memory, and to reach certain kinds of decision far quicker than humans can, has been mastered. The internal combustion engine, the jet and rocket propulsion are all on the record book. It is entirely possible that for the next 10 or 20 years, or even longer, the force in the world that generates major new discoveries has largely spent itself. But even if it has not, there is still plenty of material for agile adapters such as the Japanese to work on. The Japanese are now spending more money on research and development, and have more people at work in these fields, than any other country except the United States and the Soviet Union. They have already demonstrated just how ingeniously they can convert the internationally known body of scientific knowledge into industrial products superior to, and cheaper than, those of their competitors. There is no reason to think they cannot go on doing just that.

Third, there is the continuing impressiveness of the most particularly

Japanese element in the success story: the quality of their economic management. This is where the Japaneseness of the system is most strikingly evident.

In any other country, the wave of rebellion that roared through the universities in 1968 and 1969 would have left its mark on the intake of new university-educated recruits who have entered industry and the civil service since then (and do not forget that in Japan something like a third of the new entrants into the labour force each year have just come from university or college, and that a large proportion of these were members of various militant left-wing movements). Not a bit of it, in Japan. The neat, polite, helpful young men with their noses down to their desks in the junior executive levels of those offices might be a different species from the uncontrollable undergraduates many of them were three years ago. And a different species, in a sense, they are. The workings of the group-identity principle are perfectly illustrated by this transformation. Three years ago these young men were a part of the community of students, and behaved and believed accordingly. Now life has transferred them to a new community, and they have changed their ethos as if they were changing a jacket.

The result is that the bureaucracy and to a slightly lesser extent the planning staff of the big business companies remain among the very best in the world. Intelligent, numerate, and accustomed to thinking five years ahead, these people are recruited from among the brightest graduates of the best universities, when their equivalents in Europe or America are wondering whether to go into television or fringe politics or just potter around until an idea strikes them. The fact that many of those Japanese who do not get to the very top in the civil service thereupon move over into senior jobs in industry, when they are in their late forties, reinforces the intimate connection between the business world and the bureaucracy that is the special feature of Japanese capitalism. This connection is the lever by which the government operates its so far uniquely successful powers of guidance over the economy. Your correspondent found little evidence that it was getting significantly weaker.

The guess for 1981

Of course, some things in the economy are getting harder than they used to be. Japan has exhausted its indigenous reserves of labour—the average age of

TIME IS ON OUR SIDE

farm workers, the traditional strategic reserve of labour, is now 55, the eldest in the non-communist world—and although it is still a young force, it is more capital-intensive than in the past. In factories to Korea and Taiwan and south-east Asia, the labour supply is bound to impose some sort of check on the growth rate. The international competition for raw materials is getting fiercer, even if Japan can offer better prices and surer long-term contracts to the producing countries than many of its competitors can. It must also reckon that America and Europe, the heart of its export market, are bound to be in a pretty protectionist mood for some years ahead. All these things are to be fed into the calculations about the likely growth rate in the 1970s.

Even the calculations are difficult. Any estimate of growth will be by its nature a guess. But if all things taken together are crossed, is that all things taken together?

Where they're headed. In these estimates are anything like right, the Japanese are now entering a period of very high money available for investment and quality of life. One of the calculations will show how much.

The national product in the first half of the 1970s converted into dollars, was about 1,000 billion. The rate, was about 10 per cent. There were no growth in the 1980s. The level, the eight years, the 1980s, the spring of 1980, a total of \$2,000 billion, of 9 per cent between.

The growth

rate of 10 per cent, the average for the rest of the world, is 4.7 per cent. To get the feel of this, compare it with Germany's 4.4 per cent, America's 3.1 per cent and Britain's 2.7 per cent for the 1960s.

And the effect on Japan's weight in the world? A rise of 9 per cent a year would give the Japanese by the year 2000 a combined total of 10 per cent of the world's population.

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can have failed to be struck by the stunning contrast between the gleaming surface that is one aspect of Japan; Much of the country is still a vast, unimproved landscape. The pollution of the air, the world's worst except in a few cities, is enough to make you literally weep. The traffic in Tokyo and Osaka is a standstill. Your sense of humour is very different and the way they ram home their point is different. The Japanese are a very different people. They are a very different people. They are a very different people.

And the effect on Japan's weight in the world? A rise of 9 per cent a year would give the Japanese by the year 2000 a combined total of 10 per cent of the world's population.

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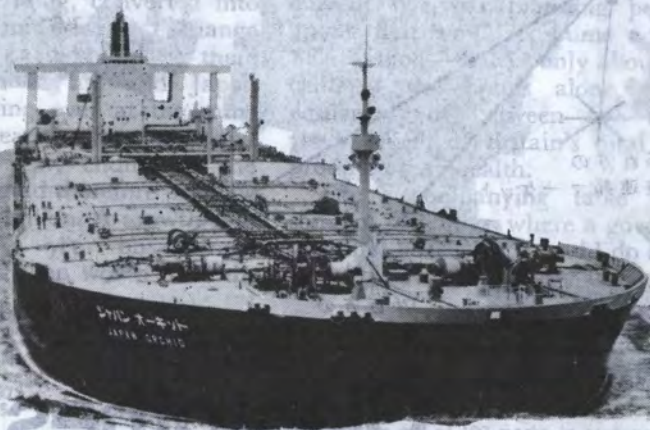
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the *Economist* that the wealth you produce, and your security in the job it produces it, are still the two main factors of a people's well-being.

The next five columns, between the double lines, are different. They are an attempt to compare Japan with the other four countries in a number of specific fields which might be expected to measure the satisfaction people get out of life, or the tensions it creates for them. These five columns are presented in percentage form, with the marks shared out between the countries according to their respective performances. The higher the marks, the better they are (except that the "tension-makers" are better given as percentages). The various statistics that make up these categories are set out in the footnotes; it should be pointed out that they are all given equal weight, although people will have different views about their relative importance. And then the last three columns on the right show how all this seems to be affecting the way people actually feel about life: they give the statistics for the three things—suicide, drug addiction and alcoholism—that are signs of desperation.

It sounds complicated, but in fact the main conclusions are plain enough.

The permanent government

Anybody who can read a graph will tell you to prophesy that the Liberal Democrats' long domination of Japan is bound to come to an end, and before long at that. The chart below shows the steady decline in the Liberal Democrats' support, election by election, since 1952. At the moment, of course, with 282 supporters in the House of Representatives (including the usual dozen who fight the election as independents but vote in parliament for the Liberal Democrats immediately afterwards), against 204 for all the opposition parties together, and a handful of true independents, they still have some way to go. But even the rise, man-in-the-sushi-bar populism of Mr Tanaka, with his plan for "modelling" Japan and his ecstatically welcomed reconciliation with the United States, did not prevent them from losing another 17 seats in December election. A trend is a trend, runs the orthodox interpretation of all this. Carry that falling line on the chart a little farther, and remember what too many years in office did to the Christian Democrats in Germany and the Gaullists in France, and there's the

The Japanese are rich, and rapidly getting richer, by the basic test of total production of wealth. They are pretty secure in their jobs, and their working conditions are fine. They have begun to justify a comparison with west European standards, if not yet American ones, in their enjoyment of private goods, such as clothes, food and cars and television; and it is worth remembering that their faster growth rate is closing the remaining gap in this field more rapidly than in some of the others. They are not too bad even in housing. It is in the two categories that the table sums up as "public amenities" and "the tension-makers" that they do worst (and even the tension-maker group is not entirely fair to them, because it mixes an admirably low crime rate in among the enormously high pollution and urban congestion figures).

They are by no means desperate about these two things, on the evidence of the final columns on the right-hand side. But these two black columns are the main challenge to the seemingly permanent government of Liberal Democrats, and the test of whether they can deal with the next five years as well as they have dealt with the past quarter of a century.

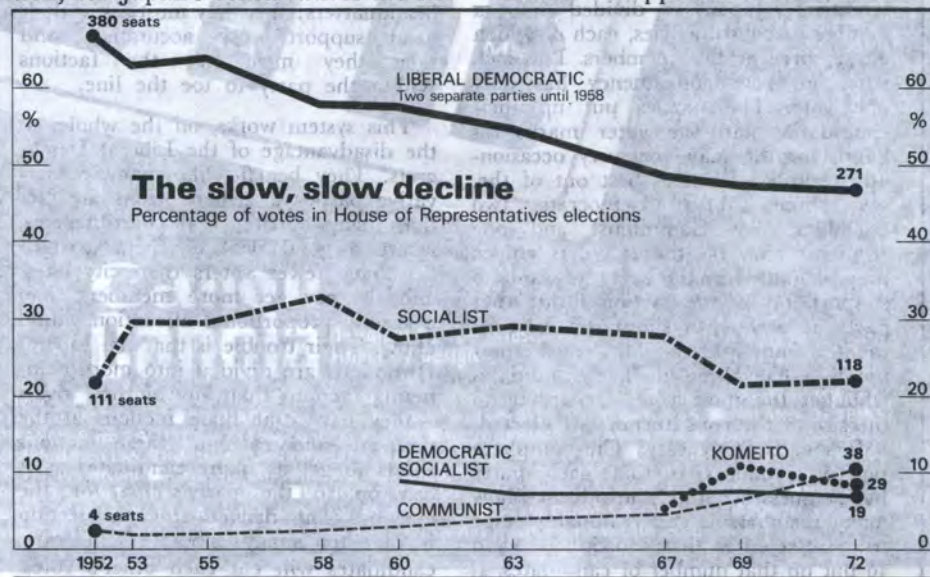
fussy about changing names—are probably going to be in power a lot longer than a European graph-reader, making comparisons with European parties, is liable to expect.

It is true that this longest lasting of all single-party governments in the democratic world since 1945, with the solitary exception of India's, no longer possesses the enormous strength it enjoyed a few years ago, when it could claim to be the party that had brought prosperity and democracy back to Japan under the protection of the American alliance. Neither the prosperity nor the American alliance have quite the glamour they enjoyed then. It is also true that the Liberal Democrats will be in trouble if they make a mess of Mr Tanaka's attempt to create a welfare state out of a not very much diminished economic growth rate. But if they avoid that particular booby-trap, they are likely to find the peculiar Japanese social forces described earlier in this survey working strongly to keep them in power. There are at least three pieces of evidence which suggest that the Liberal Democrats will be in office longer than most people expect.

The first is the fact that the steady decline in their proportion of the vote since 1952 has not been matched by an equivalent growth in the voting power of the opposition that chiefly matters, the Socialist and Communist parties. The chart shows that, between them, the Socialists and Communists have improved their position a little over these 21 years. But to a considerable extent they seem to have been competing with each other: one of them tends to do particularly well when the other is doing badly, and the amount of support the left as a whole

writing on the wall.

As usual, however, the writing on the wall turns out to mean something different when it is in Japanese. The conclusion this reporter came to while he was in Japan was that the Liberal Democrats—or a party representing their point of view, whatever it calls itself, for Japan's conservatives are not



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Tanaka gets the homage due to authority.

The country of consensus

The second thing that has to be borne in mind is the extraordinary aptitude of Japanese governments for pinching the opposition's clothes. Mr Tanaka's recognition of China last year was one example. The policy the previous prime minister, Mr Sato, made into the central theme of his term of office—the recovery of Okinawa from the Americans—was another. Both of these were major issues likely to give the opposition a lot of votes; so the government made them its own.

Indeed, it is often said that each successive Liberal Democratic prime minister is appointed to do the one big job of the moment that has to be done to keep the party in power. Mr Kishi's, at the end of the 1950s, was to get the security treaty with the United States revised in Japan's favour. Mr Ikeda's, in the early 1960s, was the "income-doubling" programme, an economic growth rate that in fact doubled the gross national product well within the ten years he set for it. Mr Sato's was the return of Okinawa. The argument now is whether Mr Tanaka has already achieved the job his party had in mind for him by his instantaneous recognition of China. The probability is that he has not. The much bigger task he has set for himself, the latest and grandest stealing of the opposition's clothes, is the project for dismantling the over-concentration of industry the voters seem to dislike and equipping Japan with the sort of welfare system they seem to be demanding.

The third piece of evidence pointing to the probable survival of the Liberal Democrats is partly the explanation of the first two. Japan is, more than anywhere else, the country of consensus

politics. No conservative prime minister in Japan would find it conceivable that he should be involved in a prolonged confrontation with his opposition and his trade unions like the one Mr Heath faces in Britain. Of course, no Japanese prime minister has ever had to deal with an inflation like Britain's. But the whole structure of Japanese society, and therefore of Japanese politics, might have been deliberately designed to avoid such confrontations.

This is where the "vertical" nature of the Japanese system, as Miss Nakane calls it, is important. The leaders of a Japanese government, like the directors of a Japanese company, assume as a matter of course that it is their business to find out what people are getting hot under the collar about in the organisation they are running, and to do what they can to cool them down again. After all, in the language the Japanese are so fond of, they are the heads of the household: the household in this instance, the organisation they are running, being the state of Japan.

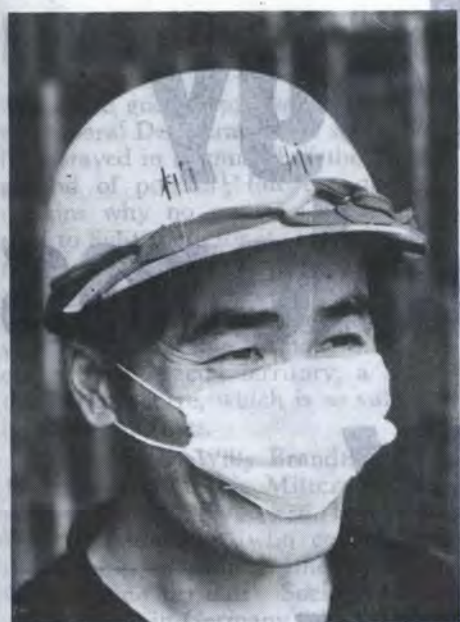
This does not mean that the government is incapable of taking clear-cut decisions, although by western standards the decision generally takes an unconscionable time to reach. It does mean that when the decision is eventually reached it will embody a wider consensus than most of the governments of the Atlantic countries can ever claim for their decisions. This slow welling up of a consensus is one of the phenomena of Japanese politics, and the recognition of China last year was a perfect example of it. The government waited until the opposition and the press, the academics and the television pundits, were virtually unanimous in favour of recognition. It then

absorbed the idea as its very own, and an apparent Liberal Democratic majority against recognition suddenly became a majority for it. It is something that could have happened quite that way only in Japan.

The other side of this particular coin is the curious restraint of the opposition parties. It is only their occasional demonstrations of violent dissent that most readers of western newspapers ever hear about: the howling matches in the Diet, the ritual jog-trot of the protesters in the streets. But in fact these things happen fairly infrequently; most of the time the House of Representatives is a good deal duller than the House of Commons. And even when they do happen there is something oddly formalised about them. The opposition puts on its show of apparent near-revolution; the government generally offers a polite concession, sometimes of substance but more often purely verbal; and the opposition relapses into quiescence, honour satisfied. It is hard to resist the impression that the opposition, too, accepts the authority of government in a way no opposition in north America or western Europe would. It may not be its sort of government; but the government of Japan, right or wrong, it remains.

To be the government in Japan carries an aura of authority which makes politics more stable than they appear on the surface; and to be Japanese at all implies a view of life that makes politics more a matter of osmosis than of confrontation. These are the two propositions to hold on to when one is tempted to look at Japan through western spectacles. Of course, in a society organised in this way, it is always possible that a change in the consensus will happen so suddenly that the government is unable to adapt itself in time. It is also possible that, if the Liberal Democrats felt themselves really threatened, the darker side of Japanese politics might emerge from behind the apparently faithful conversion to democratic procedures of the 27 years since the first postwar election in April, 1946. There are many things the ruling party might then in theory be tempted to do, in order to stay in power, in addition to its present spending of unknown but enormous sums of money to get its candidates elected.

The point is that neither of these things is as imminent, or as likely, as it might seem to the nervous eye in Europe or America; and they are certainly not going to happen so long as Mr Tanaka is there to try the latest bit of osmosis.



The greening of Japan

The Liberal Democrats' latest operation to fortify their left flank is the hodgepodge of projects and daydreams that Mr Tanaka, with more a politician's eye for a phrase than a strict regard for the realisable, has lumped together as the "remodelling of the Japanese islands." Herman Kahn has even been tempted to say that the Japanese are about to make their environment into a work of art, "a garden spot."

Of course, no one should underestimate this government's ability to make the banks and the business community march along its chosen path, once the necessary consensus has been established; and there is no doubt that a Japanese-style consensus now exists for tidying up some of the physical and social consequences of the uninhibited growth of the past 20 years. The probability is that the ideas which Mr Tanaka's council of economic advisers presented to him in the middle of February, and which are now being built into a formal five-year plan that will run to the spring of 1978, will get a lot closer to being put into practice than most government's plans ever are. Even so, a "garden spot"? But maybe the Japanese are going to astonish us all over again.

There are really four different elements in what those Japanese who remember Mr Dubcek call the programme to give capitalism a human face. The first, and probably the hardest, is Mr Tanaka's dream of breaking up the present concentration of industry along the southern coast of

the main island, Honshu. He wants to create five major new development areas (the striped patches on the map on page 39) plus a number of smaller ones. The problem is to find ways of persuading companies to move into them.

There is the usual battery of financial incentives, of course: special depreciation allowances, investment grants, a lower employment tax for companies that obligingly migrate into the designated areas. But nobody really seems to believe that these will be sufficient by themselves to lure enough firms away from the obvious advantages of southern Honshu—the fact that the best ports and most of the labour supply are there. The idea has therefore been floated of adding an *oidashi-zei*, a "pushing-out tax," which would penalise the firms that remained in the undesirable places. But the business community's predictable opposition to being taxed for operating in what it considers to be the sensible place already seems to have had the effect of watering the *oidashi-zei* idea down very considerably. The present suggestion is that it should consist of no more than the continuation, for firms that decline to move from congested areas, of the recent 1.75 per cent surcharge on the 35 per cent corporation tax, whereas firms that moved would simply pay the basic rate. One doubts whether the prospect of saving a twentieth of their corporation tax will shift many of them.

It is astonishing how much businessmen in Japan can be persuaded to do by earnest exhortations from officials in

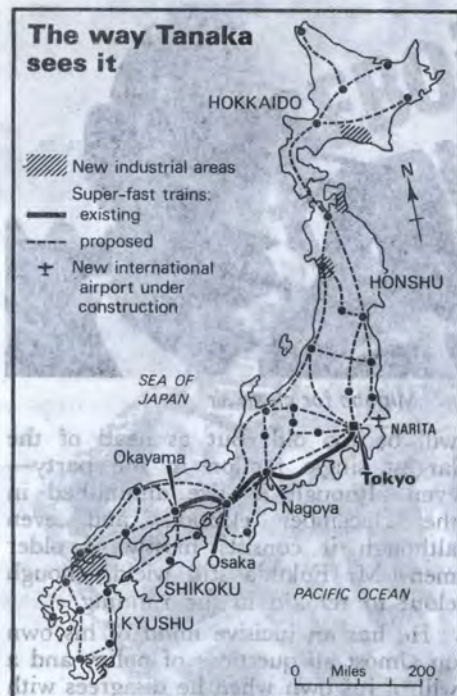
the prime minister's office, the finance ministry and the ministry of trade. But this particular problem may represent the limit of the power of Japanese exhortation. The business community will often accept a diminished profit margin if it can be persuaded that Japan's interests require it. But it does not seem to like its very fundamental judgment of how and where to invest to be called into question; and Mr Tanaka's hope of breaking up the concentration of industry could itself break up on this obstacle.

The second part of the programme, which is easier because it is largely a matter of the government deciding to spend enough money, is an expansion of the network of fast railways and motorways, to persuade people that it is possible to live and work in places that are not Tokyo or Osaka or Nagoya without feeling that they are cut off from everything that makes life glitter. The full scope of Mr Tanaka's ideas for extending Japan's marvellous but still rather small system of super-fast trains is shown on the map; it would increase it from the present 440 miles of whizz-along track to more than 5,600. The map does not show the prime minister's proposals for new motorways, for the simple reason that there is no room for them.

These are grandiose plans, which would make it easy for most Japanese to drop into Tokyo for the weekend (or, if they obstinately continued to insist on living in Tokyo, to go almost anywhere else for a weekend in the country). But the money is there, and the government is already starting to lay it out. It intends to spend no less than 2,800 billion yen on roads and railways in the 1973-74 fiscal year—an increase of nearly 30 per cent over the past year, and not far short of three per cent of gross national product. That is about £4.4 billion. Lick your lips over that, Mr Peyton.

The clean-up job

Next comes the attempt to give the Japanese more of the publicly provided amenities that the people of other industrialised countries have come to expect, not least the amenity of having reasonably unpoisonous air and water. It has still not been grasped abroad just how much the Japanese, with their usual massive thoroughness, have already started to do about pollution. The proportion of all fixed investment that went into the installation of anti-pollution equipment in 1972 was 11.5 per cent, four times what it was in 1967 and much bigger than the 5-6 per cent



the Americans were managing as recently as 1970. The particularly dirty industries, such as power stations and paper mills, are spending almost a fifth of their investment money on stopping the muck getting into the air and the water.

The aim is to get two of the main pollution indices—the amount of sulphur dioxide in the air and the deoxygenisation of the rivers—down to almost half their present level by 1978. By the same time it is also reckoned that the sewerage system will have been extended so that the present dismaying 16 per cent of Japanese homes that have flush lavatories can be increased to 42.1 per cent (the mind flickers at that final 0.1); that the telephone network will have reached a third of all houses, instead of a sixth; that almost all the garbage and refuse the housewife chucks out will, at long last, be consumed by incinerator; and that Japan's almost non-existent public parks will be doubled in area. It is this sort of thing, as well as the roads and railways, that is going to push an extra five per cent of gross national product into government spending by 1978.

The fourth, and to European ideas curiously the last, item in this welfare programme is more spending on social security. It has to be remembered that when Japanese politicians talk about "welfare" they are still thinking more about things like better roads and sewerage and garbage disposal than about health insurance and old-age pen-

sions; this, of course, is partly a result of the fact that so many Japanese, in their country's lifelong employment system, look to private company-organised schemes for such matters.

Even so, the old-age pension for couples who do not come under any of these private schemes—who may amount to something like half the whole population—is being raised from £30 a month to a maximum of £70, with built-in adjustments to allow for rises in the cost of living. That will still leave the state pension below the average of private ones. There is also to be free medical treatment for over-65s who have no private insurance scheme to rely on. The extra expenditure on these things is one reason why the share of the national income that goes into social security contributions will rise from the very modest 4.6 per cent of 1970 to 7.3 per cent in 1978.

Plainly, Japan's government is going to make this its chief business in the middle 1970s. Of course, there are still some major unsolved problems. The most obvious is the rocketing price of

land, and therefore of housing, which in Japan is the result of a great many people suddenly deciding they want to spend more money on better homes in a very crowded island. The Japanese have found no answer to it yet: the main effort, despite a substantial planned increase in government help for public housing projects, is still being left to the private sector, which is expected to take an extra two per cent of the gross national product for house-building by 1978.

But the central aim of the Tanaka government is clear enough. Mr Tanaka believes that his big job—the latest in the series of big jobs the Liberal Democratic party has given to successive prime ministers—is the inward-looking one of using more of the country's great wealth to make Japan a more desirable place to live in, and thereby keeping the electorate contented. It is only when this has been taken in hand that the government will decide whether it wants to turn the country's attention, and its resources, to a more active role in the world outside Japan.

Men to watch

More than in other parliamentary democracies, the politicians to watch in Japan are the bland, cautious team-players. As a famous Japanese proverb says, "The nail that sticks out is the one that gets hit." Eisaku Sato, who began his government career as a railway ticket-collector and who served as prime minister for seven and a half years until 1972, followed that maxim to the letter. A master of compromise, Mr Sato would wait out a situation until the eventual decision had become obvious, at which point his "leadership" would automatically win the day.

This approach is less popular now than, say, five years ago. But an entirely new era is not on the cards. It takes a full-scale watershed—an event such as the Meiji restoration, or the defeat of 1945—to permit a strong individual leader to appear on the scene. For the most part, the politicians described in this article are organisation men in the best, Japanese, sense of the term. They merit attention less for what they themselves think or do than for their role in a particular group.

Kakuei Tanaka, the prime minister since July, is unquestionably a different cut of cloth from all his predecessors. But he is less different now than when he assumed office. He is settling down,

promising less and compromising more. He is still more bumbling, and therefore more human, than the other faction leaders of the coalition that is the Liberal Democratic party. Because of his unorthodox background, the 54-year-old Mr Tanaka can never sound quite as rarefied or as formalistic as his rivals for the party leadership. A genuine man of the people, he really does know what it means to be poor and out of luck. He speaks in common-sense metaphors, and often with some courage. Defending the alliance with the United States, he told campaign audiences in the December election that to scrap the American treaty would be like taking off one's clothes outdoors in the middle of winter. Trite as that might sound to a westerner, it is infinitely more positive than Mr Sato's tired platitudes.

Still, his bam-bam approach to public speaking is now wearing a bit thin. His first flush of activity as prime minister—his trips to Hawaii and Peking—are long since past. The election results of December were below the party's expectations. His ghost-written campaign book, "A remodelling of the Japanese archipelago," is being blamed for pushing up land prices. For the moment, at any rate, Mr Tanaka seems to be retreating into a Sato-like shell. The poor nail stuck



Ohira for normality . . .

out too far.

There is no talk of Mr Tanaka's being succeeded by another man of the same mould. Instead, the current betting favours **Masayoshi Ohira**, the foreign minister and a model of normality in Japanese politics. A former member of the finance ministry, Mr Ohira joined a finance ministry faction of the Liberal Democratic party and is now its leader. The group enjoys the full confidence of the business community and of the higher civil servants.

Heavy-set and broad-cheeked, and eight years older than Mr Tanaka, Mr Ohira looks every bit as slow and deliberate as he really is. He speaks ploddingly, often closing his eyes in a kind of pulpit contemplation before delivering his main point. When he does speak, he is articulate, careful, and therefore proper. His policies are also cautious. Because he wants to avoid an anti-Japanese backlash in south-east Asia, he has sided with his ambassadorial-level advisers against the wishes of the younger section chiefs in the foreign ministry who want a more assertive policy there. If he does succeed to the prime ministership, it will reflect a clear desire of the Liberal Democrats to return to a more predictable pattern of politics.

The outsiders

Two other Liberal Democrats, **Yasuhiro Nakasone** and **Takeo Fukuda**, also rank as prime minister material—although for exactly opposite reasons. Mr Nakasone, at 54, is a candidate of the future. Mr Fukuda, at 68, is a man of the past.

Yasuhiro Nakasone is the exception that proves the rule. Openly ambitious and self-consciously outspoken, he is forever trying to appear bolder and more imaginative than any other politician in the country. He is held in deep suspicion by the more traditional



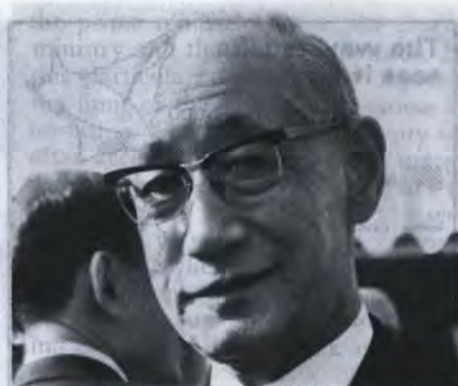
. . . Fukuda for the past . . .

members of the party, and by some businessmen. In private, he acknowledges the risks of his approach, but he has been hooked to it for years, and even now he seems infatuated with the possibility that he might some day succeed.

At one time he toyed with the idea of nuclear rearmament, and acquired a reputation as an out-and-out nationalist. For example, in late 1969, he said that "the security treaty [with America] should be discontinued . . . otherwise the Japanese will have no spiritual independence." Later, when he served as head of the defence agency in 1970-71, Mr Nakasone modified his position, insisted that he was not a "gaullist," and said that Japan should maintain some sort of defence link with the United States. But at the same time he took to over-publicising the whole defence issue—hopping into a flying suit and a fighter plane for a trip to Hokkaido—and tried to promote the idea of "autonomous defence," a concept he left undefined. If anything, it implied an eventual end to the stationing of American troops in Japan and a more rapid increase in Japan's own forces.

At bottom, his party colleagues are less worried about his views than they are exasperated by his methods. Even members of his own faction resent the publicity Mr Nakasone generates for himself. By any traditional test, he will never be chosen as prime minister. But by those same tests he should never have got as far as he has. For the moment he is serving as trade minister, and beating the bushes for more public support. In January he visited Peking and was duly photographed talking with Chou En-lai—without the aid of advisers, no less.

Takeo Fukuda, the man Mr Tanaka beat at last summer's party convention, is waiting in the wings in case the prime minister makes a bad mistake. He cannot wait too long, or he really



. . . Minobe for clean air

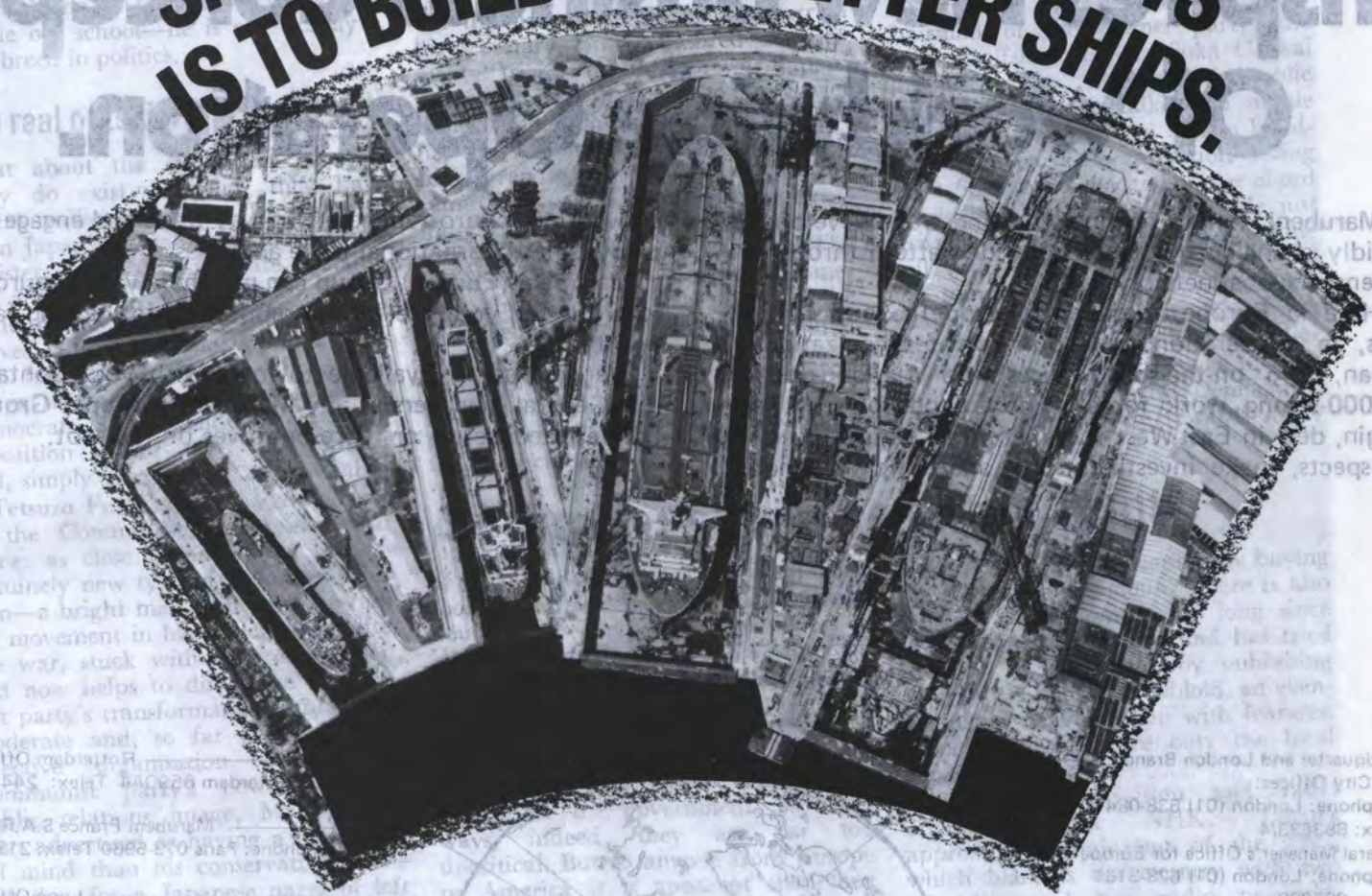
will be too old. But as head of the largest single faction in the party—even although its size diminished in the December election, and even although it consists mostly of older men—Mr Fukuda still wields enough clout to remain in the running.

He has an incisive mind of his own on almost all questions of policy and a will of his own when he disagrees with public opinion. His supporters are still not fully reconciled to what they consider the unwarranted rush to Peking last autumn. They also say that, under a Fukuda government, relations with the Soviet Union would have been handled more carefully and with more balance. The point is less important in itself than for what it signifies in terms of party habits. Mr Fukuda, in his supporters' opinion, stands for order and for carefully considered decisions. This makes him sound very like Mr Ohira. But the two men come from different factions of the party, which makes a difference in the way Japanese think of them. As an old Ikeda man, Mr Ohira looks like a progressive conservative; as a one-time protégé of the tarnished former prime minister, Nobusuke Kishi, Mr Fukuda looks just conservative.

Below the top, the party does have talent, but as in other Japanese organisations most of the younger men must simply wait for their turn. This does not mean twiddling their thumbs; they are expected to devote their energies to their leader, and if they help him, in turn, will eventually help them. This vertical structure is centred in the Liberal Democratic party around separate faction leaders.

Some Liberal Democrats have formed what the press calls a "young power" movement, a loose grouping of representatives from various factions who object to some of the rigidities of the factional system. But the "young power" men have no common policy, and on some issues, such as China,

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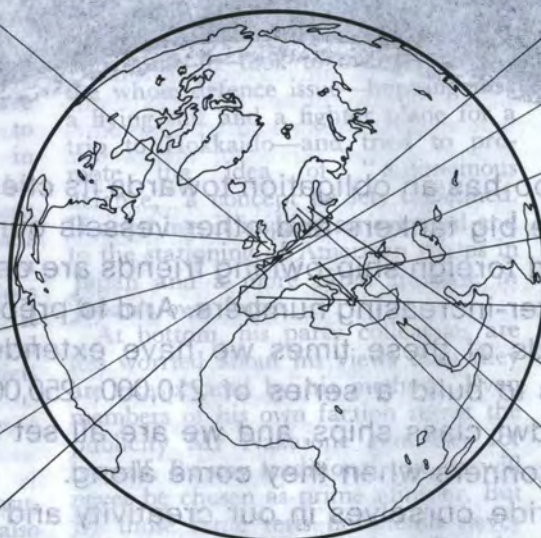
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they break down into hawkish and doveish sub-groups. One of the most prominent is the 36-year-old **Yohei Kono**, who did postgraduate work at Stanford university in California. But as his father's son—his father was Ichirō Kono, a formidable party boss of the old school—he is not exactly a new breed in politics.

The real outsiders

What about the opposition parties? They do exist, although they have never really governed. In 1947-48, when Japan had its one Socialist prime minister, he was a moderate Socialist, and a Christian, who presided over a coalition cabinet that included conservatives. Since then the opposition has been fragmented, myopic, and, of all things, as bureaucratic as the Liberal Democrats. So outstanding men in the opposition parties have been hard to find, simply as a matter of darwinism.

Tetsuzo Fuwa, the 43-year-old head of the Communist party secretariat, comes as close as anyone to being a genuinely new type of Japanese politician—a bright man who joined a radical movement in his student days after the war, stuck with it, grew with it, and now helps to direct the Communist party's transformation into a more moderate and, so far at least, more effective organisation. Under the Communist party's new "smiling" public relations image, Mr Fuwa is even advertised as having a more logical mind than his conservative foes—and this, for a Japanese party of left or right, is a real change in priorities. His name is actually a pen-name meaning "unbreakable philosophy," and with his brother, who edits the party paper, he is going to keep the government awake.

The other new pattern of opposition politics—although it is one also used by the Liberal Democrats—is the so-called "talent candidate." This is a man with no previous background in professional politics, but well known otherwise, whom the party can latch on to as a means of attracting votes. The grand-daddy of all "talent candidates" is **Ryokichi Minobe**, the governor of the Tokyo metropolitan district. The son of a famous prewar political scientist, Mr Minobe came under the influence of a marxist economist, and for years he too taught statistics and economics, specialising in his later days in the problems of consumers.

He has introduced the custom of banning cars on certain Ginza streets

on Sundays; he has ridden a bus to work to demonstrate his disgust at photo-chemical smog; last autumn he put together a much advertised conference on urban problems involving the mayors of New York, London, Paris, Moscow and, of course, himself. On the private level, he has married his secretary, and sponsored a sentimental trip home for a prewar Japanese actress who had fled to the Soviet Union. The 69-year-old Mr Minobe has no national power, and precious little even at the local level. But he stands out as an example of an offbeat individualist the city voters like.

Otherwise the pickings are slim. The Socialists, having now recovered somewhat from their 44-seat drop in the 1969 election, have their own version of Mr Fuwa in the person of **Masashi Ishibashi**, the secretary-general. A skilled parliamentary debater and television performer, he excels in poking holes in the government's often poorly pre-

sented arguments for its policies. But he is moderate in his personal relations, and considered a relative realist in the Socialist party. Eventually the 49-year-old Mr Ishibashi may need to put this realism to work in some realignment of the opposition parties.

Yoshikatsu Takeiri, the 46-year-old chairman of the Komei party, the political offshoot of the Soka Gakkai Buddhist group, is a superb public speaker when he is talking to simple people. He played a key role in building up the party's organisation during the 1960s, striking a responsive chord among bewildered country people just arrived in the cities. He also got along well with Chou En-lai last year, and laid some of the groundwork for Mr Tanaka's subsequent visit. Hefty and bubbly, he and Mr Tanaka are similar in many ways. But Mr Tanaka had the sense to join the Liberal Democrats; he is now reaping the rewards many times over.

All the news they see fit to print

If you want a microcosm of Japan, look to its press and television. Every country gets the sort of newspapers it deserves; and Japan's have a degree of group-consciousness that makes them unmistakably the children of their society. It would be an exaggeration to claim that they always say the same thing, or that they are always critical of the government; in some ways, indeed, they are far too uncritical. But to anyone from Europe or America it is apparent that they think of themselves as a community within a community; and on the major issues of the day they always seem happiest when they can establish a consensus among themselves, and solemnly tell the government in unison what it ought, or more often ought not, to be doing.

There are three huge general newspapers—Asahi (circulation 10m, morning and evening together), Mainichi (7½m) and Yomiuri (9½m)—plus the smaller but very good and predominantly economic Nihon Keizai. All four put out a principal edition in Tokyo and three satellite editions in the Osaka-Kyoto area, Hokkaido and Kyushu. But in all the editions national news takes precedence over local news, a practice which both reflects and maintains the astonishing homogeneity of Japan. Outside Tokyo there is Chunichi, which is based in Nagoya and is much stronger down there than the big three, but which has had only limited success with its attempt to

fight its way into the capital by buying the old Tokyo Shimbun. There is also Osaka's Sankei, which has long since lost its touch in Tokyo, and has tried to claw its way back by publishing Japan's first and only tabloid, an evening paper heavily laden with features. After that, there are only the local products.

The main television and radio organisation is NHK, Japan's approximate equivalent of the BBC, which blankets the country with two television and two radio networks.



Great technique, muffled reporting



No, it's not a model of a Japanese reporters' club

There are several commercial stations, but they have smaller staffs and can never quite match NHK's coverage of hard political news. They produce some good offbeat features that come as close as Japan gets to investigative reporting, but not often enough to cut into NHK's hold.

The three big papers spare no expense to get a story: they deploy vast armies of reporters and cameramen, and a fleet of helicopters, and they use a system of high-speed facsimile transmission to their regional offices that outdoes anything in the United States or Britain. But the innocent foreigner should not confuse this with real competition. The point is that reporting in Japan, like almost everything else, is done in groups. This is most obvious in the government ministries, in each of which a club of reporters from the supposedly rival papers, headed by a "captain" who changes regularly, sets the rules for what stories will be covered, and how they will be written. It is the lobby system carried to its logical conclusion.

The idea of a reporter tracking down his own story is virtually unknown in Japan. Instead, the club meets the appropriate official, and gets a briefing; each paper then reports roughly the same story. One function of the foreign ministry club, for example, is to sort out not only what news will be reported about Japanese foreign policy, but also what will not be reported. The minister keeps up a regular dialogue with the members of his club; they tell him the gossip about other ministries, and about the Liberal Democratic party, and he in turn tells them, off the record, things they may or may not report.

The job of these reporters, as they seem to see it, is not to give readers an account of what they believe to be going on, but to give them what the

reporters and the officials between them decide ought to be made public. One result is that the press gets its power less from what it reports than from what it knows and can privately pass on about other people and ministries. It acts as a conduit—for some politicians, a vital conduit—of snippets of information discreetly handed over at night, in bars, under the lubricating influence of drinks that are often paid for by the politician who is the real source of the news.

Much more effort goes into passing around these tidbits of information than into checking them for accuracy. There are few journalists who will try a story out on a different source to see if it is right. There is almost no tradition of the follow-up story, either to confirm or correct a previous piece. Japanese politics, and Japanese reporting, move by trial balloon, by hint, by rumour. That is why foreigners so often get exasperated by reading a story from Japan one day that says one thing, and another that says the opposite the next.

There is competition, sometimes seemingly fierce competition, but it is all within a straitjacket of uniformity. The battalions of reporters are there to make sure that nobody else gets a scoop. The main principle of editing, apart from the insistence on covering what the rivals are covering, is safety: print no story that others will not print too. That is why the front pages of the three major papers are almost the same every day.

What's good for Japan

The desire for uniformity comes from within the press itself, and it stems from a general belief that certain things are good for Japan, and others are bad for it. Lately this

monolithic concept of the national interest has seemed to be breaking down a little, as the goal of economic growth above everything else has begun to seem less self-evidently desirable. Some recent editorials actually called on the government to revalue the yen. But the papers' news-gathering staff is still sticking to old habits.

There are a few signs that the old habits are running into trouble. Last year Mr Sato denounced the press after a reporter was arrested for leaking a secret document that he had obtained by seducing a foreign ministry secretary. And the main newspapers' coverage of the argument about the recognition of China has come under severe attack from a couple of admirable professors, Shinkichi Eto and Osamu Miyoshi. They claim that certain papers agreed to restrict the flow of news, and in effect put up a united front in favour of recognition, in exchange for the right to station a man in Peking. Although the papers denied it, the accusation has stuck in the public mind.

Despite these small straws in a different wind, it seems likely that Japan's newspapers will continue to play a vital part in the unique Japanese process of consensus-building. Perhaps the next great test of this will come when Mr Tanaka has completed his job of reorganising the Japanese economy, and the man who succeeds him as prime minister turns his eyes abroad. It will be by watching the way the papers go that the outside world will then be able to tell whether Japan is making up its mind to reorganise its foreign policy too.



What will they be saying in 1980?



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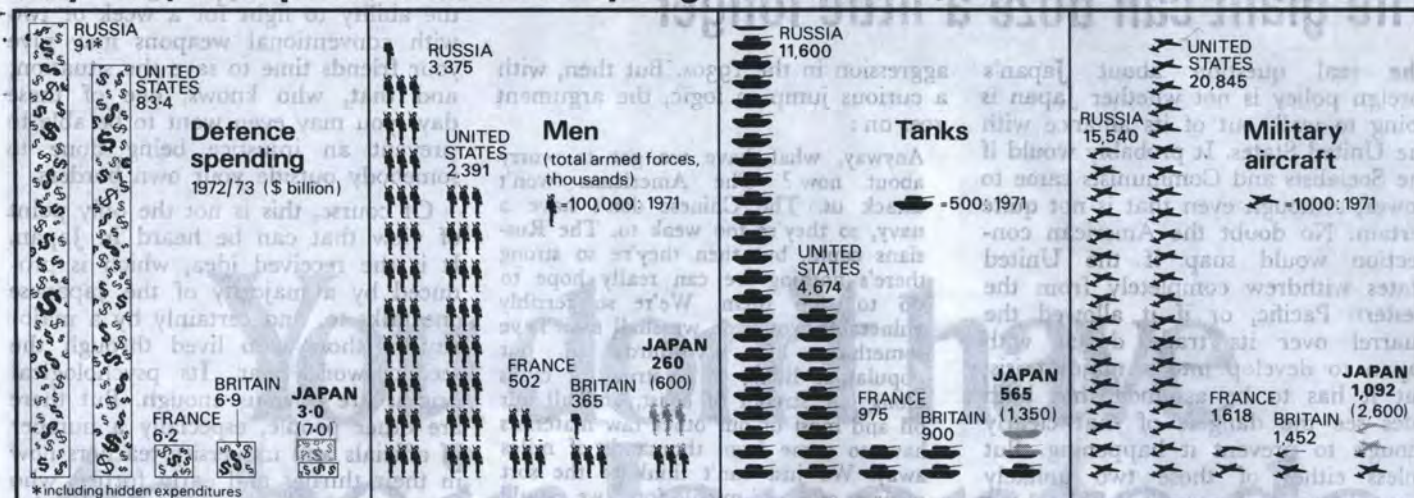


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problems of their own to deal with, and they both need the help of the capitalists to deal with them; and the understanding, or at least Mr Nixon's reading of it, seems to be that neither of them will cause trouble to America's friends around China's or Russia's borders while this is going on. For the Japanese this means that there will be a few more years in which they too can concentrate on their own internal problems, and in particular the Liberal Democrats can concentrate on trying to pinch the opposition's clothes through Mr Tanaka's schemes for creating more welfare and less overcrowded pollution. It also means that while the Nixon peace lasts both China and Russia would rather have Japan as it is, quarter-armed in the American camp, than floating free and liable to land up in the other communist great power's sphere of influence (which is one reason why even a Socialist-Communist government in Tokyo might not get all that much encouragement from Peking or Moscow to cut the American link).

This happy interlude may well come to an end when either Chou En-lai or Mr Brezhnev is replaced by somebody with different ideas; both are elderly men, and Chou in particular cannot even be sure of staying in power until he dies. One of two things may then happen. The Russians and the Chinese may make up their quarrel, as the new government in Moscow or Peking decides to end the division of the communist world that must be making Marx spin like a top in Highgate. If that happens, the prospect of being an offshore island to a reunited communist diarchy will presumably push the Japanese back into

the Americans' arms (and would make it much harder for the opposition to win an election on a programme of neutralism), at a time when the United States will no doubt still be asking its allies to take up more of the burden of their own defence. Or, without making up their quarrel, either or both of the new Russian and Chinese governments may decide to renew the policy of ideological expansion in Asia. That too would present a major problem for Japan. It would have to decide what it was going to do about the large economic interests it has built up in the whole semi-circle of territory from Korea through Taiwan and the Philippines to Indonesia and Thailand; it might even have to start worrying about its own physical security.

It is possible, of course, that neither of these things will happen, because the Nixon peace may outlive both Brezhnev and Chou; that depends mostly on how long the two communist

economies will keep on needing western help. But it does not often happen, or for long, that three great powers will lie simultaneously dormant. The presumption is that within a few years a Japanese government which has had the chance to use those years to set its own house in order will be able to turn its unique powers for assembling a national consensus to the question of foreign policy. The long frost that has gripped the Japanese mind when it looks abroad may then start to melt; and this survey's belief in the special power of the government in a vertically organised society may be put to the test.

The first question the Japanese will have to answer is whether they want to be, in any serious way, an armed country. The next article turns to the present condition of Japan's armed forces, which resemble that of the victim of a stroke—emaciated, inert, and largely speechless.

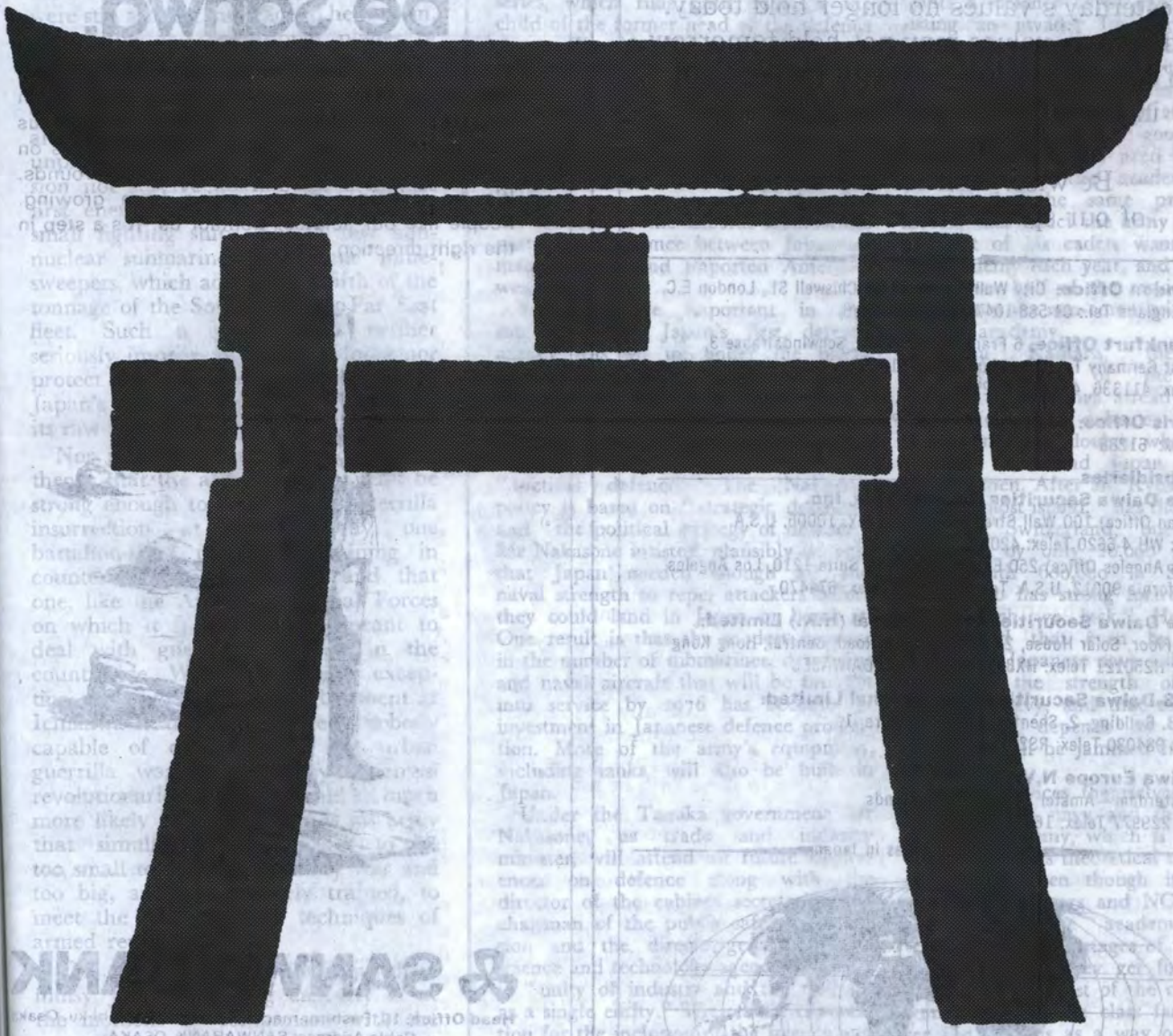
Growing in its sleep

The kindest thing that can be said about Japan's defence policy is that it is not a policy at all, just the mess to which 20 years of non-decisions have inevitably led. The unkind accusation made by the opposition is that in fact the current mess is merely the half-way stage in a well concealed programme that will eventually produce a fully rearmed Japan without anybody noticing. If any such programme does lie concealed in the bosom of the Liberal Democratic party, it certainly cannot be achieved in the present state of Japanese public opinion: even the tiny existing volunteer army has

managed to attract only 60 per cent of the privates it is supposed to have, and there is no chance of introducing conscription until the public mood changes. But if the mood does change—and these half-spontaneous, half-organised tidal movements of opinion are one of the great underestimated factors in Japanese politics—the unkind accusation of the left could turn out to be true after all.

At the moment, the Japanese army nominally has a total of 13 divisions, seven of them on the main island of Honshu and four, including the solitary armoured division, up in the

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north on Hokkaido. But in fact these divisions, with only 7,000 or 9,000 men apiece, are little more than training units. They could not perform their theoretical function of putting up a week's fight against an invasion at either of the two most likely places where an invader might land—in Hokkaido, or around Niigata on the west coast—even if the Japanese air force were still around the place to help them.

But the 250 operational planes of the equally ineffectual air force—which does not even have proper concrete shelters for its aircraft and its fuel stores, and whose 24 radar stations are just as unprotected—would by general admission not survive 30 minutes after the first enemy attack. The navy has 40 small fighting ships, plus a few non-nuclear submarines and some mine-sweepers, which add up to a fifth of the tonnage of the Soviet Union's Far East fleet. Such a navy could neither seriously impede an invasion force nor protect the shipping routes on which Japan's industry depends for most of its raw materials.

Nor is there any consolation in the theory that the army might at least be strong enough to cope with a guerrilla insurrection at home. Only one battalion-sized unit does training in counter-insurgency fighting, and that one, like the American Special Forces on which it is modelled, is meant to deal with guerrillas fighting in the countryside. With the possible exception of the 32nd Infantry Regiment at Ichikawa near Tokyo, there is nobody capable of dealing with the urban guerrilla warfare that any potential revolutionaries in Japan would be much more likely to adopt. This is an army that simultaneously manages to be too small to fight an ordinary war and too big, and not properly trained, to meet the contemporary techniques of armed revolution.

The chart on page 48 shows just how flimsy Japan's fighting capacity is at the moment by comparison with the strength of Britain and France, let alone that of the United States and the Soviet Union. The current fourth five-year defence plan, which runs to 1976, is based on keeping defence spending within the 1 per cent of gross national product (compared with Britain's current 5 per cent and America's $7\frac{1}{2}$ per cent) that it has stayed under since the second world war. But the same chart also shows what this 1 per cent could produce by the beginning of the 1980s, if the gross national product continues to grow at the sort of rate this survey

The politics of defence

Japan's armed forces may look like three equally silent services, but there are a few men who in different ways speak for them, even if most Japanese do not listen. The present five-year defence plan, the fourth in the series, which runs until 1976, is the child of the former head of the defence agency, **Yasuhiro Nakasone**, who is now marking time in the Tanaka government as minister of international trade and industry. Mr Nakasone's new job is about industrial planning, and it runs on naturally from his previous work in military planning. His task will be to secure a compromise between the factions of the Liberal Democratic party for a balance between Japanese-manufactured and imported American weapons.

Semantics are important in this subject. When Japan's first defence agency was set up under the prime minister's office in 1958, the prime minister of the time appointed a former Buddhist monk, **Gisen Sato**, as "director," not commander-in-chief, and expounded the doctrine of "tactical defence." The Nakasone policy is based on "strategic defence" and "the political strategy of defence." Mr Nakasone insisted, plausibly enough, that Japan needed enough air and naval strength to repel attackers before they could land in Japan or bomb it. One result is that the modest increase in the number of submarines, destroyers and naval aircraft that will be brought into service by 1976 has become an investment in Japanese defence production. More of the army's equipment, including tanks, will also be built in Japan.

Under the Tanaka government Mr Nakasone, as trade and industry minister, will attend all future conferences on defence along with the director of the cabinet secretariat, the chairman of the public safety commission and the director-general of the science and technology agency. The aim is "unity of industry and the military as a single entity." The official explanation for the inclusion of the science and technology agency, which is responsible for atomic energy development and space exploration, is "care for public health and welfare."

One of the most likeable and persuasive of the men who run the Japanese defence establishment is **Masamichi Inoki**, the superintendent of the defence academy, where cadets are trained to become officers in all three of the armed services. Mr Inoki is a former university professor, not a military officer. The polite but guarded atmosphere at the defence academy is

a model of *makoto*—that formidable Japanese "sincerity"—but Mr Inoki himself is a burly and, for a Japanese, extrovert historian, the author of some good books on Russian and German communism and the cold war. He wants a defence force capable of resisting an invader for two or three weeks, by when he reckons the Americans should be able to come to Japan's help. He believes that the authorised total strength of 260,000 men could do this, given good modern weapons, without any need for nuclear arms. But at the academy he is plagued by the same problems of morale that affect the army itself. One in eight of his cadets wants to leave the academy each year, and in the end more than half of the services' officers come from the non-commissioned ranks, not the academy.

Osamu Kaihara, the civilian secretary-general of the national defence council, has already protested that the new defence budget is insufficient. He doubts whether it is possible to defend Japan with only 260,000 men. After all, Kyushu, Japan's southernmost island, "has the same land area as Switzerland, but must be defended by only 20,000 men, compared with 600,000 in Switzerland, which also has strong fortresses in the Alps which we lack." He has also complained that even by 1976 the reinforced Japanese navy will be only a tenth of the strength of the old Imperial Navy, and that the country's air defence depends on radar sites which can all be jammed from Siberia or China.

In the services themselves morale is higher in the navy and the air force than in the army, which is still 25,000 men short of its theoretical complement of 180,000, even though it is up to strength in officers and NCOs. Cadets at the defence academy frankly testify to the advantages of the technological training they get for the navy and air force. Most of the cadets come from lower middle class families, who see the services as a way of making a way in the world; and perhaps this is why, despite everything, there are the visible beginnings of a return to self-confidence. Graduates of the defence academy can now be seen wearing their uniforms without embarrassment when they return to their home towns or villages on leave. And some big companies have taken to sending young members of their staffs for periods of volunteer service so that they may "learn discipline and loyalty." It is only a modest revival of the martial spirit, but it is worth noting.



The army's not much. The women look smarter

thinks it will, and if Japan's strength in tanks and aircraft is assumed to expand at the same rate as its defence budget. If the army can at the same time break through its recruiting problem, these figures provide a basis on which a workable, if still very modest, defence policy might then at last be built.

The two models

There are two alternative strategies that a workable defence policy could be built around. They might be called those of a Sweden plus, and a Switzerland plus. The Swedish armed forces are meant to be big enough to fight a fairly prolonged non-nuclear defensive battle against an invading force at either of the two likely points where an invasion might take place (either the northern border with Finland, if the Russians came across there, or the flat country on the coast south of Stockholm). The model fits Japan, with its two likely invasion points, fairly closely; and indeed the secretary-general of the national defence council, Mr Osamu Kaihara, is at present writing a book to argue that Japan should equip itself to be able to fight the same sort of defensive campaign.

One's guess is that, even by 1980, this will require a bigger defence budget than 1 per cent of gnp will yield. It will also need either conscription, or a much greater willingness to join up voluntarily than the country's 18-year-olds show at present (and anyway the number of young men reaching 18 each year has been declining since 1967, as all those babies born to the soldiers coming home after 1945 start to move into early middle age). And this strategy is called a "Sweden-plus" one because it requires, in addition, a navy strong enough to keep Japan's shipping

links with the outside world open while the land battle is being fought. Mr Kaihara, who otherwise accepts the Swedish model, does not believe that this can be done. But he has a notable antagonist in a former naval commander called Hideo Sekino, who says it can; Mr Sekino believes that with a navy of about 125 fighting ships, including half a dozen nuclear-powered hunter-killer submarines and three anti-submarine helicopter carriers, he could keep the seas between Japan and Indonesia open to shipping.

That would certainly bust the 1 per cent limit. The alternative is the Switzerland-plus strategy. The Swiss reckon they would fight a brief delaying action on their frontiers, and then fall back into a carefully prepared redoubt in their central mountains where they would hold out until either somebody came to their help or the invaders got tired of fighting. It is not a particularly convincing theory, when even the mountain strongholds might find nuclear weapons being used against them; but if the Japanese wanted to imitate it, they too have the basic requirement of a central mountain chain they could build their redoubt in.

A Swiss-style defence might be cheaper than the Swedish sort, once the redoubt had been built, because it would need fewer of the really expensive things like tanks and planes. But it would require enough men with high morale to fight the initial delaying action and then hold out in the mountain bunkers. And unless the Japanese were prepared to abandon their links with the outside world altogether, it would also call for enough of a navy to try to get at least a few weeks of essential shipping through.

It will have been noted that this article has mentioned neither nuclear weapons, nor the famous Article 9 of

the constitution: the article that forbids Japan to have any armed forces at all, and forbids it to use force in settling international disputes. Article 9 has not been mentioned because it has ceased to have any importance, except as a means of putting a brake on the pace of rearmament. The Liberal Democrats have been circumnavigating it for 20 years. The Communists say they want an armed, if neutral, Japan. Even among the Socialists, in principle the one really pacifist party left, there are people who will tell you in private that the armed forces will have to be accepted. And anyway there is the great hypocrisy at the heart of Article 9. An invasion of Japan would itself constitute an international dispute; would anyone say that a country can prohibit itself by its own constitution from resisting an invasion? A hole was long ago punched through that too innocent piece of paper by the acceptance of the principle of rearmament.

It comes back to that matter of what sort of country the Japanese in the end decide they want to be; and the decision about nuclear weapons, too, is subsidiary to that. They already have enough plutonium to make a substantial number of bombs. They have also mastered the technique of producing uranium-235, which is a better material, by the centrifuge separation system. But there seems to be virtually no chance of their going on from this into the complicated engineering job of producing delivery vehicles so long as the period of quiescence that Mr Nixon has inaugurated in eastern Asia, his interlude of general self-restraint, stays in force. That is why Zbigniew Brzezinski's guess of 1975 as the year when the Japanese might start to take the nuclear decision is probably a bit premature.

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And even after that they are unlikely to go nuclear unless they make up their minds that they cannot count on American protection, or a government comes to power in Tokyo that wants to do things the Americans cannot support. The sort of change in public

But westward, look, not so bright

Before it is possible to talk about the way Japan's foreign policy is likely to take shape later in the 1970s, it is best to remove from the argument the shapes it is not likely to take. There are a lot of people in Japan who believe that some great but undefined reconciliation with China is going to provide the cornerstone of Japan's new place in the world. These are the east Asia romantics, for whom the remote roots of culture that Japan shares with China are more important than the enormous present differences of ideology and interest that separate the two countries; they have their imitators, alas, among some scholars and journalists in the west who write about east Asia. There are also a few Japanese who believe that a harder-headed sort of deal with the Soviet Union could open up a radically new prospect in foreign policy. In fact, neither of these things is likely to happen.

All the excitement in Japan that followed Mr Tanaka's trip to Peking last year and his government's formal recognition of China—the boom in panda dolls, and the rest of it—now looks curiously evanescent. Very well, the two sides' airlines will soon fly into each other's capitals. No doubt the Chinese will allow rather more Japanese to visit China (the number was only 6,000 in 1971), even though the number of their own citizens they allow to go to Japan is unlikely to rise

opinion which would bring that about would already have produced some dramatic, and perhaps even more important, changes in Japan's non-nuclear fighting power. We shall have to wait for the second half of the 1970s to see whether the will for that exists.

The Japanese maintain their current level of armaments, but they are not much above the 200 of that year. But any really profound change in the two countries' relationship will have to come in economics, and there the possibilities of change are much less dramatic than the more starry-eyed optimists have supposed.

There are only two ways in which Japan's trade with China could expand at a significantly faster rate than the expansion of China's own economy. One would be for the Chinese to be willing to accept long-term credits for the things they would undoubtedly like to buy from Japan. The other would be for them to open up some of their untapped deposits of oil and other minerals for the Japanese to buy in return. The Japanese are undoubtedly interested in China as a potential source of raw materials, including the Po Hai oilfield on the coast opposite Korea; they have even produced a large book of estimates of what these mineral deposits might contain. But the Chinese say that they need these raw materials for their own purposes—as indeed they do—and there is no sign yet that they are willing to open up any large amounts of them to Japan.

As for long-term credits, these will be ruled out so long as China runs its economy on the pay-as-you-go principle; and Chou En-lai's own muffled hint last year that he might drop that principle—he told a group of visiting Japanese businessmen that he

Is it defensible?



Yes, but the lifelines are the worry

might take credits "on international standards"—is now thought to have been probably only an enticement to get Japan to recognise his government. If it was, it worked.

So the prospects for an expansion of Japanese exports to China—which were under \$600m in 1971, only about 2½ per cent of Japan's total exports—depend largely on how fast the Chinese can make their own economy grow. The estimates of China's present gross national product vary between a high of \$130 billion (one American guess), a figure of \$90-\$100 billion (which Chou En-lai himself is said to have offered to some Japanese visitors), and a low of \$80 billion, which is where some sceptical Japanese put it.



There are different ways of working out your tensions, but none of them lasts for ever

The fastest rate at which anyone seems to think this could grow between now and 1980 is eight or nine per cent a year. Other people, reckoning how difficult it will be to squeeze the necessary resources for investment out of an abysmally poor peasant country, say that it could be as low as five per cent a year.

That points to a Chinese gnp in the early 1980s of at most about \$260 billion, on the highest estimates of the present starting-point and the likely growth rate, and quite possibly only

about \$180 billion, on the medium estimates of those things. The darkest calculations would put it a good bit lower still. Even if the proportion of gnp that goes into foreign trade rises to four per cent, which would be almost double the present rate, and even if the Japanese maintain their current share of a quarter of this total Chinese foreign trade (and with the Americans coming into the market they cannot necessarily count on that), that would mean that Japan's exports to China by 1980 would be somewhere between

\$1.8 billion and \$2.6 billion a year; and if the Chinese cannot push the share of their gnp that goes into foreign trade up to more than three per cent, instead of four per cent, even those figures would have a quarter sliced off them.

It is worth going into all these calculations to show how relatively modest the expansion of trade with China is likely to be. Of course, an export business of \$1.8 billion-\$2.6 billion a year would be a trebling or quadrupling of the present figure. But this has to be

The special relations

Korea and Taiwan, once part of the old Japanese empire for half a century, have a continuing relationship with today's Japan that no other country in the region can match. Many of their businessmen, and many of their politicians, speak, read and write Japanese, understand Japanese habits and behaviour and have accepted and retained Japanese customs. Despite all the changes, not least Japan's recognition of China last year, there is general agreement that the relationship will continue.

Despite Chou En-lai's stern official principles and the angry official denunciations from Taiwan, the Chinese Nationalists and the Japanese have already quietly established two non-political organisations to maintain trade relations. The Japanese call their body the Interchange Association; its vice-chairman is Osamu Itagaki, Tokyo's ambassador to Taipei from 1969 to 1971, and its resident director in Taipei is Hironori Ito, who was minister at the Japanese embassy until Tokyo diplomatically withdrew it. The Taipei office will be located in the old embassy building. The matching Taipei body is the East Asia Relations Association; its chairman is a former government minister. The two associations have taken officials from their governments' foreign services as senior staff members. It is said that the only demur the Chinese communists made to all this was to ask that the Japanese change the original title of the Tokyo organisation, which had tentatively been "Japan-Republic of China Interchange Association."

Although trade slipped last year, Taiwan is still Japan's third largest export market, after the United States and Canada. Exports to Taiwan in 1971 totalled \$767m, which is \$160m more than exports to China. The year before the Japanese share in Taiwan's total imports had reached 46 per cent, the highest in the area. Although there have been problems about Japanese investment since the recognition of China, this is effectively being replaced by American and European money; the

United States is expected to invest \$300m in Taiwan's second nuclear power plant.

South Korea comes second in the league table of dependence on imports from Japan, with 41.7 per cent. This puts it heavily in deficit, but Japan is now increasing financial aid and investment. At the last meeting of Japanese and South Korean representatives, in September, Japan promised to lend a total of \$170m this year, and is now expected to offer an additional \$135m for the expansion of South Korea's steel production.

President Park has given an assurance that, at the end of his government's current third development plan in 1976, most Japanese aid can be diverted to private industry. Officials of Japan's Keidanren (the equivalent of the Confederation of British Industry) say that Japanese industry will not only invest in subsidiary companies in South Korea but will also develop South Korean plants as sub-contractors for Japanese light industry exports—especially electronics.

The South Korean government is

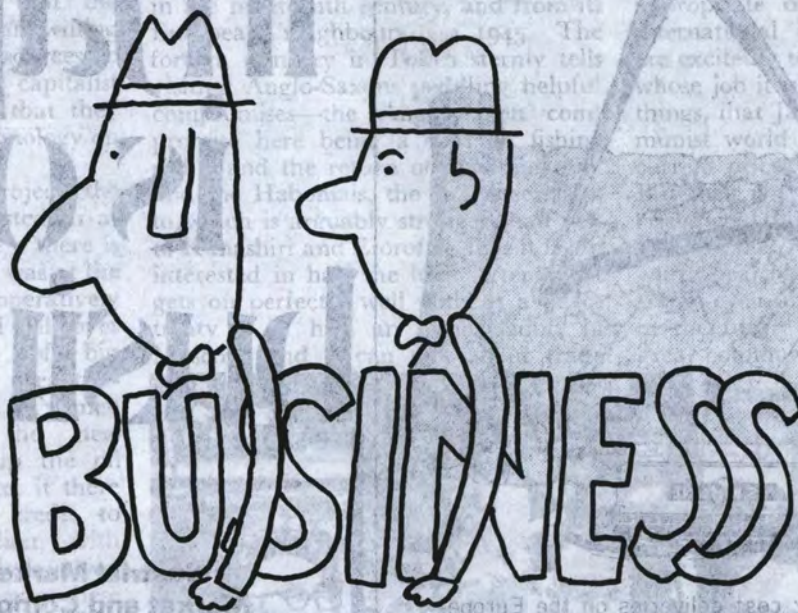
apprehensive about Japan's associated interest in industrial development in North Korea. The Tanaka government declared in October that it had no intention of normalising diplomatic relations with North Korea, but Mr Ohira's statement in January that Japan might recognise North Vietnam could be extended to the communist half of Korea as well. Anyway, Japanese businessmen have visited Pyongyang and plans have been prepared for the supply of industrial equipment, financed by the Japanese export-import bank, to modernise North Korean steel, electrical machinery, synthetic textile and fertiliser plants. At the moment Japan's trade with North Korea is little more than a twentieth of the South Korean total.

The Japanese know the dangers of all this; they recognise that their businessmen are becoming the ogres of east Asian political mythmakers. It is a pity; but the whole area will become increasingly dependent upon Japan—"whether they like it or not, and whether we like it or not," says Saburo Okita, the president of Japan's Economic Research Bureau. Mr Okita has been right in most such things he has said in the past.



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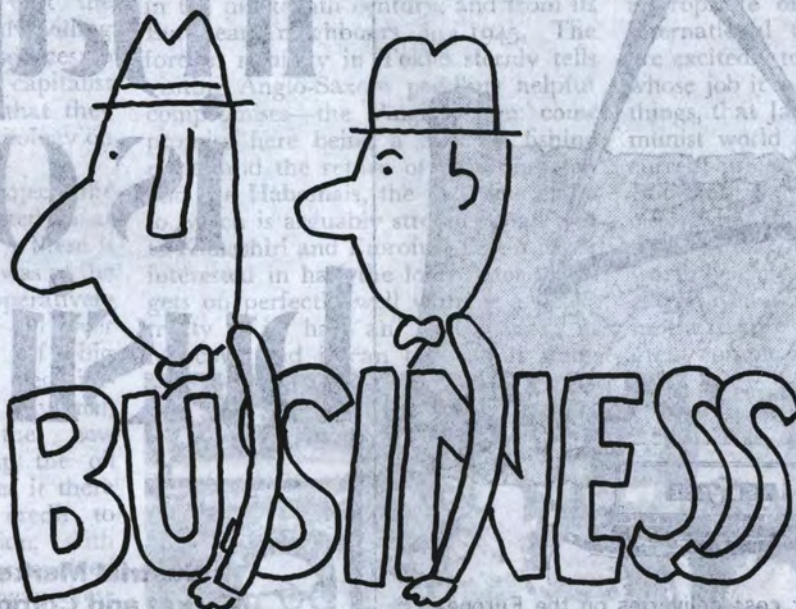
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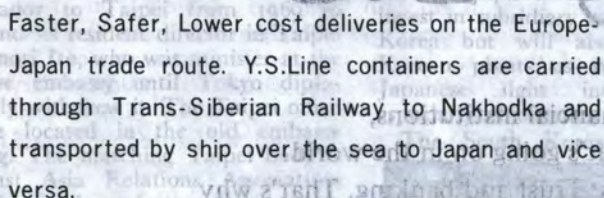
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measured against the fact that in the same period Japan's exports to the world as a whole will quite possibly double; and anyway that \$1.8 billion-\$2.6 billion figure is based on the rosier serious estimates of what is possible so long as China wants to keep its minerals to itself. It is not exactly a foundation on which a new Chinese-Japanese relationship that could change the whole shape of east Asia seems likely to be built.

The Russian hang-up

The prospects with Russia are even more limited, although here politics comes into it. It is true that the Russians, unlike the Chinese, are willing to open up their mineral resources to capitalist technology so that capitalist industry can use them, and that they are willing to borrow this technology on long-term credit.

But the number of such projects the Japanese are seriously interested in at the moment is not very large: there is no longer much talk, as there was at the end of the 1960s, of great co-operatively financed new mines dotted all over Siberia. The hard core of big projects the Japanese are negotiating about in earnest—the Tyumen oil, the Yakutsk gas, the new port near Nakhodka to ship the oil from, and the pipelines to get it there—may need a long-term credit to Russia of up to \$5 billion, with the Americans pretty certainly involved in the lending too. And anyway these projects will have a bigger effect on Japan's imports from Russia, when the oil starts flowing in 1978, than on its exports to the Russians—at least until the Russians have paid off their debt in the late 1980s. The Japanese have a low opinion of the quality of Soviet economic management and of the probable future growth rate of the Soviet Union, which even on the Russians' own probably inflated figures is now only about two-thirds of Japan's. So the prospects of any rapid growth of Japan's exports to Russia—which at about \$400m a year now are hardly any larger than those to Holland—are not good.

And this is where politics comes into it. The Russians, who have still not signed a peace treaty after their one-week 1945 war with Japan, would like to sign one now in order to show Chairman Mao that he is not the only communist who can shake hands with Mr Tanaka. But the Japanese price for a peace treaty is the return by the Russians of those impossibly polysyllabic islands off the north of Hokkaido that they have been occupying

since 1945—Kunashiri, Etorofu, Shikotan and the Habomais—and an end to the harassing of Japanese fishing boats that the argument about the islands has led to.

For a moment, when Mr Gromyko came bouncing into Tokyo not long ago talking about the possibility of a treaty, it seemed that a deal might be on the cards. But when the Japanese foreign minister went to Moscow in the autumn it appeared that Mr Brezhnev was not ready to do business; he was frightened of the effect the return of the islands might have on Russia's claim to the lands it took from China in the nineteenth century, and from its European neighbours in 1945. The foreign ministry in Tokyo sternly tells visiting Anglo-Saxons peddling helpful compromises—the Anglo-Saxon compromise here being a deal on fishing rights and the return of only Shikotan and the Habomais, the Japanese claim to which is arguably stronger than it is to Kunashiri and Etorofu—that it is not interested in half the loaf. After all, it gets on perfectly well without a peace treaty: it has an ambassador in Moscow, and it can talk about trade

whenever it wants. So it looks as if those islands are going to remain a bargaining counter, to be brought out whenever the Russians next come along asking for economic help. It is worth noting that in the message Mr Tanaka sent to Mr Brezhnev on March 6th the question of Japanese money for the Tyumen project was mentioned alongside the peace treaty problem—and, by implication, Japan's continuing interest in the islands.

It is hard to avoid the conclusion that Japan's interests have grown a long way apart from those of the Soviet Union and China. When you visit the appropriate office in the ministry of international trade and industry you are excitedly told, by the very nice men whose job it is to be excited about such things, that Japan's exports to the communist world grew by 50 per cent, at current prices, between 1969 and 1971. But then it turns out that that is precisely what Japan's exports to the world as a whole grew by. It is a statistic worth bearing in mind when people get starry-eyed about what might happen in the future between Japan and the great communist land mass to its west.



The young can afford to feel relaxed . . .



. . . but a few have their mind on sterner things

After the Nixon peace

The communist mainland is not the starting point of a serious foreign policy for Japan. The starting point is the fact that Japan is a mercantile power. Its natural area of interest, and of growing influence, is the great bowl of the Pacific: the Americas on one side, the eastern and south-eastern periphery of Asia at the other, and Australasia at the bottom. This is where, with the single exception of oil, the great majority of the raw materials that make up that astonishing 60 per cent of Japan's total imports come from. It is where two-thirds of its foreign aid programme in the past 10 years has gone to. It is where most of the outward flow of private investment and credits—\$1 billion in 1971, a five-fold increase in five years—goes to. It is also where the small but growing number of Japanese who have discovered that it is actually possible to live outside Japan are making their homes. The cities where the real growth of a Japanese presence is going to be felt are not Vladivostok and Shanghai. They are Vancouver and San Francisco, Rio de Janeiro and Valparaiso, Sydney and Jakarta, Bangkok and Saigon, Manila and Singapore.

There are two things that can be foreseen with a fair degree of probability about the way Japan will operate within this Pacific bowl in the rest of the 1970s and the beginning of the 1980s. The first is that, unless the Liberal Democrats make a mess of things and hand the country over to

the left (and perhaps not even then), the Japanese will continue to work under the protection of the American umbrella.

No doubt the visible manifestations of the alliance, and the irritations they cause in Japan, will grow less. Okinawa was returned to Japanese sovereignty a year ago. The settlement in Vietnam means that the Americans will no longer be repairing tanks for the war at their Sagami base and trundling them across overloaded Yokohama bridges to the predictable fury of anti-war and pro-environment Japanese demonstrators. The number of American servicemen in Japan, now 62,000, may be reduced. It is true that all these things will make the alliance even more one-sided than it is now: the Americans will not be getting anything very concrete out of it in return for the protection they offer to Japan. But the mere fact that the alliance gives the Japanese a reason for not going nuclear, and the hope that they will soon start to have a serious non-nuclear defence policy, are probably reward enough for the United States.

But a second, and more important, thing is likely to happen at some time in the next few years. In the western half of this Pacific zone of interest it will be increasingly difficult for the Japanese to maintain the present artificial distinction between what affects them commercially and what concerns them politically. The eastern side of the ocean remains the Americans' busi-



The umbrella stays...

ness, and now that Mr Nixon has got the sort of Vietnam settlement he wanted the United States looks as if it is going to stay actively involved in the western part as well. But the Japanese too are going to get involved in the politics of the arc of territory stretching from Bangkok to Seoul. They already have their special relationships with Taiwan and Korea (see page 56). The theory that in the rest of the area they are really only there for the economics looks increasingly untenable.

The dependants

This is not a popular point of view to argue in Japan, of course. The orthodox answer you are politely given is that the proportion of Japan's trade that goes to and from south-east Asia has been steadily dropping, from 31 per cent in 1955 to only 20 per cent today, as its more sophisticated trade with the industrialised world has grown more important. The writings of American liberals are replete with warnings against any attempt to recreate the "co-prosperity sphere" of evil memory. This misses the point, with strange precision. The point is not that Japan necessarily depends on south-east Asia (although it still needs the 90 per cent of its tin it gets from Malaysia, the 84 per cent of its rubber that comes from Malaysia and Thailand, and the 86 per cent of its sugar and 35 per cent of its copper that come



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from the area)—but that south-east Asia is so heavily dependent on Japan. Already some 40 per cent of all of Indonesia's trade is with Japan, and a third of Thailand's and the Philippines'. It is quite possible that within the 1970s Japan will be providing as much as a half of the imports of some countries in the area. That sort of dependence is not enjoyable for such countries. But it also means that they will be looking towards Japan if the political wind in their part of the world starts blowing the wrong way.

Some of the younger men who deal with these matters at Japan's universities, particularly at Kyoto, now recognise that Japan is being drawn step by step deeper into the area. The steps they are thinking of are as follows. The decline in American military spending in south-east Asia after the Vietnam war means that more Japanese money will be needed—in aid or investment or credits—to sustain the sort of local growth rates these countries must have if they are to go on being such good markets for Japanese exports. Anyway, they are more attractive places to invest in than China, because a given amount of capital can produce a far more dramatic effect on their much smaller economies. "We are going to be their pacemaker, as America was ours." And nowadays Japanese investment is going not only into factories in the towns but into plantations and forestry development, which at once entangle their Japanese managers in local affairs—in the need for river-control projects, for better roads, for decent amenities in the neighbouring villages.

There is already a Japanese community of 5,000 in Bangkok, and one of 1,500 in Jakarta. This reinforces the other great development which is breaking down the ancient Japanese diffidence about the outside world—tourism. A million Japanese went abroad on holiday in 1971, the latest recorded year, admittedly mainly in those unnerving battalions trudging after their battalion flag-carriers, and since the government raised the travel allowance in 1969 the figure has been going up by something like 50 per cent a year. The lack of interest in the outside world that the Japanese are so often accused of—except, occasionally, to go and fight it—may in fact have been no more than the hangover of those two centuries of self-imposed Tokugawa isolation, and may at long last be ending. The Japanese have stopped being so diffident about the world. That is not a phenomenon that will be without consequences.



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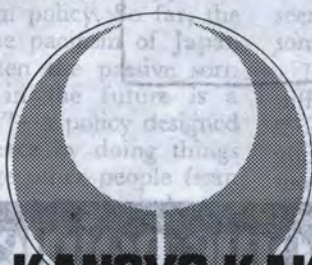
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identity seems to blend imperceptibly into their group-consciousness, are the best living example of the alternative view of life.

But if there are two different sorts of society in the world, there are also two quite different political ideas about how any form of society should be organised. One of these ideas puts the emphasis on collective action, which generally means action by the state in what it says is the collective interest. The other puts it on the politics of individual responsibility. We call the current manifestation of the first marxism; the second, according to whether we are thinking chiefly of its economic or political side, capitalism or liberalism.

The fascinating thing is the way these two forms of society, and these two ideologies, are arranged in the four great powers of today's world — the United States, the Soviet Union, China and Japan. The United States is plainly a country of individualist temper that has chosen, almost without thinking, the individualist system of organisation for itself. China is equally easy to account for on the other side: since 1949, its government has been applying the politics of collective action to a population whose past history, and present behaviour, suggest that it is fairly malleable material for such treatment.

It is the other two whose society and politics do not fit so neatly

together. The Russians have had a communist government longer than anybody else, but nobody who knows that highly individualistic people would say they were natural subjects for marxism; there is something in the Russians, a sort of dour acquiescence, that enables them to be herded, but it is clear that they do not willingly co-operate with the things their communist government wants to do with them. And the Japanese, on the face of it, are just as much of an anomaly. Who would have guessed, a generation ago, that these people, with their way of doing things, would have so triumphantly adapted the institutions of capitalism and parliamentary democracy to their own purposes?

If one tries to look a generation forward, a great deal is going to turn upon which of the two original impetuses, the two basic forms of society, proves to be the more durable. The general assumption in the western world is still that the concept of individualism that began with the Jews and the Athenians, and then sank back for a time before it re-emerged in the Renaissance and the Reformation, is the pattern for the future of mankind, and that the societies of western Europe and north America have merely led where others will eventually follow. It may be true. The history of the past five centuries will have been a blind alley if it is not. But in this black third quarter of the twentieth century it has also begun to seem pos-

sible that man may not yet be ready for the responsibilities that a full application of the Jewish-Protestant tradition would lay upon him; and that the rival view, which offers simpler and more brutal answers to some of the problems of modern life, may be the wave of the immediate future.

If the western idea does win through, the United States will probably survive its present time of troubles and find, in the matching of its political system with its instinctively preferred form of society, a source of renewed energy that will keep it predominant as this century moves into the next. But it is also possible that Japan, with its extraordinary ability to graft the institutions of one system of ideas on to the living body of the other, has discovered a combination that will beat the world. If the collectivist view of life is the winner, on the other hand, the Chinese seem to be in a better position than the Russians to catch the chance history will then be offering them, because they seem to be more amenable to being organised that way. But here again the Japanese, with a foot in both philosophies, will still be in the running.

The point is that, either way, Japan will be among the contenders for very great power in the twenty-first century; and nobody else seems to be an each-way bet. The odd man out of our time may have something we should all be trying to learn.



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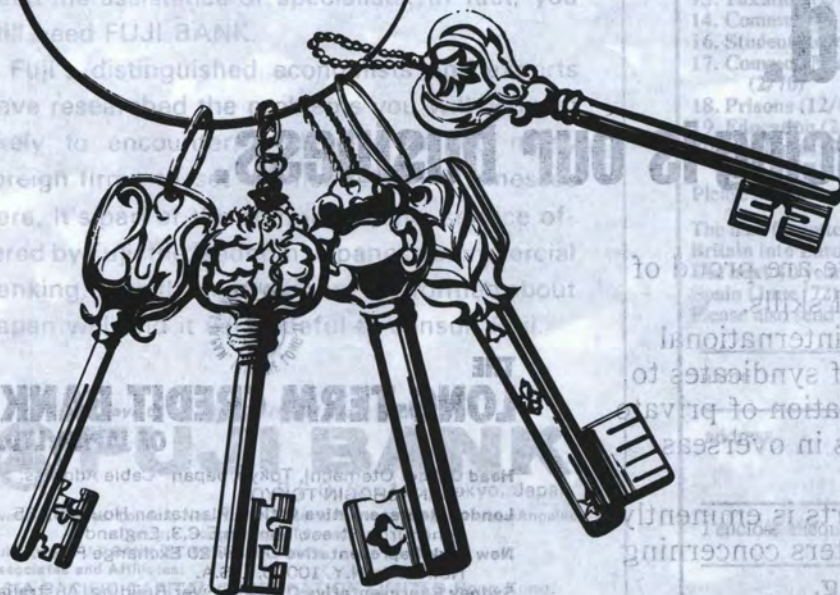
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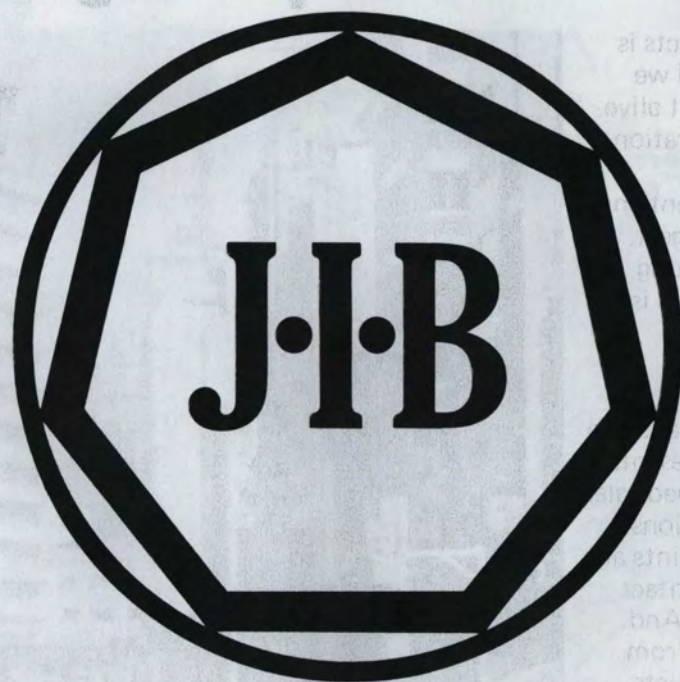
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Japanese Economic Policies and Security

by *Richard Ellingworth*

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Richard Ellingworth, who is a member of the British Diplomatic Service, carried out research for this Adelphi Paper while a Research Associate at IISS during 1971-72.

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Japanese Economic Policies and Security

SUMMARY

This paper is about the likely implications for Japan's national security policy of her economic interests and decisions, over the next seven or eight years. (pp. 4-5)

We must be careful not to attribute too much weight to materialistic elements in Japanese behaviour, which is also powerfully influenced by a variety of ethical and emotional factors. (pp. 5-6)

It is also important to avoid facile comparisons between the conditions of today and those of the late 1930s and early 1940s. The Japanese have changed in many respects as individuals; so has their country; and so, too, have the international circumstances. (pp. 6-8)

Nevertheless, Japan still remains, more than most, an inward-looking country and her politicians' energies are devoted principally to the pursuit of internal harmony, including the satisfaction of the claims of their backers and the achievement of compromises between rival factions. The process of governing is further complicated by the need to pay more attention to home environmental and welfare problems. Foreign affairs, especially in the economic field, are becoming more important all the time, but do not readily claim attention. Defence too seems, *prima facie*, unlikely to claim budgetary priority. (pp. 8-11)

Although the defeat and occupation forced Japan to turn in on herself again, the policies of the United States and external events soon led to the rehabilitation and modernization of her economy and created a strong base for her re-emergence in world trade. She tends to see this, however, more as a process whereby her industry is supplied with essential materials from abroad than one intrinsically desirable for the international exchange of goods. For some of her industries the pressure to export is intense, especially in time of recession, and sudden disturbances of the competitive balance as a result have caused difficulties in her relations with other developed countries. Even the lower growth rates generally expected for the 1970s will still represent great economic dynamism and it will tax the ingenuity of both Japan and her main trade partners to find solutions. There are possible unfavourable implications in fields such as Japan-US defence relations.

The development of Japan's overseas trade has also led to situations in which some states, especially those in South-East and East Asia, are particularly dependent on her. This dependence seems likely to grow and may be increasingly resented by the countries concerned. If friction is to be avoided, Japan has difficult problems to solve in this field, too. (pp. 11-14)

Japan has to import almost all her raw materials, but has taken steps to diversify the sources of supply as far as possible. In the case of many minerals this policy has been quite successful. But 85 per cent of her crude oil comes from the Persian Gulf and in spite of world-wide activity and much expense, Japan has in this respect so far achieved little either in terms of greater diversification or security of supply. She has been careful to avoid political involvement in the affairs of the Middle East, but will probably try to strengthen her economic bargaining position, e.g. by the development

within the oil-producing countries of a dependence on Japanese goods and equipment. A defence involvement seems unthinkable within the period under review, but some discreet bolstering of vulnerable states such as the Persian Gulf oil sheikhdoms may be undertaken.

Japan's needs for raw materials sometimes cause problems for supplier-countries too. The production cuts in Australia and elsewhere because of the recent fall in demand within Japan led to some inter-governmental friction, but the difficulties are now being overcome and most supplier countries, including Australia, want to develop their connection with Japan further. Japan may work out a more flexible policy over stocks. She will also have to pay more attention to the interests of existing suppliers. This may affect the possibilities of further diversification. (pp. 14-18)

The uncertain future status of the Malacca Straits causes Japan anxiety, especially in relation to oil supplies. Larger tankers are already forced to use the Lombok Straits and the riparian states contest the view that the Malacca Straits are an international waterway. The future security of the South-East Asian sea routes will also depend on political stability. Japan has vital interests in the area for communications reasons alone. (pp. 18-20)

In spite of their tradition of mutual hostility, Japan and the Soviet Union now both have a greater interest in improved relations. The two countries' economies could be complementary. But Tyumen oil by itself seems unlikely to do much to deliver Japan from continuing dependence on Persian Gulf supplies and the South-East Asian sea routes; and she does not wish to expand relations with the Soviet Union at the expense of damaging those with China. American interest in Soviet oil and gas has both advantages and disadvantages from the Japanese point of view. (pp. 20-22)

Japan's policy of separating trade and politics was a successful device which facilitated the development of commercial relations with both Taiwan and Communist China. She feared that events in 1971 would force drastic changes on her, and there was an initial stampede towards Peking. But the China market has limitations and imports from China contain few essentials. Japan is clearly moving towards Peking, but she will also try to safeguard her Taiwan interests. The new problem of the Senkaku islands adds to the causes of friction with China. If possible, Japan will seek solutions in which she continues to enjoy the best of all worlds, including improved relations with both Peking and Moscow. If choices have to be made, however, the *overall* balance of economic advantage may favour an accommodation with Peking to which she is also being moved by emotional considerations. (pp. 22-24)

Japan has a very large *civil* nuclear programme, but the results, in terms of energy supplies, are unlikely to be such as to reduce dependence on the Persian Gulf for oil during the 1970s. The programme does, however, create for Japan many of the elements necessary for exercising a *military* nuclear option at some point in the future, should she so decide. There are, however, great technical difficulties, not to speak of domestic opposition, especially amongst scientists. The existence of this 'option' is in itself of security significance and could impose restraint on those capable of damaging Japan's interests. (pp. 25-26)

Japan's greatly improved balance of international trade in recent years has led to a massive increase in her gold and foreign currency reserves. This creates for her the opportunity of expanding her investments overseas, a policy which many elements in her economic situation clearly favour. She is also likely to increase her aid, though it remains to be seen whether the 'private' emphasis will be altered by stepped up official contributions. Latin America may receive more attention, to hold down the rate at which involvements in South-East Asia multiply. In spite of the benefits which Japanese investment and aid will bring to the recipient nations, there are dangers that, unless the operation is handled with great care, even greater economic dominance or excessive success by Japan may lead to local resentment. The more Japan's investments overseas increase, the greater the risk of actions such as nationalization against her. (pp. 26-28)

The United States is the main outside influence on Japanese defence policy. Changes in the relationship between the two countries are likely to have implications for Japan's security. Many factors affect Japan-US relations and economic factors are probably the most important of them. There are many causes for friction, both in bilateral trade and in the way in which the two countries' commercial interests conflict in third countries. Economic disputes will not fester in isolation in view of the various international groups in which both Japan and the United States are active. It is also in the interest of neither to go to extremes. But strain on the overall relationship is likely to be caused and the defence relationship will become less convincing. The *indirect* effect of Japanese economic policy is that Japan is likely to be less assured of American support and under pressure to do more in the defence field herself. (pp. 28-33)

The *direct* implications of these policies, however, do not suggest Japan will be anxious to follow such a course. There will be no disposition to spend on defence funds that could be devoted to 'social' purposes - or remain in industrialists' pockets. Japan's leaders will also need some convincing before they believe that military influence or presence will secure economic interests overseas. They are likely to put more faith in a non-military overseas defence policy which would use money rather than arms as a means of persuasion, and would also have home defensive aspects such as improved oil stocks. They will simultaneously be preparing themselves to cope with 'the contingent and the unforeseen' although the rate of military expansion likely this decade will leave Japan with forces qualitatively similar to those of today. The more she succeeds in exerting influence through economic power, the less she will be inclined to devote resources to armaments. We do not expect Japan to favour new alliances, whatever the state of the existing one with the United States. She may now find it difficult to accommodate herself in any Asian setting. Her true international home is more likely to be found in the Western economic community. (pp. 30-33)

MAIN PAPER

Scope of enquiry

This paper is about the relationship between Japanese economic interests and policies on the one hand, and Japanese national security policy on the other. It is concerned with questions such as whether appraisals of the balance of economic advantage will prompt Japan towards a more rapid development of her armed forces and the enlargement of their mission. The paper will also consider other aspects of Japan's defence policy, such as the probable nature and scope of her alliances, again on the basis of decisions which might be made with the promotion of economic interests in mind. It will thus touch on many aspects of Japan's economic and other relations with the outside world, but the effects of her decisions and policies on those of foreign states are outside the scope of the study, except in as far as reactions elsewhere may, in their turn, impinge on the defence policies of Japan herself. The object is thus to discover both the direct and the indirect consequences for Japan, in defence terms, of her economic situation and the policies most likely to be adopted in this situation by her government.

To put the matter another way, we shall not attempt any *general* conclusions about, for example, the implications of Japanese economic policies for overall Far Eastern or Pacific stability. The word 'security' is consciously used in a narrow sense in relation to Japan's own defence needs, seen – in so far as any foreigner not recently in Japan may have the pretension to attempt this – from a particular Tokyo point of view. In contrast to our narrow definition of security, we shall wish to consider the economic factors on the basis of a rather broad interpretation, though always with the possible implications for defence policy in mind. Amongst the aspects to be examined are Japanese internal policies, especially the way in which these condition – or reflect – Japan's attitude towards the outside world; and overseas trade policy and its implications for Japan's overall relations, including defence relations, with the countries principally concerned. Japan's dependence on overseas sources for raw materials and her likely defence responses to this dependence will be an important aspect. Another will be overseas investment policy. Japan's relations with some countries are

affected in ways falling under several of these headings and in such cases it will be appropriate, where space permits, to consider the economic nexus as a whole – and its implications for security – on a country by country (or area by area) basis. Generally, when discussing economic policies, we shall be writing of those of the Japanese Government, but there will also be occasions for more sectional treatment, e.g. where opportunities exist for the exercise of influence on the government by pressure groups with particular economic interests to advance at home or abroad. The time-scale of the paper is the period up to 1980, though it would be imprudent to venture firm judgments even into the relatively near future in view of the speed with which change has taken place recently – and is continuing, not least in the international economic situation. We shall prefer statements suggesting factors Japanese governments will have to consider to predictions of the policies they can be expected to adopt. Occasionally we may speculate further ahead, for example to consider the possible effects of the development by Japan of nuclear energy (which seems unlikely to make a significant economic contribution, or to have actual military implications, in the period up to 1980).

Geographically, one cannot readily impose limits on what may be relevant, since Japan's economic expansion in the post-war period has brought her into contact with every country in the world. Relations, economic and otherwise, are, however, obviously more important with some countries than others, especially in the defence context; and, as will constantly be apparent, those with the United States are the most important of all. For the rest, the enquiry will mainly concern states bordering the Pacific Ocean, especially China and other Asian states, including, for the purposes of this paper, the Soviet Union seen as a near neighbour and trade partner of Japan. We shall also discuss Japan's relationship with the Persian Gulf area, the source of almost all her oil; and with South-East Asia, through which this oil must travel and an area of importance to Japan in its own right. The major remaining area of economic importance for Japan is Western Europe. We cannot, however, limit the enquiry to bilateral trade relations in view of the importance for

Japan of her place in various multilateral economic groupings and of the triangular relationship between her, the United States and Western Europe which is at the core of most of them. To sum up the purposes of this paper, then, I shall be examining Japan's internal and external economic interests, and her likely related policies, mainly within the time-scale of the next seven or eight years, on a world-wide basis but concentrating on the Asia-Pacific region; and I shall try to draw conclusions about the defence policies she will choose – or which may be forced on her – on the basis of these economic considerations.

A Misleading Approach? Some Qualifications

Many writers about Japan in recent years have emphasized the extent to which economic factors have dominated her policies and some have even thought of the Japanese state as a great commercial corporation – 'Japan Inc' – in which government, management and workers singlemindedly devote their concerted energies to efforts to increase industrial production and material prosperity. There is certainly much truth in this picture, especially as a description of Japan in the 1960s after Mr Hayato Ikeda, the then Prime Minister, introduced his income-doubling plan as the basis for internal policy and the concept of 'low posture' to govern relations with the outside world. But it is far from the whole picture; crudely materialistic analyses of Japanese behaviour, whether that of individuals or of the country as a whole, undoubtedly always leave out a great deal that is relevant. The Japanese people are, for example, as sensitive as any other about *national prestige* and their Government has, in recent years, sought to enhance this in numerous ways. The bid for a permanent seat on the Security Council comes to mind as an example. One could also cite, under the heading of prestige policies, the holding in Japan of the 1964 Olympic Games, Expo '70', the Sapporo Winter Olympics in 1972 and a host of major international conferences. Tremendous efforts have been devoted in this manner to image-building operations, which, as well as creating a focus for energies at home, have given the impression of curtain-raisers, preparing the way for Japan's re-emergence on the world stage. The process will be continued with the Okinawa 'Ocean Exposition', planned on a lavish inter-

national scale for 1975. Perhaps, even now, some planning section in Tokyo is considering how to mark the return of the Northern Islands, if and when this can be achieved! There is also a strong element of *idealism* in many Japanese, in recent years represented most prominently (and indeed sometimes to violent extremes) in student movements, but present also, in calmer form, in the loyalty of the worker to his enterprise and in many other corporate relationships. Above all, the great majority of Japanese whose views count now or will count over the next decade still retain a profound *hatred of war* as a result of their experiences in World War II and its immediate aftermath. Ordinary citizens also value their enhanced *civil liberties* and have no wish to permit circumstances in which a military class could again dominate their lives or play the major role in deciding their country's policies.

Considerations of national prestige; idealism and ethical considerations; hard lessons learned in a vividly remembered war; and new values gained in peace – clearly these are among the factors influencing Japanese thought and behaviour which bear in one way or another on defence policy. Indeed, the almost universal pacifism of the post-war period is still probably the most important domestic element of all in Japan's security situation. It is not within the scope of this paper to examine these aspects in any depth, but they must nevertheless always be borne in mind when considering the role likely to be played by economic factors, if only to remind us that conclusions based on them alone must be partial. It may serve further to put 'economics' in perspective to quote here the remarks of Mr Yasuhiro Nakasone, then Director-General of the Defence Agency, in a speech in Washington in 1970: 'In the history of mankind [he said] countries which have become economically powerful have always been fated eventually to become military great powers as well. The new Japan challenges this commonly accepted rule of history. Japan does not want to hang on to the out-dated concept that economic great powers must necessarily become military great powers. Nor do we want to adopt the philosophy that, in order to become a great power, we must possess nuclear arms.' This is almost tantamount to saying that whatever the traditional 'logic' of Japan's situation, whatever the habitually accepted implications of economic

power, Japan for her part will continue to be influenced more by the 'civilian' or 'ethical' factors such as those mentioned earlier in this section. Whether economic power does or does not tend to lead to military power is, of course, for the purposes of this paper, a moot point and one about which I shall hope to reach some conclusions in the Japanese context.

A Further Cause for Misjudgments: The Pre-War 'Parallel'

If it is important to keep economic factors in the right perspective, it is equally so to avoid judgments uncritically presenting Japanese policies of today on the basis of past events – whether in the economic or other fields. The tendency to do this has been particularly marked in Chinese Communist statements which have lambasted Japanese Government policy, partly no doubt for propaganda purposes, as though nothing had changed in the past 25 years (and on the basis of a very doctrinaire Marxist analysis).¹ The same has been true from time to time of Soviet statements and there has also been a tendency in the United States and Europe, as Japan's strength has grown, to talk in some quarters as though history were repeating itself. The validity of such comparisons is dubious. It would, in the first place, be hard to find any people in the world whose habits and environment have changed more in the past thirty years than those of the Japanese. In the 1930s, most of the population were living in rural areas, in surroundings not greatly different from those of their forebears in the Tokugawa period. Their diet was simple, principally rice, and although they were far above the acute poverty of India or China, their lives were austere and controlled. They were literate, certainly, to a remarkable degree, but what most of them read could only give them a very partial view of the world. In so far as the world outside Japan was a concern to them, they thought mostly of their empire in East Asia, and in so far as they thought of themselves as anything but Japanese, they considered themselves Asians, though they were prone to believe that they were superior to the rest.

In the post-war period much of this has changed. Most people have moved to the cities, especially the large conurbations from Tokyo to Osaka on the Pacific side of Honshu. Even

those who live in the country often have non-agricultural occupations in neighbouring towns. The average life span now exceeds 70 years and the standard of living has not only left Asia even further behind, but has risen in many ways (though not, for instance, in housing) to a level comparable with most European countries; the whole way of life has become more Western as mass consumption has produced its effects. The Japanese press, whatever its failings, is certainly far from being a mouth-piece of the Government and one may say generally that much of the closed society of the old Japan has been transformed into something akin to the open society of the West. This is certainly how many Japanese see it. A senior Japanese official, writing for a London periodical in 1971, described his fellow-countrymen as far more European in outlook than Asian.² Sgt Yokoi, on first meeting other Japanese after his emergence from the Guam jungles, even refused to believe that they *were* Japanese! One must not, of course, press this point too far. The Japanese themselves tend to notice most the changes in their way of life, Western and other outside observers the abiding 'oriental' personality.³ The truth is no doubt compounded of both aspects.

In any case, however, it is not merely a question of changes in the way in which individuals live and think, important though these are in any society. The international circumstances of modern Japan differ profoundly from those of pre-war and, no less important, so does the basis on which national interest is at present assessed by Japanese governments.

Pre-war Cabinets varied considerably, according to circumstance and composition. Those of the 1920s were relatively 'liberal' while those of the 1930s gradually became more 'militarist' until eventually, in 1941, Prince Konoye gave place to General Tojo, an event shortly followed by the outbreak of World War II. But essentially the pre-war governments all had a great deal in common. They all believed that Japan had a *mission* in the world, especially a mission in Asia.⁴ They were all heirs of the leaders of the Meiji period, who, observing the style of most of the great powers of the day, believed that Japan could only preserve her independence if she was strong – and that she could only be strong if, amongst other things, she established a colonial

position comparable with that of other leading states.

Judged by the final outcome, this expansionist policy succeeded only too well. Inherited belief in invincibility was fortified by the easy acquisition of Formosa after the Sino-Japanese war of 1895 and of Korea after the Russo-Japanese war of 1904. By the 1920s, the likely eventual consequences of Japanese policies on the Asian mainland should have been seen to include conflict with the United States and the outcome of that conflict should have been more dispassionately considered. As Raymond Aron puts it, 'The Japanese bid in 1941 was *senseless* since on paper the Empire of the Rising Sun had no chance of winning and could avoid losing only if the Americans were too lazy or cowardly to conquer'.⁵ The excess of caution for which post-war Tokyo governments have been noted is indeed in large measure ascribable to their realization of the disastrous results of bold decisions reached in the pre-war years after secret debates amongst committed participants. It is scarcely possible to exaggerate the abiding importance for Japanese policy-making of the defeat of 1945 and their realization now of the inadequacy and mistakes of the policies which led up to it.

When examining present-day Japanese economic interests and policies, therefore, we shall try to avoid jumping to conclusions because there are, in some respects, similarities with the pre-war position. It is true, for example, that Japan was worried about raw materials then and that she is worried about raw materials now. It is often said that the United States' oil embargo and the subsequent denial of supplies from the Netherlands East Indies virtually forced Japan to go to war in 1941. Sir Winston Churchill has this to say in his war memoirs: 'Hitherto the Navy had exerted its restraining force. But the embargoes which the United States, Britain and Holland had enforced cut off from Japan all supplies of oil, on which the navy, and indeed the whole war power of Japan, depended. The Japanese Navy was at once forced to live on its oil reserves and at the outbreak of the Pacific War had in fact consumed 4 out of 18 months' supply. It was evident that this was a stranglehold, and that the choice before them was either for Japan to reach an agreement with the United States or go to war. The American requirements

involved Japanese withdrawal not only from new aggression in Indochina, but from China itself, where they had been fighting, at heavy expense for so long.'⁶

Japan was, in fact, already in a war situation. The oil embargo was one of the causes for the attack on Pearl Harbour, but more in the nature of a proximate cause than a primary one, given Japan's *existing* Asian and Pacific policies and the philosophy that informed them. There is a great difference between these events and the circumstances in which the members of the Organization of Petroleum Exporting Countries (OPEC) have made Japan, an industrial oil-consumer, anxious about the security of supplies in the 1970s, by threatening the oil companies with embargoes as part of a process of commercial bargaining. To make this distinction between pre-war and the present is not to deny that oil supplies are for Japan a matter of possible security significance. We intend, however, to try to assess this significance on the basis of Japan's present situation and not in the light of quite different circumstances of 30 years ago.

There is also sometimes said to be a parallel between the protectionism of the pre-war period and the effects this had on Japanese policies then, on the one hand; and the economic pressures which are building up against Japan at the present time, and which clearly could have wider significance in relation to her general international position, on the other. Of the part played by economic factors in the growth of pre-war Japanese militarism there can certainly be no doubt. Japan, like Germany, was one of the countries most affected by the slump. More than two-thirds of her population were engaged in agriculture and of this group about half were mainly dependent on silk production. The falling away of their main overseas market in the United States brought widespread distress.⁷ The following quotation from a contemporary document conveys the flavour of the time: 'Tariff increases in several countries had already affected exports from Japan. In China there were floods, famines and internal strife, coupled with a fall in the price of silver, and, after September, 1931, a widespread and intensive boycott of Japanese goods carried out by Chinese merchants not only in China, but in Malaya, the Philippines, the Netherlands East Indies and even on the Pacific Coast of North America ... a series of

political crimes, commencing in February, 1932, with the assassination of the Finance Minister ... culminated on May 15, 1932, in the murder of the Prime Minister by a band of young cadets who, in a manifesto justifying their action, called attention to the plight of the farmers.'⁸

But in this case, too, the analogy between pre-war and the 1970s seems to break down, although the asymmetry is not as marked as in the case affecting oil. There are evidently important differences between the near hysteria and 'have not' psychosis of 1931 and the complacent 'my-home-ism'⁹ prevailing almost everywhere in the opulent Japan of the early 1970s; unlike the 1930s, recent measures taken against Japanese exports have had virtually no impact on the lives of the people; the relative unimportance of textiles for modern Japan – a declining industry of mainly local significance – contrasts with the vital importance for many farmers of the silk industry pre-war. Moreover, important though the United States market remains for Japan, the range of her exports there now has far greater diversity than it had in the 1930s. She has also generally more capacity to 'manage' her economic situation than was the case 40 years ago. In short, Japan is not at present under the same sort of economic pressure as was put upon her in the pre-war period, nor is she engaging in the type of international behaviour to which some at least of that pressure was a response.

To reject simple comparisons between the pre-war period and the present, however, does not mean that there are no traditional elements relevant to the study of Japan's problems today. It will be the purpose of the next section of this paper to consider briefly what these elements are and to elaborate a little on this basis about current domestic political considerations.

The Primacy of Domestic Considerations

Internal factors play an even greater role in the evolution of general policy in Japan than in the case of other advanced industrial states and it is therefore logical to discuss them in some detail. There are three main causes for the importance of these factors: historical tradition; language and geography; and the idiosyncrasies of the domestic political process.

The circumstances in which seventeenth-century Japan decided to cut herself off from

contact with the outside world are well known.¹⁰ During the long period of the Tokugawa Shogunate, right up to the latter part of the nineteenth century, she was a politically and economically closed society, dedicated to the principle of self-sufficiency. Only a trickle of foreign trade was permitted, through Dutch and Chinese merchants in the South-West of Kyushu, as remote as possible from the main economic life of the country and far from the principal governmental and cultural centres.

The re-establishment of commercial and other contacts with the outside world at the time of the Meiji restoration did not mean a whole-hearted repudiation of the tradition of seclusion. Even those who advocated such contacts generally did so, not because they had any hankering for abroad, but because they felt that the process was necessary to modernize Japan and preserve her independence. She remained essentially an inward-looking country, a characteristic which had much to do with the failure of her expansionist policies. Something of this shying away from commitment to the outside world remains today, partly because of the Tokugawa inheritance; partly because experience from overseas involvement in the first half of the twentieth century was, in the end, so painful; and partly because linguistic uniqueness, geographical isolation and social and cultural tradition still make relationships of intimacy with foreigners difficult for all but a few Japanese.

The tendency to look inward is further accentuated by the organization and practices of the long-ruling Liberal Democratic Party (LDP) which, having secured in the general election of 1969 a record 303 out of 486 seats in the House of Representatives, has yet to have its position in the country seriously shaken.

The LDP is not in many respects a very modern or representative party, having achieved its 1969 victory with only 44 per cent of the total vote, thanks partly to a disunited opposition and partly to its dominance of the rural areas which, in spite of demographic changes, still return the same number of Diet members as they did 25 years ago. The 'jiban' or political base of many LDP men is therefore in the constituencies least in touch with the world outside Japan and most on the defensive to safeguard traditional interests.

This situation has implications for the economic and social policies of any LDP cabinet. Agricultural interests can exert influence out of all proportion to their numbers over such matters as the producers' rice price (long maintained by subsidy at a level in excess of that paid by the consumer) and the protection of domestic agriculture against competition from abroad. Conversely, urban problems have so far received rather less than the attention that they would appear to merit.

Political parties in Japan have to give as much attention to backers as to voters in view of the large sums of money needed to secure election. Although, in recent years the diffusion of wealth throughout the community has proceeded apace, with the result that potential election-fund providers such as the main trade unions are now quite rich, it is the 'Zaikai' or 'The world of finance and commerce' which still controls most of the purse-strings and on which the LDP essentially depends. Hence the importance of the interests of the Zaikai in the policies of any LDP cabinet. One result of this influence has been low taxation rates and low public expenditure, factors which have been amongst those concentrating Japan's resources into productive industrial investment, the foundation of her economic success and also the basic cause of the severe pollution, especially of her cities, today.

The LDP is a loose grouping of factions rather than a monolithic political party. For the most part these factions have as their focus the personality from whom they take their name and their main purpose is to secure an influential position for him and as many of their number as possible, rather than to advance particular national causes. This characteristic lends to Japanese politics a considerable degree of flexibility, changes which in other countries might be effected through a new government after a general election being brought about by alterations in the intra-party factional balance. The technique is generally to 'adjust' or 'harmonize' rival policies, to produce, if possible, a rounded compromise tolerable for all, rather than to insist that the strongest point of view should triumph at the expense of all the others. This process, while it may not lead to much dilution of the essential objectives of the politically dominant groups, does mean that these interests are not pursued too crudely or without

any regard to those in a less favoured position. The blunting of left-wing passions through attention to rival susceptibilities or, sometimes, the adoption of opposition policies, together with uninterrupted improvements in most individuals' standards of life, has meant that the seemingly endless rule of LDP governments is not resented as much as might be expected.

Nevertheless, the danger signals are certainly there. LDP governments are going to find it increasingly hard to pursue the 'easy way out' (high growth, low taxes) indefinitely, in view of the likelihood of increasingly widespread discontent unless there is higher public expenditure both on welfare and to remedy the damage caused by headlong industrial development. The unexpectedly strong opposition to *Concorde's* visit in 1972 showed the growing importance of environmentalist sentiment. The proportion of the population living in towns and cities is already nearly 75 per cent and 25 per cent of the total land area is classified as non-rural.¹¹ Left-wing coalitions have already gained the governorships of Tokyo and some other cities. The LDP might have to face the possibility of a widespread lack of control below the national level if popular sympathies were alienated from them further – and this danger might not be limited to the towns. The rural areas, too, are becoming more radical, as was shown by the desperate battle against the new Tokyo airport fought by local farmers. Social security also is by no means only a demand of a sophisticated urban proletariat. There is a general tendency to expect more from the state.

It will not be a simple task for the LDP to find the right balance in its internal economic policies. There are various conflicting considerations to be weighed – and the task will be rendered more complicated when external factors and pressures are also taken into account. Although the debate about Japan's national objectives has been growing in recent years – and has broken out with renewed vigour as a result of the 1971 Nixon 'shocks' and their aftermath – there is as yet no consensus as to what these aims should be. Private quality of life aspirations still outstrip any general will for ecological rehabilitation. In these circumstances, there may be a temptation to carry on with policies which, even if not ideal, have at least hitherto proved generally beneficial. As Herman

Kahn, writing before the events of 1971, put it: 'This very confusion about ultimate goals makes even more likely a heavy concentration in the immediate future on the simple – and intrinsically attractive – goal of catching up with or surpassing the West economically and technologically.'¹²

In Japan, as in other states, decisions are often made in response to the needs of the moment rather than in pursuance of carefully thought out long-term objectives. As yet, there is certainly little sign of a fundamental change in internal economic policy. The 1972 budget did devote more resources to the general headings of welfare and urban improvements, but the major emphasis was on measures designed to help industry surmount the difficulties of the slow-down which, in January 1972, was estimated to have resulted in a 'ten trillion yen gap' between production levels and full capacity, or some 15 per cent surplus capacity overall. It was the current needs of the *Zaikai* which counted most when the budget decisions of 1972 came to be made; and big business has lobbied successfully to have some of the teeth taken out of anti-pollution legislation.

We should not, however, underestimate the ingenuity of Japanese governments in devising broadly acceptable solutions – and their capacity to see that their decisions are enforced. In the economic field, there are three especially useful tools at hand. The first is the technique of 'administrative guidance', a system by which the wishes of the government, usually the Ministry of International Trade and Industry (MITI), are communicated by officials to industrialists and businessmen; the latter are by no means always passive recipients of advice, but the MITI view generally prevails in the end, even though the government may be without formal statutory authority. The second is the authority of bodies such as the Keidanren (The Federation of Economic Organizations) which, as well as making representations to the government on industry's behalf, also acts as a channel for the communication to industry of what is expected of them by the state. Last and not least is the power of The Bank of Japan over the city banks who, in their turn, have great influence in industry because most firms' capital is composed predominantly of debt rather than equity.¹³ A further characteristic favouring the coherent execution of policy on a nation-wide

basis is the predominance in important executive positions in all walks of life of graduates of the main universities, especially the University of Tokyo.

Nor should one present the LDP itself as no more than an opportunist band of politicians, dedicated to the narrow interests of their supporters. The concentration on economic growth in the post-war period with which it has been associated accorded with national purposes as well as with those of the *Zaikai*. As one Japanese authority puts it: 'Priorities in economic development should start with adequate improvement in industrial capital, after which improvement in social capital can be aimed at, with the help of industrial capital.'¹⁴ The *Zaikai* too are expected to be able to transcend the particular interests of business, industry and finance in the wider interest of the nation. This thought is given almost Confucian expression by the same writer: 'If the three elements of nature, industrial activity and human life, which should exist together in harmony, end up by destroying each other, civilization is inevitably doomed to failure. In order to avoid such a tragic culmination, both individuals and enterprises must be willing to accept duties rather than rights, and restrictions rather than freedom.'¹⁵ Mr Kakuei Tanaka, the new leader of the LDP and Prime Minister, has himself recently published a book calling for the wholesale social and economic transformation of the country.¹⁶

Modern Japan, then, has not only an isolationist inheritance, but also a very complicated domestic political process dominated by the constant need for the governing LDP to make 'adjustments', sometimes in the interests of particular Japanese backers or voters, sometimes in the overall interest of the home population at large. Effective action usually gets taken in the end, but the process of internal harmonization is so involved and time-consuming that it requires an effort on the part of most Japanese politicians to take into account external factors, except in so far as these are directly related to the interests of their supporters. There is a clear discrepancy between this tradition and this psychology, on the one hand, and the actual overseas circumstances in which Japan finds herself involved, on the other – committed, willy-nilly, in ever greater measure, to foreign links, especially in the economic field. This discrepancy, as we shall see

in subsequent sections of this paper, is one of the causes of the friction that has arisen with other states and is therefore one of the elements relevant to a study of Japan's security. Pre-occupation with domestic matters is also relevant for us in another sense: it does not, on the face of it, seem likely that defence expenditure will have a high priority when politicians are conscious of so many more attractive claims on the budget, whether to satisfy the demands of their supporters or to improve the condition of the people as a whole.

Japan in International Trade

The inward-looking characteristics described above sometimes show clearly in Japan's dealings with the outside world and the field of foreign trade relations is one of which this statement tends to be particularly true. Here the tendency to be Japan-centred has, if anything, been accentuated by the circumstances of the immediate post-war period and the manner in which Japan's overseas commercial relationships subsequently developed.

After the surrender in 1945, the Japanese were almost completely severed from contact with the outside world, except for the all pervasive link with the United States through the occupation. Most people thought of little but how to obtain the basic necessities of life such as food and shelter: the desolation and sense of shock were such that many, both Japanese and foreign, were unable to conceive of any viable future for the country. The level of economic activity was for some years so low and the circumstances of the occupation so constricting that the need for foreign trade scarcely arose. Many essential imports, such as food, were provided by American aid schemes and even when, shortly before the re-attainment of independence in 1952, the expansion of the economy began to gather momentum, the principal stimulus came from the windfall of 'special procurements' made in Japan by the United States to meet the supply needs of the Korean war. These years were very important for the future, because with American help, not least in respect of technological modernization, the foundations of a new industrial base were laid, permitting, by 1955, a level of GNP equal to what had been achieved at Japan's pre-war

peak.¹⁷ It was, also, however, an intensely introspective period during which, for most practical purposes, Japan's external horizons, in commerce as in other activities, were limited to the United States. Even when independence came, the Japanese economy was still curiously 'internal'.

Before leaving the occupation period we should mention one further aspect, of great importance for Japan's future economic development. This was the decision, in 1950, to modernize and expand Japan's oil-refining capacity – just at the moment when continuing dependence on coal would have become an economic liability. Here again the role of the Americans was of primary importance since it was the United States 'majors' who were principally involved, both in the modernization process and the subsequent supplies of crude oil for the refineries.¹⁸ The demand for oil and other industrial raw materials increased rapidly with the development of the economy. Since these supplies, with a few relatively trivial exceptions, all had to be imported from overseas, the need for exports grew proportionately to provide for the necessary foreign exchange. Apart from this aspect, however, the Japanese economy is not particularly oriented towards commerce, the ratio of overseas trade to GNP being of the order of 10 per cent which is smaller than pre-war and much lower than that of many comparable Western countries.¹⁹ The nature of the trade as well as its quantity is distinctive, since some 70 per cent of imports are made up of raw materials and only 30 per cent of foreign manufactures. To put it somewhat crudely, Japan's concept of foreign trade has been as of a process whereby her industry has been fuelled and supplied, rather than one which is intrinsically desirable for the international exchange of goods. She has not found it easy to abandon protectionist habits. For most Japanese manufacturers, home markets tend to be more important than those overseas. With high rates of economic growth throughout the post-occupation period, the main stimulus to production has been given by domestic investment and the business opportunities within Japan created by the constantly increasing purchasing power of the Japanese people. There has been no ready disposition to share more of this market than absolutely necessary with foreigners.

Such general statements do not, however, tell the whole story, even from the Japanese point of view. The circumstances of different industries vary considerably in relation to their need to export. The initially small Japanese post-war merchant marine, for example, required far fewer ships than could be built by the expanding capacity of the new Japanese shipyards, whose owners therefore concentrated on overseas contracts. In the 1950s and 1960s manufacturers of items such as washing machines and TV sets had an enormous internal market. This still has great possibilities, but manufacturers of obsolescent items in particular, for which demand at home is already satisfied, are under increasing pressures to develop sales overseas.²⁰ For all industries, economic slow-downs have from time to time depressed sales within Japan and the resulting tendency towards surplus capacity has stimulated a search for increased trade outlets abroad. Finally, some industries – particularly small enterprises with narrow profit margins, operating under circumstances of fierce competition within Japan and in many cases under pressure from bankers or even threatened by bankruptcy – have only been able to survive by aggressively going for market opportunities overseas. The prestige factor has been important too. Japanese industrialists, once reproached for the inferiority of their products, gain enormous satisfaction from success abroad on the basis of acknowledged quality and efficiency.

Turning now to the point of view of the interests with which those of Japan may conflict, it is clearly of little relevance that the ratio overall of her exports to GNP should be small or that special factors, such as those described in the preceding paragraph, should have driven a manufacturer into a new market. The instinct to seek protection is aroused inevitably by sharp or sudden alteration in the competitive position; and these are precisely what Japanese exports have often caused, because of a lack of consideration, in some cases, for the interests and susceptibilities of threatened rival interests. Commercial skills have been more in evidence than diplomatic ones, or perhaps it would be fairer to say that Japanese Foreign Ministry warnings about the international implications of some trade policies have not been heeded – or heeded too late. One element in the crisis in

Japan–United States relations in 1971 came from a Japanese failure to take sufficiently resolute action in time over textiles, owing perhaps to insufficient appreciation of the implications, in American domestic political terms, of the threat posed by these exports. Anglo–Japanese trade, usually in rough balance in recent years, began to show signs of disequilibrium in 1971, with a markedly greater growth in Japanese exports to Britain than in those of Britain to Japan. Similar tendencies were apparent in Japan–Europe trade generally. There was much apprehension in 1972 that American measures against Japanese goods would force higher exports from Japan to Europe and friction developed between Japan and the EEC over the possible institution of safeguards, to be invoked if these fears should prove justified. There were considerable difficulties over specific Japanese exports; one of the most intractable involved the rapid build-up of sales of certain types of ball-bearings in Britain at such low prices, it was claimed, that some British factories were in danger of closure, with consequent loss of jobs for the workers. The arguments sometimes deteriorate into a sterile quotation and counter-quotation of percentages. The threatened interests in Europe or elsewhere point to the rapid rate of increase in Japanese exports; the Japanese, for their part, concentrate on emphasizing how small a proportion of the foreign market concerned their exports occupy – and how much of production overall is absorbed by the home market.²¹ The tendency to be concerned principally with domestic factors in such situations is by no means limited to the Japanese side.

Whether these causes of friction become more or less numerous will depend *inter alia* on the rate at which the Japanese economy grows during the remainder of this decade. Here we enter the realm of speculation, for there is as yet little agreement on this question, beyond a general feeling that the ‘social’ claims mentioned in the preceding section of this paper will tend to divert investment from productive industry to some extent; and that, even when recovery from the current recession comes, growth rates will not reach the level of the 1960s. There is, however, no unanimity in the point. A recent study by the Japan Economic Research Centre (JERC) gives an estimate of a *higher* average rate of growth of 17.2 per cent (nominal) for

1970-80 as opposed to a rate of 15.9 per cent for 1960-70. This rate if attained, would, in the JERC projection, raise Japan's share of world GNP from 6.4 per cent to 12.5 per cent; and of world exports from 6.2 per cent to 10.8 per cent, by the end of the decade. The implications of the last figure are startling if represented in terms of the likely trade balance with Japan's major partners. Her annual, global favourable balance would, according to this projection, rise in terms of current dollars from \$3,650 million in 1970 to \$16,777 million in 1980, the figures for the trade with the United States being \$1,180 million and \$6,190 million respectively; and for Western Europe \$1,210 million and \$6,004 million.²²

There is a certain unreality about the JERC figures, for disequilibrium on the scale mentioned would be intolerable for the other states concerned long before it reached such proportions, and action of one kind or another would have been taken to prevent it if necessary by unilateral protectionist measures. Even if, however, for these and other reasons, Japanese growth rates are kept to a more modest level, the future export-potential of the economy still seems likely to be the source of considerable problems. During the 1971-72 'recession' Japan's growth has been maintained at levels most other governments would envy. It seems unlikely to be below 9-10 per cent in real terms once recovery is achieved. This rate still represents great economic dynamism and the accommodation of the external manifestations of such dynamism within the world system will in any event be a formidable task for all the parties concerned. If solutions are to be found, Japan will *inter alia* have to outgrow the inward-looking characteristics we have described - and the other states principally concerned will have to reverse their own growing tendency towards protectionism.

To be more specific, much will depend on the extent to which Japan's policies become - and equally important, are believed by foreign trade partners to have become - more receptive to manufactured and agricultural imports from abroad. Much will depend, too, on the success or otherwise which attends the policy of 'orderly marketing' overseas to which Japanese government and industry as a whole are now committed. It is clearly in Japan's advantage that trade friction should be avoided and there has already been a measure of success in some sectors where

inter-industry agreements, for example, have controlled the rate of advance of Japanese goods into specific markets. There have also been examples of limited success on a multilateral basis, e.g. at the talks in the spring of 1972 between European and Japanese shipbuilding interests when the former seem to have convinced the latter about the implications of excess construction capacity later in the current decade. In all this, an important element will be the maintenance of the Japanese government/industry relationship referred to earlier in this paper and the efficacy of the procedures of 'administrative guidance', etc. The Japanese motor industry and the electronics giants have shown signs of restlessness at the constraints imposed by the traditional method of control. If such a 'revolt' were to spread, the prospects for 'orderly marketing' would clearly become less promising. And even if the 'big fish' are kept in the planned current, there remain possibilities for evasion of inter-industry agreements when so many Japanese enterprises are still so small. Even today, 86 per cent of manufacturing companies are very small organizations, with less than fifty employees.²³ They are, however, in many cases so closely integrated into the business operations of the larger companies that the latter's decisions tend to commit them, too.

Last - but far from least - much will depend on the extent to which Japan's trade partners in the developed world are prepared to countenance for her a position in their markets commensurate with her economic stature.²⁴

There are clearly many imponderables involved, but the issues are so difficult and so numerous that further trade friction with the countries of the developed world seems almost unavoidable. This prospect must lead us also to doubts about the future political relationships, since these are so much influenced by the impact of commercial competition in current international circumstances. A further doubt must also arise in relation to defence links where these exist; if, for economic or other causes, the general relationship is under strain, their durability clearly cannot be taken for granted.

The above paragraphs have dealt with trade questions involving developed countries with which Japan is more or less on an equal footing, symbolized amongst other things, by common membership of OECD and similar institutions.

Trade problems of another kind can arise, chiefly in relation to developing countries, where the degree of economic dependence on Japan becomes, or is thought to become, too high. From the point of view of Japan, her trade with Indonesia, for example, is important, but not particularly so.²⁵ Indonesia's perspective, however, is quite different, for almost half her imports come from Japan and more than three-quarters of her exports go there. This is not a situation most countries could regard with equanimity, whoever the partner, and Indonesia is no exception. Although the war left few scars among the population, the Japanese being regarded primarily as the influence by which the Dutch domination was ended, there has in recent years been considerable anti-Japanese feeling because of the allegedly selfish manner in which the trade relationship has been turned to Japan's advantage. Whether or not these sentiments are justified, such a large trade dependence on another state must seem even more excessive when they exist. There is a prospect of increasing economic dependence on Japan for most of the countries of South-East Asia, to whose susceptibilities therefore she will be obliged to give careful attention.²⁶ Sometimes the case is further complicated, as in the Philippines, by the persistence of anti-Japanese feeling from the war and the prevalence of suspicions about the activities of resident Japanese traders. Trade dependence of another kind exists in the case of the Republic of Korea where imports from Japan greatly outbalance Korean exports in the other direction and various loan and other devices have been necessary to bridge the gap.

This section has done no more than sketch in some of the ways in which Japan's foreign trade bears on her general relations with other states, and the main problems requiring solution if these are not to suffer. Some aspects, notably the implications for the defence relationship with the United States, require further discussion, but it will be convenient to postpone this until a later section of the paper (see pp. 28-33). A prior task is to present some of the other main external economic problems facing Japan, such as the dependence on overseas sources for industrial raw materials to which we turn in the next section. This will also broaden the discussion in another way by bringing in areas

such as the Persian Gulf and Australia, with which Japan's balance of trade, by contrast with the cases discussed above, is and seems likely to remain an unfavourable one.

Raw-materials, Especially the Problem of Oil

Japan's dependence on overseas sources for her industrial raw-materials has risen by leaps and bounds, and will increase further with the growth in her economy. Only in the case of a few minor minerals such as lead and zinc does she now have significant deposits of her own, but, even in these cases, demand is such that about half her needs have to be imported. The domestic coal industry is in a continuing state of decline. Its products are mostly of poor quality and, in particular, unsuitable for use in steel production. Eighty per cent of her coking coal already has to be imported and the proportion is expected to increase. For bauxite, nickel, uranium and, above all, crude oil, Japan is in a position of virtually complete dependence on sources abroad, and only a little less so in the case of iron ore. Until 1969, the small demand for natural gas was mostly met by home production, but with consumption rising by 25 per cent per annum Japan is rapidly becoming mainly dependent on overseas supplies for this source of energy, too.

One of the main elements in Japanese policy in these circumstances has been to ensure security of supply by avoiding dependence on a single source, and to some extent the attempt has been quite successful, at least as far as minerals are concerned. Iron ore, for example, comes from a considerable number of countries of which Australia is the most important (nearly 30 per cent) followed by India, Peru and Chile. Copper is imported from the Philippines, Canada and Zambia; manganese from India, South Africa and Australia; and so on. Even though the geographical spread is quite wide, however, the percentages from single countries are often high. About 50 per cent of her bauxite comes from Australia; nearly 45 per cent of her copper from the Philippines. And some countries appear over and over again in prominent places on the list - above all Australia, which is one of Japan's main suppliers of lead and zinc, in addition to the minerals already named. Canada, too, occupies an important position. Politically 'safe' countries have been the most favoured sources.²⁷

The picture in the case of energy supplies is

much less diversified. To be sure, natural gas is imported from Alaska, Brunei and (shortly) the Persian Gulf; coking coal from the United States (48 per cent), Australia and (a little) from China. But for oil, on which Japan depends for about 75 per cent of her energy (and also as one of the main chemical feedstocks), more than 85 per cent of her supplies derive from the Persian Gulf—about half of this from Arab countries and half from Iran. Small amounts also come from such areas as Libya, Cabinda and Venezuela, but the only other supplier of any magnitude is Indonesia. Japan is not alone in having to depend on overseas oil, but she is much more critically dependent on the Persian Gulf than any other country. Western Europe's problems, although similar, are to some extent mitigated by close access to North and West African oil; by existing substantial flows of natural gas from the North Sea and elsewhere; and by the proved existence of large new oil sources in many of the waters around the European continent to supplement, though not supplant, oil supplies from the Middle East. By contrast, the results of exploration in Far Eastern waters, including those round Japan, have so far been much less dramatic; the Indonesian oil boom has not matched those of Libya and Nigeria; and the possibility of oil production on the Continental shelf off the Chinese mainland is obscure in view of both political and geological uncertainties.

The sense of insecurity caused by such marked dependence on a politically unstable area like the Persian Gulf has been further accentuated by the fact that the tankers bringing the oil to Japan have to go through the Malacca Straits; and because of the circumstances in which the greater part of the oil production from which Japan's supplies come is carried out, in one combination or another, by the seven majors of the international oil industry. The latter, as vertically integrated companies, are also largely responsible for the movement of the oil by sea and for a considerable part of its refining and marketing within Japan itself. The companies have, in fact, been able to maintain supplies to Japan without interruptions, including the periods of the Suez crisis of 1956 and the six-day war of 1967, and were throughout the 1950s and 1960s responsive to constant pressures to keep down prices. But, for all the contribution

that this smooth functioning has meant for Japan's prosperity, governments in Tokyo have never felt at ease with a situation in which they lacked much direct control over the procurement of the raw material of most importance to them.²⁸ This was part of the reason why the Japanese Government found the consequences of the Tehran settlement of February 1971 psychologically so hard to accept.

For some years there has been an active policy to increase the role and involvement of Japanese oil companies, at all stages of the production, refining and marketing process. The aim is that by 1985 30 per cent of Japan's oil should be extracted by Japanese enterprises. The methods of reaching this aim have been varied—a more or less conventional concession in the Kuwait–Saudi Arabian Neutral Zone by the Arabian Oil Company; co-production agreements with a national oil company, as in Indonesia; buying into an existing operation, as in the deal with BP over the Bunduq field offshore Abu Dhabi; minority shareholding in a new state-dominated concession in Nigeria; extensive direct deals for natural gas with Iran, involving also the construction of liquefaction plants and other installations; and partnership with Mobil and the National Iranian Oil Company in the recent Lurestan award. It is also known that bilateral state-to-state deals have been under active consideration. Japan has so far held back from purchases of 'hot' oil such as that thrown on the market by the nationalization of BP in Libya in 1971 and of the Iraq Petroleum Company (IPC) in 1972. These are, however, for Japan, both far from ideal sources from a geographical point of view, since the Iraqi (Kirkuk) pipeline, like the Libyan one, has a Mediterranean terminal. Much is likely to depend on the outcome of the current debate between OPEC and the oil industry over 'participation'. According to the *Japan Economic Journal*, 'the fundamentals of Japan's oil policies rest with the maintenance and promotion of favourable relations both with OPEC and international oil majors... Japan should always be mindful of the importance of being shrewd, on the basis of international harmony, about the pursuit of national interests in this respect. From this viewpoint, fair arrangements for direct transactions with oil-producing countries and the conclusion of economic assistance

agreements with them should be pursued unabashedly.²⁹ As a statement of philosophy and general intentions, this seems near the mark.

In spite of the widespread efforts described above, so far only the Arabian Oil Company has substantial quantities of oil at its disposal, but this is of such high sulphur content that even Japanese refiners have taken delivery only reluctantly. In any case, even if the target of 30 per cent 'Yen crude' were to be achieved, it is far from clear that it would make much difference in terms of security. As long as the solidarity of the OPEC members is maintained, there is, as the events of 1971 showed, little or no chance of exceptions to the general trend in the fiscal conditions under which companies operate and the resultant prices of the oil extracted. The provisions of the Tehran settlement were soon applied *mutatis mutandis* to the Arabian Oil Company and the prices of Indonesian co-production crude also quickly moved into line. (The same thing also happened in the case of Soviet oil exports to Western Europe.) Whilst therefore OPEC's militancy has certainly added to Japan's worries about her oil supplies and has increased her dislike of her present dependence on foreign sources and foreign companies, she has also been forced to realize that there is no easy way out, as long as her need for imported oil is so great. In spite of much public discussion and the despatch of large numbers of energy fact-finding missions abroad in 1971 and 1972, the only concrete decisions taken concerned the raising of oil stocks to a level less distant from the OECD Oil Committee's recommendations. Large-scale deals with the Soviet Union, including the development of the Central Siberian Tyumen oil-fields were, however, under active consideration (see p. 20) and the principal accent was still apparently on geographical diversification.

Japan's dependence on Persian Gulf oil has not led so far to any involvement in the area beyond some investment and the establishment of a strong commercial and diplomatic presence. It has indeed been one of the regions where the concept of 'low posture' in foreign affairs has been most clearly applied. Japan has, for example, taken particular care not to become drawn into the Arab-Israeli dispute. This policy has sometimes involved her in considerable legal or diplomatic gymnastics. She has tradition-

ally supported the doctrine of freedom of the high seas because of her own shipping and fishing interests; but at the time of the six-day war in 1967, not wishing to take a stand that might bring unpopularity in Arab countries, she devised a formula whereby the application of this general principle was 'separated' from the concrete circumstances of the Straits of Tiran. In 1972, after the Lydda airport massacre, an official delegate was sent to Israel to apologize for the part played by gunmen of Japanese nationality. Simultaneously, other Japanese representatives were reported to have apologized to the Arab governments for apologizing to the Israelis. This stance is due at least in part to a desire not to become involved politically in such a way as to jeopardize the security of oil supplies, nearly half of which are from Arab countries. In other contexts Japan has also not wished to commit herself too far to the Arabs. One of the factors that has influenced her cautious consideration of bilateral inter-governmental deals with the Iraqis has been the importance to her of Iranian oil. In view of the chronically strained relations between Baghdad and Tehran, Japan has not wished to prejudice her position in the latter by undue commitment to the former.³⁰

For all Japan's instinctive dislike of a situation of dependence on foreign companies, the *status quo* may in fact suit her interests well in a number of respects. She has little or no responsibility as a 'parent' government and is thus largely free of the strains that sometimes arise in inter-state relations when the position of the companies is threatened. French experience in Algeria showed, albeit in extreme form, some of the pitfalls of 'upstream' involvement. As the record shows, Japan has got her oil without a break; the brunt of the difficulties that have arisen with the producers has been born by foreign companies on the spot and occasionally by their respective governments. This commercial oil 'umbrella' which has absolved Japan from the problems of direct involvement reminds one of the United States nuclear 'umbrella' which has similarly spared her in the field of defence. In both cases Japan seems unlikely to jettison systems of proved value before being sure of the greater dependability of what is being put in their place.

Even though, however, Japan will probably continue to adopt an attitude of political

detachment to the Middle East, she will also seek unobtrusively to devise ways in which her interests there can be made more secure. One method may be the creation and fostering of needs for Japanese goods and equipment within the area. This objective is intrinsically desirable at a time when Japanese industry is seeking new markets and the balance of payments with the Middle East countries is mostly in the latter's favour. Its attainment would put Japan in a better position to bargain over oil if embargo threats were ever made against her. Japan is also likely to maintain consultations with other oil consumers such as those which take place within the OECD Oil Committee, without, however, too close a public identification with Western interests already prominent in the international oil scene. She will probably develop further her links with the 'Zurich group', an informal body whose members are important consumers of oil without large 'upstream' assets, such as West Germany. This is one of several examples to be noted in this paper where Japan successfully pursues a policy of having the best of all worlds simultaneously.

A Japanese military presence in the Middle East, however, seems to be out of the question. Japan would not have the means to attempt it, even if her constitution were to permit, and in any case it would be entirely out of keeping with the political detachment which has characterized her policy there so far. The most that one can envisage within the period under review might be some discreet Japanese bolstering to governments whose position appeared to be threatened, such as in training for internal security or by the provision of riot-control equipment or other specialist arms supplies, including communications or other items the supply of which would be quite 'defensible'. Japan has had both experience and skills which might one day be relevant in Kuwait or the smaller Arab sheikhdoms of the Persian Gulf, where her own oil interests are growing.

It is not only for Japan herself that her dependence on overseas sources for raw materials can cause anxiety. The supplier countries, too, sometimes resent the extent to which Japan is their principal outlet. Indonesia has worked to secure modifications of the United States oil-import policy to permit more of her oil to go there – and thus lessen her

dependence on the Japanese market. Australia has tried, as far as possible, to balance her exports of minerals to Japan with others to the United States and European countries. In spite of these efforts, however, some mines, especially those producing iron ore, have become so linked to Japanese needs that their output – and the profits and investment plans of their owners – had to be cut back severely when the industrial slow-down in Japan in 1971 and 1972 led to diminished demand for mineral imports. The problem was more than a dispute between companies and consultations at a high political level were involved. Not only Australia, but also Canada, several South-East Asian countries, Peru and Chile were amongst those who were affected and with whom Japan's relations became strained.

The difficulties which occurred during the recession have tended to obscure the fact that, for some of these countries, growing raw material exports to Japan have constituted a welcome widening of previous trade patterns. Canada and the Latin American countries, for example, regard them as one way of diversifying away from the United States, and Australia sees in her new relationship with Japan a method of compensating for the effects of Britain's impending entry into the EEC. A former Australian Ambassador, Sir Alan Watt, earlier this year told a Senate Committee on policy towards Japan that 'the maintenance of good relations with Japan was of primary importance to Australia. He was not suggesting that Australia's relations with all other countries and in all respects be subordinated to those of Japan... However, the probable effects on Australia's relations with Japan should be given the fullest weight before deciding on those with these countries... provided its access to raw materials was not threatened, Japan was unlikely to adopt a strong military posture.'³¹

Apart from her exports of iron ore and the other industrial raw-materials listed at the beginning of this section, Australia sees in Japan a market of growing importance (subject to the erosion of agricultural protectionism) for wheat, barley, meat and other dairy products. She has also recently arranged for the flotation of Australian Government bonds in Japan and has had strong Japanese Government support in her bid for membership of an expanded 'Group of

Ten'. The relationship seems likely to acquire further dimensions with Japanese participation in oil or natural gas production. For example, Mitsubishi Shoji and other Japanese interests have agreed to finance about half the cost of the development of the Burmah-Woodside natural gas field off Western Australia, provided that the existence of exportable quantities is confirmed. Uranium is another aspect where Japan-Australia joint production schemes are in the offing (see p. 25, section on Nuclear Energy). While the Western Australian Premier, Mr John Tonkin, was in Japan in March this year taking issue with ministers there about the modification of contracts with iron-ore exporters, the Acting Secretary of the Department of Foreign Affairs, Mr K. C. Shann, was emphasizing before a Senate Committee the value to Australia of the Japanese connection and the likelihood that interdependence would grow in the future.³²

All the same, Japan has had brought home to her implications of her raw-material procurement policy which may not have been clearly perceived when it was adopted. The long-term supply contracts which govern much of the mineral ore trade with Australia and elsewhere have written into them provisions permitting deliveries at stated percentages both above and below the contracted amounts. In most years demand had been recently such that the higher option was generally asked for, but in 1971-72 the Japanese side pressed for, and eventually obtained, agreed deliveries often well short of the lower option in the contracts. The ill-feeling which this caused at the time is being overcome and as we have seen, the Australian Government at least regards the problem as a temporary setback. Nevertheless, these experiences may oblige Japan to devote more attention to the susceptibilities of her present suppliers, especially when, as in the case of Australia, it is in her interest to develop the economic relationship further. A more flexible policy over the build-up of raw-material stocks within Japan would be one way of helping to maintain flows nearer to contracted levels in time of recession; and it would also provide more assurance of security of supply, if ever the pendulum of demand swung the other way. If Japan is to be sure of maintaining amicable relations with existing suppliers, she may feel compelled to modify the

rate of diversification elsewhere, particularly on the basis of long-term contracts, though it will remain her general objective to remain as little dependent on single countries or single areas as possible. We have noted that it is principally in the case of oil that her objective falls short of attainment. This problem, as we shall see in the next section, has a South-East Asian as well as a Middle Eastern dimension.

The Malacca Straits

The Malacca Straits have traditionally been of importance to Japan in view of their role as the most convenient route for ships engaged in trade with areas reached by sea to the West and to the South-West. Although the closure of the Suez Canal has enhanced the attractions of the Panama Canal and, to this extent, lessened the use of the South-East Asia route for vessels whose ultimate destination, or starting point, is Europe, in other more vital respects the significance of the Straits has grown for Japan, principally because they are the route through which the ever-increasing volume of oil has been transported to her from the Persian Gulf. This trade has in recent years been growing by about 20 per cent per annum, or at approximately the same percentage as the increase in actual oil consumption. By 1972, the total number of vessels transiting the Straits each day was about one hundred. Of these, the most important single group are the oil tankers plying between the Persian Gulf and Japan, though the measure is more the overall tonnage than the number of individual ships in this category, in view of the ever greater emphasis on very large crude oil carriers (VLCCs). The crucial importance of these supplies, dependence on which is unavoidable as far ahead as can be foreseen, has been the principal reason for the close attention recently given by Japanese government and industry to the Straits and the various international problems affecting their use and security.

A number of factors, both physical and political, are likely before long to impose limits on the use of the Straits by shipping.

The physical problem arises from the shallowness of some parts of the Straits whose waters are also subject to movements on the sea-bottom, leading from time to time to hazards from variations in the level of sandbanks. This means

in practice that transit is only safe for vessels with a draught fully laden of up to 62 ft, i.e. for no larger than a 200,000-ton class of tanker.³³ In present circumstances, therefore, unless and until action is taken to dredge deeper channels, vessels above that tonnage must use another route except in ballast on the return voyage. The most suitable is further south between the Indonesian islands of Bali and Lombok (the Lombok Straits) which is already being followed by larger tankers, e.g. those in the Gulf Oil Company's fleet. In terms of depth, this route would appear to have unlimited possibilities for shipping since the water is over 600 feet, but congestion could cause problems eventually, as the narrowest part of the Lombok Straits is only five miles across. Economically, there are both advantages and disadvantages in using the Lombok route. The distance from the Persian Gulf is 1,000 miles longer, or, in terms of passage time, nearly an extra three days' journey, as compared with the route through the Malacca Straits. On the other hand, the larger capacity of the vessels which can be used gives some scope for reducing unit costs per ton carried.

The political problems of the Malacca Straits centre on the attitudes and aspirations of the three coastal states concerned – Indonesia, Malaysia and Singapore. These countries have seen the number and size of the transiting vessels increase year by year, but have gained little or nothing more from this traffic themselves. Even Singapore, where most of the bunkering in the area is carried out, has found its services less in demand as the size of tankers, and bulk carriers generally, has increased. Growing congestion in the Straits also makes collisions or other accidents an even greater hazard; there have already been some serious oil spills and one of the most unpleasant nightmares for Kuala Lumpur and Djakarta must be the thought of a serious accident involving a fully loaded super-tanker – which, in terms of the volume of oil, would be far worse than the *Torrey Canyon* disaster. The three countries – especially Indonesia and Malaysia – also see the possibility of other conflicts of interest with international shipping. The movements of large tankers, etc. can damage the livelihood of local fishermen; established sea-lanes could also conflict with plans to drill offshore for oil and gas. Thailand is not directly involved in present

circumstances. The construction of a canal or oil-pipeline across the Kra Isthmus has been under consideration for some time, but neither project's economic viability is assured and the canal could not, in any event, be completed during the 1970s.³⁴

The above are some of the factors which have recently led to a hardening of attitude on the part of the riparian states. Indonesia and Malaysia jointly announced in November 1971, on the basis of a 12-mile territorial limit, that the Malacca Straits, being for much of their length less than 24 miles across, were not an international waterway but belonged to their territorial jurisdiction. Although the right of innocent passage for shipping does not seem, in general, to be disputed, the two countries insist on *their* right to investigate the freight of ships passing through the Straits and to make the transit of warships subject to their permission. In March 1972, a leading Malaysian politician went further, publicly calling for the creation of a 'Suez canal of South-East Asia' and the imposition of tolls on shipping using the Straits.³⁵

As far as Japan is concerned, the practical effects of these developments on shipping have not so far been serious. Her co-operation with the riparian states over the marking and dredging of the main channels continues; the trend for some larger tankers to be forced to use the Lombok Straits is not economically a matter of very serious consequence. The pronouncements of the various interested parties including Japan have been made principally with an eye on preparing positions for the International Conference on Maritime Law to be held in Geneva in 1973.

Nevertheless the issue is undoubtedly a sensitive one, complicated by the existence of a Soviet interest which may have been something of an embarrassment from the Tokyo point of view. The two countries, albeit for different reasons, both find themselves ranged in favour of the maintenance of the Straits' status as an international waterway. Although there has been some discussion of the problem between the Soviet and Japanese Governments, the latter will probably be inhibited from declaring common cause with the former in view of the strong local opposition to the Russians, especially in Djakarta, which seems particularly

anxious to have some control over the movement of Soviet warships. Japan may also be unwilling to back any claim involving the passage of Soviet warships through the Malacca Straits which might be interpreted as a precedent for their right to use the Tsugaru Straits between Honshu and Hokkaido. She seems likely to continue to try to work out a *modus vivendi* with the riparian states, either by herself or within the wider framework of the International Maritime Consultative Organization (IMCO) and the Geneva Conference. If a formula could be contrived to avoid creating precedents, Japan might favour payments to the riparian states.

In the longer term, the security of the South-East Asian shipping routes will depend less on the solution of technical and legal problems than on the political stability of the area as a whole. If Communist control became established in all Vietnam, no government would be following the implications for the future of South-East Asia more closely than that of Japan; and its principal fear would be that a situation might be reached in which conditions were so disturbed or hostile that shipping in the area would be endangered or even prevented. If the worst came to the worst, Japan's oil supplies could be re-routed round the south of Australia, but this would greatly increase the voyage time and the freight costs and would be a blow from which it would be harder for Japan to recuperate than it was for Europe after the closure of the Suez Canal in 1967.³⁶ For communications reasons alone, therefore, Japan is vitally interested in the maintenance of South-East Asian stability. She also welcomes chances to lessen her dependence on these sea routes and this is one of the elements influencing her policy towards 'Pacific' countries on the Japan side of the Straits, including the Soviet Union and China which we discuss in the section below.

Economic Relations with the Communist Countries

(a) The Soviet Union

Political, economic and strategic factors, all, in one way or another favoured an improvement in the relations between the Soviet Union and Japan in 1971 and 1972. On the Soviet side, political and strategic considerations have probably been the more important, in view of

the Soviet need to create some counterweight to the developing relationship between the United States and China. As for Japan, political disillusionment with the United States after the various 'shocks' of 1971 was certainly amongst the factors which led her to re-examine her relations with Moscow, but she is probably influenced even more by economic considerations, especially after the 'Tehran shock', by the availability within the Soviet Union of very large resources of the raw materials most required for her industry, including crude oil and natural gas. From many points of view the two economies could be complementary, since Japan too has much to offer that the Soviet Union needs.

The possibility of securing Japanese access to raw materials in the Soviet Far East and Siberia has been intermittently discussed between the two governments over the years, with little concrete result beyond an agreement a few years ago over the exploitation of timber resources and the construction of a new harbour at Port Wrangel.³⁷ Japan had not seemed over-anxious to be committed to other projects until she had clearly assessed their value, since they could only be secured at very high cost in terms of the initial investment; but she found the Soviet Union rigid in adherence to its conditions and suspicious of requests by the Japanese side for such things as on the spot investigation of geological prospects. In addition, in view of the historically poor relations between the two countries, Japan has been cautious about any move which might put her in a position of dependence upon the Soviet Union. The field of Soviet-Japanese relations is one in which we should particularly remember the resolve with which we began this paper not to attribute excessive importance to economic factors.

It is clear, nevertheless, that the economic discussions in the early spring of 1972 took place in a markedly improved atmosphere, a change for which the visit to Tokyo of Mr Gromyko, the Soviet Foreign Minister, a few months earlier had prepared the way. There now appears to be a real chance of further agreements, of which the most important would be one giving Japan a share of the production of the Tyumen oil field in North-Central Siberia. From the Russian point of view, a prerequisite would be Japanese finance for the installation of

larger pipelines, to supplement the existing one, to Irkutsk; and the extension of the whole pipeline system, roughly along the line of the railway North of Manchuria, to the Soviet Far East seaboard. If such a system were built with Japan's help she could expect, towards the end of the current decade, to receive a proportion of the crude oil carried to supplement her supplies from the Middle East or South-East Asia. Tyumen oil is also reported to be attractive in quality terms since its sulphur content, at less than 1 per cent, is lower than Persian Gulf crude. The exact amounts involved are not yet clear, the published reports of the quantities varying between 20 and 50 million tons a year. Large though the latter amount may appear, however, it has to be seen in the perspective of Japan's continually rising oil consumption which, by 1980, is likely to be of the order of 500 million tons per annum. A Tyumen supplement of the order of magnitude mentioned would by itself do very little to mitigate Japan's dependence on the Middle East as a source – or on the Malacca Straits as a route – for the bulk of her oil supplies.

Other considerations may make the Tokyo planners uncertain about the project. Japan will hesitate, even in her new condition of foreign exchange affluence, before she commits millions of dollars to the construction of thousands of miles of pipeline in a country with such a record of hostility towards her. And finally she will wish to examine very carefully the implications of the contract for her relations with China. The Soviet Union's desire further to develop Tyumen oil and bring it to the Far East is essentially designed to strengthen her own position there, and principally in the context of the Sino-Soviet dispute; any benefit Japan might receive would be incidental to these primary purposes. As a Japanese journal put it: 'The projected . . . pipeline . . . will provide the Soviet Union with a foothold for building a petrochemical industrial complex on the Pacific coast. Militarily, it will turn Siberia into a commissariat base; in another respect, the pipeline will boost the capacity of fuel supply for the Russian Navy's fleet in the Pacific. The sharp mutual hostilities of China and the Soviet Union will naturally not allow China to remain indifferent to the Tyumen project, and Japan must be alerted to the impact of this on the

process of its diplomatic normalization with China'.³⁸

The benefits of the Tyumen deal by itself might seem to be outweighed, from a Japanese point of view, by the disadvantages described above. Japan may nevertheless be reluctant to let slip this chance of securing a better foothold in the Soviet Union. The overall level of Japanese-Soviet trade is far lower than its potential and there is so much to be had there besides oil that Japan needs now or may need one day – copper deposits in Udokan, natural gas in Yakutiya, coal in the Maritime Provinces. If the momentum of the improvement of her relations with the Soviet Union could be maintained and the Tyumen deal successfully and harmoniously executed, this might pave the way for further deals over other materials in which she is interested. Japan's judgments about the Tyumen project will depend on extraneous factors also. The possible implications for her relations with China have already been mentioned. There is also an 'oil factor'. If the conditions under which Middle East crude is supplied – or under which it passes through South-East Asia – should become more unfavourable, Japan's willingness to pay a price, or even take political risks, to get Soviet oil, would grow proportionately. Another factor which would influence her in the same direction would be the development of a race for raw materials, including oil, between the consuming nations. Conversely, should a buyers' market in raw materials develop and should anxieties over the sea routes be assuaged, Japan's interest in politically uncertain commitments in the Soviet Union (or elsewhere) might be seen to slacken. Much will depend on the supply and demand situation and this is a field in which forecasts tend to be proved wrong as soon as they are made, particularly in the case of oil, as the events of 1970–72 have shown. It does, however, seem virtually certain that United States consumption of Middle East oil, hitherto negligible, will steadily increase during the 1970s and larger quantities may go to Eastern Europe and the Western part of the Soviet Union itself, though this is much more controversial. Japan may, in view of such considerations, tend to make her plans on the assumption, at least as regards hydrocarbons, that a seller's market is the more probable, which would mean she would continue to work

for the supply of some Soviet oil and gas. Last but not least, the development of Soviet-Japanese economic relations in the fields we have discussed will be affected also by the progress or otherwise in political relations, which must mean, as far as Japan is concerned, mainly the question of the Northern Islands. Soviet concessions here could do much to dispel instinctive Japanese suspicions.

It is not yet clear whether American and Japanese economic interests in the Soviet Union are going to conflict, but the recent stepping up of American activity, especially over oil and gas, will certainly have aroused the fears of the Japanese that the supplies for which they were hoping may now be pre-empted by others. Agreement has already been reached between the Occidental Oil Company and the Soviet Government on a variety of projects, including the supply of gas from the Tyumen fields to a Murmansk terminal. Other American firms have been reported in negotiation with the Russians, and Japan may fear that the United States, having stolen a march on her politically with China, may be about to do the same economically with the Soviet Union. At the same time, Japan may also see advantages in an expanded American involvement. Provided her own projected supplies from the Soviet Union can be safeguarded, she may feel that parallel or associated operations by the United States would help to deflect from herself any Chinese odium at the strengthening of the Soviet economic position in the Far East. In any case, American or other non-Japanese foreign involvement may in certain respects be unavoidable. Oil technology is a field in which Japan is still acquiring experience and the Soviet Union has far more experience of production operations in climatic conditions like those of Siberia. The situation is one in which the Soviet Union may have opportunities to play one raw-material seeker off against another and possibly also, if it suits her purposes, inspire some further strains in the United States/Japan relationship.

(b) China

In recent years Japan has skilfully operated a commercial policy, summarized by the catchphrase of 'The separation of trade and politics', which facilitated a steady expansion of her economic relations with China, through various

'unofficial' devices such as non-governmental trade agreements and representation, whilst simultaneously permitting the maintenance of her diplomatic links with the Chiang Kai Shek government on Taiwan. The volume of trade with the latter was also kept at a high level though its lead over that with the mainland has been tending to narrow. Politics did enter in from time to time, as when the Chinese Government virtually suspended Japanese imports after the Nagasaki flag incident in 1958;³⁹ and the propaganda barrage from Peking against the policies of the LDP Government was seldom lifted. The Government in Taiwan also maintained pressure on the Japanese (and until recently had diplomatic assistance in this from the United States), if ever it looked likely that relations with Peking would develop too far. In general, however, Japan succeeded well in separating trade and politics, pursuing her economic interests quietly and efficiently on the basis of having the best of both the Chinese worlds. The sharpening of the Sino-Soviet dispute was one of the factors which worked in her favour, for the virtual suspension of trade relations between China and the Soviet Union enhanced for Japan the existing lead bestowed on her exports by geography, good quality and competitive price. She basked in a situation in which, most of the difficult questions placed on one side, there were few obstacles effectively placed in the way of the pursuit of material advantage.

One of the aspects of the new American policy towards China in mid-1971 which worried Japan was the possibility that, in the changed circumstances, it would no longer be possible for Japan's trade to prosper in both China and Taiwan; that awkward choices, including political choices, would sooner or later have to be made; and that, in some fields at least, the United States, if she established a diplomatic link with Peking, would be able to erode the Japanese commercial position on the Chinese mainland. The initial reaction of many Japanese industrialists and politicians had something of the quality of panic and Chinese propaganda lost no opportunity of playing upon their fears, while stepping up attacks on the Japanese Government, especially the then Prime Minister, Mr Eisaku Sato, whose efforts to communicate with the Chinese through intermediaries were

snubbed and whose attempts in the Diet to be accommodating to Peking over the status of Taiwan were at once denounced as insincerity. There were reports that major Japanese commercial and industrial enterprises were, in response to Chinese pressures, busy dismantling their ties with Taiwan and the Republic of Korea, in the hope of maintaining their position on the mainland.

As time has passed, a better sense of proportion has returned to Japan with the realization that there will be no sudden radical change, outside her control, in the Far East as a result of the contacts between President Nixon and the Chinese leaders, or Peking's new position at the United Nations. On the contrary, the American action, unwelcome though it was at the time, especially as a blow to Japanese prestige, is now seen as a development which increased rather than diminished Japan's own freedom of action, especially under new political leadership at home. Japan is now clearly moving towards Peking, but there does seem likely to be a continuing attempt to preserve some of the economic advantages in the existing state of affairs. The ideal may be a reversed formulation of the principle of the separation of trade and politics, based on the recognition of the mainland rather than the Formosan Government. Mr Kakuei Tanaka, the new Prime Minister, has freer hands as regards political disengagement from Taiwan than either his predecessor, Mr Eisaku Sato, or his defeated rival, Mr Takeo Fukuda, and it will enhance his political standing – and the LDP's electoral prospects – if he can make the most of the new opportunities believed by the public to have been opened.

Mr Tanaka's visit to Peking may be expected to take place shortly, but the real negotiations for the normalization of relations would remain.* Those preparing the briefs will not have forgotten that, in 1971, Taiwan absorbed nearly twice as many Japanese exports that year, the latter showing a growth rate of no less than 32 per cent by contrast with a mere 1.5 per cent in those to China. Nor could the lack of buoyancy in the latter be ascribed to discrimination against Japan, for Chinese imports as a whole increased by only 1 per cent and Japan therefore

did better than the average. Prospects in the China market do not seem very promising on the basis of such figures. China's basic policy of economic autarky has not changed – foreign trade is in the ratio of 4 per cent only of GNP (itself small) – she apparently also contemplates no departure from her principle of balancing her small foreign trade account. Japan's modification of policy to permit loans to China through the Export-Import Bank may not in itself make very much difference to the volume of her exports.⁴⁰ One possibility of getting round the difficulty would be a massive reparations payment to China, accompanied by suitably contrite sentiments for the sins of Japan against China in the past. This expedient would not offend China's pride or principles, Japan could easily afford the payment and the stimulus to her exports would be great. But it could presumably only be done as a prelude to, or a part of, the restoration of full diplomatic relations between the two.

As regards Japanese imports from China, the list reveals little that is indispensable to Japan, the main items being food, soya beans, textiles and raw silk which together accounted for over half the value in 1969. There is little possibility, it appears, of surpluses of raw materials which could assist Japan in her search for diversification. Chinese oil production has risen, but is still believed to be only of the order of 30 million tons a year, all of which is consumed at home. The continental shelf round China contains sedimentary areas which may be hydrocarbon-bearing, but the matter has not yet been put to the test by drilling. Such evidence as there is suggests that, with domestic consumption growing, China is more likely in the immediate future to be an importer than an exporter of oil and that, short of discoveries on a really massive scale, she will need whatever may be available from the offshore areas for herself.⁴¹ One of the areas regarded as promising for oil production lies around the Senkaku Islands, a group of whose existence few were aware until mention was made of the oil possibility. Japan claims the islands were restored to her with Okinawa, but both Peking and Taipeh have now staked counter-claims for them. The mere rumour of oil has thus led to a dispute between Japan and China, which will further complicate the task of restoring diplomatic relations. In the longer

* Written before Mr Tanaka's visit to China at the end of September 1972.

term, assuming that optimistic theories of Chinese oil reserves are correct – and we must emphasize again here the scantiness of the evidence – it is possible to envisage Sino-Japanese co-operation over oil, with the probable assistance also of American companies whose expertise would be needed even more than in the Soviet Union and whose eyes are already on the China Sea offshore areas as a possible source for more supplies for the American West Coast. The whole matter is, however, at a very preliminary stage and the only thing that can be said for certain is that, in the short term, 'oil' – i.e. the Senkaku question – means Sino-Japanese friction rather than co-operation.

Further likely causes of friction between Peking and Tokyo, connected in many cases with the economic interests of Japan, are not difficult to discover. The possibility of Japanese-Soviet co-operation over Tyumen oil (which unlike that around the Senkakus has the additional attraction of being *known* to exist) is one example. The extension of Japanese economic influence, already dominant in South Korea, into North Korea was already beginning in 1971 and may be speeded up with the establishment in July 1972 of the 'dialogue' between Seoul and Pyongyang. China may fear that the Japanese economic pressure will lead, ultimately, to a Japanese political takeover of the peninsula. Perhaps the very asperity of Chinese propaganda about Japanese economic 'imperialism' in South-East Asia is to be measured principally in terms of China's fears for her own influence there. Conversely, Japan must fear that Chinese revolutionary subversion, sometimes perhaps exerted through large resident Chinese communities as in Singapore and Malaysia, could affect her economic position in the countries named and possibly eventually deprive her of the use of the Malacca Straits – or even the Lombok Straits, in the event of successful political subversion in Indonesia.

As far as Japan's economic interests go, we would sum it up by saying that, while she has positively, much to *gain* from better relations with the Soviet Union, she has, negatively, much to *lose* if she does not put her relationship with China on a better, more formal footing. The arguments are strong for a *modus vivendi* with each of the two countries and Japan may succeed in achieving one. She certainly has more

room for manoeuvre than is commonly supposed, since both China and the Soviet Union are evidently keen to keep her out of the arms of the other and also – though this appears to be a lesser consideration – to secure the advantages of a closer association with Japan for themselves. The United States, too, for all her own share last year in breaking the Far Eastern log-jam, now has qualms about Japanese moves which might have, from Washington's point of view, undesirable consequences for the 'quadrilateral balance'. It is beyond the scope of this paper to examine the permutations and combinations possible in the relations between the great powers in Asia. The important aspect, from our point of view, is that, now that the situation is more fluid, Japan suddenly finds herself much more sought after than she was, essentially because she is economically so strong (and although she is militarily so weak). It remains to be seen whether Japan will exploit to the full the advantages of her position. The preceding paragraphs have emphasized both the problems of the Sino-Japanese trade relationship and the ways in which the wider interests of the two countries may conflict. These are not, however, the aspects to which the attention of the Japanese public is being principally directed at the present time. Japanese businessmen, are reported to have a plan to expand Sino-Japanese trade to \$11,000 million by 1982 – about the level of current Japan-US trade in money terms. There is also talk of a long-term, low interest loan to China of \$5,000 million. We remain sceptical about the trade prospects, for the reasons stated, but the important point in the short term may be that sufficient Japanese businessmen *believe* there are good economic reasons for an accommodation with Peking. These are not the only, and may not even be the major, influences on Japanese policy at the present time. The emotional feeling that Japan should settle the issues with China left over from the war is certainly as strong as promptings on the basis of economic interest. There is no similar feeling towards the Soviet Union. Here we are up against the basic methodological difficulty touched on at the beginning of this paper. It will probably only be when the 'emotional debt' has been discharged that Japan will be free to use her economic strength to further her interests dispassionately.

The Prospects for Nuclear Energy

The word 'diversification' has appeared frequently in this paper, so far in the context of Japan's policy of spreading the sources from which she draws her raw materials. Another aspect of diversification also merits consideration, not least because it brings us to a field in which there are rather special security implications. This is the gradual move within Japan, as in other developed economies, towards greater dependence on nuclear power.

Japanese views about this question have been affected by a wider range of considerations than in most other countries. The psychological aftermath of the bombing of Hiroshima and Nagasaki included for a long time an aversion to atomic installations of any kind, but this feeling is now gradually being overcome, at least in the case of projects such as the development of nuclear marine propulsion or reactors for the purpose of generating power. Even so, the Japanese people are to some extent still uneasy about the implications of all atomic installations. Many scientists and others of left-wing views are ready to allege that deeper motives such as the creation of plutonium for possible military use lie behind the reactor development programme. Ordinary citizens, without any particular axe to grind, are nervous about the possible damage to fisheries from the disposal of atomic waste or the potential dangers to adjacent towns and villages in the event of a severe earthquake near an atomic establishment. To meet these susceptibilities, the Japanese Government has emphasized over and over again the peaceful nature of its atomic energy programme; safety precautions have been rigorous; the standards of construction have been exceptionally onerous to obviate the danger of contamination as a result of earthquake damage.

In so far as these emotional and geological factors can be put on one side, the case for the development of nuclear energy in Japan is evidently extremely strong. It holds out the eventual prospect of a substantial diminution of Japan's dependence on oil from abroad, especially the fuel oil at present needed for use in thermal power stations. Nuclear energy should also be greatly preferable from the point of view of controlling atmospheric pollution, a problem of particular seriousness in the dense industrial conurbations of modern Japan. And there is the

ultimate prospect of the fast-breeder reactor, whose characteristic of producing more fuel than it consumes must seem positively utopian to the Japanese industrial planner instinctively aiming for an economic future with as much as possible under Japan's own control.

These are some of the reasons which have led Japan to embark on a very large civil nuclear programme and to conclude a series of agreements with other countries such as the United States, Britain and France, covering matters ranging from the supply of fuel, including enriched uranium, to aspects of reactor technology. Some installations have been completed, many more are under construction or planned, but, as elsewhere in the world, progress has not been as straightforward or as rapid as was hoped; in spite of further emphasis on the nuclear programme as a result of growing concern about oil, only a small percentage of Japan's electricity will be provided by reactors during the decade ending in 1980. According to the Central Power Council, by the end of 1980, thermal power will account for 59 per cent of total capacity (compared with 66 per cent in 1970); nuclear power for 22 per cent (2 per cent in 1970); and hydro-electric power 19 per cent (32 per cent in 1970).⁴² As far as the *present* decade is concerned, therefore, there seems, on this basis, little or no cause to modify what we have written about Japan's dependence on Persian Gulf oil or the South-East Asian sea routes. Nuclear power's contribution, though growing fast, will be significant only towards the end of the period and even then the quantities of oil consumed for energy generation will still be increasing although oil's *share* in total power production will be tending to fall. In the 1980s, however, the picture could begin to change if the trend represented by the above figures can reasonably be projected into this period. Thirty-three per cent of power from nuclear sources, say, if combined with better oil stocks and successful diversification of hydrocarbon supplies (e.g. to the Soviet Union, Australia and the Far Eastern offshore areas) should at last begin to reduce Japan's dependence on the Persian Gulf.

Since Japan, as far as is known, has only minute domestic resources of uranium, the development of her nuclear programme, however useful potentially as a means of diversification from oil, also increases the number of items

whose supply must be ensured from overseas. The Japanese Government's policy, as in the case of other raw materials, has been to conclude long-term contracts with foreign producers, simultaneously carrying out her own prospecting in various countries. Particular interest is being shown in Australia where the present proved reserves of uranium already amount to about 10 per cent of the world's total. A comprehensive treaty for atomic co-operation between the two countries was concluded in February 1972.⁴³ As regards uranium enrichment, the Japanese Government has its own long-term development programme and at some stage enrichment facilities will presumably be built within Japan. The existing enrichment capacity in the United States (on which for the time being Japan depends), even with the various up-rating and improvement programmes planned, will not suffice to meet world needs much after 1980. Since the Japanese will not be in a position to establish their own plants by then, they are showing considerable interest in various projects for the construction of a multinational plant, probably in Canada or Australia, to help meet the expected deficit. Another possibility is the building of an enrichment plant, financed by Japan, in the United States.

In the short term the development of nuclear energy in Japan thus represents not only an extension of her dependence on overseas but also of her dependence on the United States. (There is now reported to be a plan for the establishment of a stockpile of American enriched uranium within Japan, which would have the incidental advantage of helping to reduce the present imbalance in Japan-United States trade as well as utilizing some of the recently accumulated Japanese foreign exchange reserves.)⁴⁴

In very general terms, a nuclear energy programme on the scale planned by Japan would give any state a *military* nuclear potential, if only because of the quantities of plutonium which would be produced.⁴⁵ Japan is, therefore, soon likely to move into what has been called a 'protonuclear' position, if she has not already done so.⁴⁶ Such statements do, however, require considerable qualification. A truly independent military nuclear programme requires also both the development of an independent enrichment process and access to ample supplies of natural uranium. And there is no way of converting

plutonium to military uses without a chemical separation plant which Japan does not have. Japan's dependence on the United States in respect of enriched uranium is, as we have seen, likely to be little diminished throughout this decade and she is not yet in a strong position as regards supplies of the raw material either. In addition, although a civil nuclear programme can be adopted to meet military ends, the former has to be distorted to serve the latter purpose – and in the case of Japan there is not only a safeguards system⁴⁷ in force, but a particularly vigilant home scientific community to contend with. Even if the intention to deceive existed – and there is no reason whatever to suggest that it does – it would not be easy to proceed undetected. There would even then remain many problems such as testing and developing the means of delivery.

One must, therefore, be highly sceptical about the possibility of the Japanese civil nuclear programme developing into a military one, certainly during the period under review.

It may, nevertheless, suit the Japanese Government to allow a little ambiguity to be detected in its nuclear intentions. An implied threat to 'go nuclear' if she were to be pressed too far would be one method by which Japan might exert further influence in the world, especially in the direction of restraining powers such as China which are demonstrably fearful of Japanese rearmament.⁴⁸ This form of nuclear 'deterrent' is given a degree of plausibility by the continuing delay in the ratification of the Non-Proliferation Treaty and the steady advance of the civil nuclear programme. The latter does, therefore, in this limited sense already have some security significance.⁴⁹

Overseas Investment and Aid

Since the turn of the trade balance in her favour in the latter part of the 1960s, Japan's gold and foreign currency reserves have gone from strength to strength. In 1971, the surplus on the overall balance of international payments was over \$7,500 million and reserves had risen to more than \$15,000 million, almost four times the level of only 18 months before. The speed of the increase was unparalleled and Japan suddenly found herself second only to West Germany in the strength of her international financial position. In spite of the revaluation of the

Yen at the end of 1971, exports have so far continued at a high level while imports (owing to the recession) are still relatively low; thus the reserves have continued to build up. They approached \$17,000 million at the end of March 1972 and may, on current projections, reach \$20,000 million by the end of the year. Japan, having struggled for most of the post-war period with an unfavourable balance, has not been well prepared psychologically for this dramatic transformation, which has rendered obsolete overnight many of her most cherished habits, such as the drive to promote exports, the inclination to restrain imports and the practice of imposing strict controls on capital outflows,

Although the new situation contains great problems for Japan, particularly in relation to the United States and Europe, where the tendency for exports to increase has been greatest, it also provides opportunities for policies which financial stringency has hitherto prevented. Investment overseas is one such field. Here Japan has operated until recently on quite a modest scale. Her pre-war overseas assets were lost as a result of her defeat and what she had acquired subsequently, up to December 1970, was worth about \$3,500 million, far smaller than the investments abroad of the United States (about \$70,000 million) or even of Britain (about \$19,000 million)⁵⁰. In the new circumstances, Japan's assets overseas are likely to grow much more rapidly in future. The following are some of the factors involved. Japan, as already seen, wishes to achieve more direct control over raw material procurement, especially that of oil, and now she has better means to attempt to do so, although the pattern is increasingly of partnerships or co-production schemes rather than exclusive concessions on the traditional pattern. Investment overseas of another kind seems likely to flow from factors like the growing difficulty of maintaining competitive labour-intensive industries within high-labour-cost Japan; and from problems like the shortage of land and existing high pollution levels which will – once the productive capacity is required – increasingly promote the wish to site heavy or 'dirty' industrial plant outside the Japanese islands.⁵¹ Protectionism directed against Japan will be a further relevant factor, making in this case for the siting of Japanese-owned industrial enterprises inside the territory of the states most

sensitive about the flow of Japanese exports.

As far as investments in raw-material production are concerned, the guiding pattern is likely to be diversification from areas of over-commitment (e.g. from Persian Gulf oil) and there will also be a premium on relative proximity and especially on locations on the Japan side of the South-East Asian sea routes. The attractions of the Soviet Union as a source in the light of considerations such as these has already been discussed. Canada and Latin America too could be developed further in Japan's interest. For textile entrepreneurs seeking cheaper labour, or heavy industrialists after foreign sites to avoid home pollution, Taiwan or the Republic of Korea – to both of which Japanese investment is already considerably committed – may, subject to the overall balance of interest in relations with China, appear the most suitable. For investments designed to beat the trade barriers, however, the United States and Europe are obviously likely to be the major area of activity.

The rate at which Japan's overseas investments build up will also be affected by the nature and volume of her aid disbursements. Hitherto these have had much of the character of an export-promotion service from which Japanese commerce has greatly benefited – more, some critics allege, than the countries for which the assistance was ostensibly designed.⁵² The proportion of private (as opposed to governmental) aid has been very high and loan terms have often been onerous from the point of view of the recipient. Whether these characteristics will be drastically changed in the new circumstances remains to be seen. The general intention to make adjustments, for example to raise the official element in Japanese aid to the level of 0.7 per cent of GNP, is clearly on record, as in the speech of Japan's delegate to the UNCTAD 3rd Session, though the date for the attainment of this improvement would not be before the mid-1970s.⁵³ As regards the untying of aid, Japan's general approach is to seek a multilateral international agreement and her willingness to take prior unilateral increases seems to be limited to a commitment to examine the question. Potentially, Japan is an important source of technical assistance, but her record so far in this field has fallen short of expectations, mainly because her representatives, though usually extremely well qualified, have not always had the requisite linguistic skills or

persuasive approach. One is left with the impression that it will be some time before Japan's aid policy changes its character, but that the spread of aid may be widened to devote more attention to areas such as Latin America to balance the tendency towards excessive involvement in South-East Asia.⁵⁴ The Japanese Government – like that of most other donor countries – tends to look at aid questions quite unemotionally. It is, however, much less subject to domestic pressures than others, aid being a subject of virtually no interest to Japanese public opinion.

The prospects of Japan's increasing presence being accepted by the host countries in these extended fields of activity are not entirely hopeful. The Japanese Government and responsible organizations such as the Keidanren are fully aware of the need to proceed carefully, with due respect for local interests. The general principle of seeking partnership with local interests in extractive industries is a case in point. But individual Japanese enterprises may not always be so aware, if only from excess of zeal for the home company's profits. There are many Japanese managers who, like the head of a zip-fastener factory recently acquired in North-West England, when speaking on BBC television, would not hesitate to say that their intention was to obtain 100 per cent of the market.⁵⁵ Too great success could soon erode the welcome to capital infusion and the creation of job opportunities, especially if the latter include fewer than hoped for in executive positions. Or, to take an example of a different kind, the nation that receives investments because its wage levels are low or because the new plant is too polluting for siting in the home territory may be inclined to feel a sense of slight as well as a sense of gratitude towards the investing nationality.⁵⁶ It will thus be a test of Japanese sensitivity and skill to bring about the multinationalization of its industry without unfavourable repercussions on the political relationship with the other states involved, especially since this process has gathered momentum so suddenly and against a background, in many countries, of suspicions of Japanese economic activity in general. The growth of Japanese investment abroad will not only increase the number of potential friction points with foreign countries, but will also increasingly place before the latter

the temptation of nationalizing her enterprises if this suits the mood of the local government or population. This is a problem about which no clear Japanese policy has so far emerged; its possible defence implications will be discussed in the final section of this paper. In so far as an attitude can now be discerned it appears that Japan will work for some sort of compensation fund, perhaps on an international basis, to cover firms whose investments abroad may be affected, much in the same way as they would receive insurance compensation in the event of a natural disaster at home such as a typhoon or earthquake, against which 'defensive' measures cannot be taken – except by avoidance of the zones where they are most prevalent.

Some Defence Implications

By far the most important element in Japan's defence policy is the relationship with the United States, especially the Security Treaty between the two countries and the availability within that framework of the protection of the American 'nuclear umbrella'. Up to the present, by virtue of these arrangements, it has not mattered greatly whether Japan has had her own defence policy or not. The home islands have been secure from external threats because the formal relationship with the United States, as represented by the Treaty, has reflected a *general* relationship characterized, broadly, by trust and common purpose; and this has meant that the Treaty has been believed in and constituted a genuine deterrent against aggression. When Japan debates her defence policy now, she has to consider, above all else, the future of this relationship. She also has to think about American defence policies in other parts of the world, for these have been, and may remain, scarcely less vital to her security, in the sense that they have contributed the main share to the (generally) stable conditions for her overseas trade and communications.⁵⁷

Although it is outside the scope of this paper to attempt to present all the factors influencing the state of the Japan-US relationship, we should now be in a position to generalize about the economic factors, an important component part of the relationship, perhaps the most important single element of all in view of the immediate impact it can have on the industries and workers whose votes are important to the

politicians concerned. We may get some pointers for American defence policy which will help us to see the circumstances in which Japan must consider her own.

Seen from this point of view, the omens for the future cannot be said to be very encouraging, if present trends persist. Two of the three Nixon 'shocks' of 1971 were economic and the possibility of further American reactions of a similar kind can certainly not be ruled out. The determination of the American authorities to make effective, in terms of Japanese export prices, the 16-88 per cent upward revaluation of the Yen, was shown, e.g. by the announcement in April 1972 that items whose sales price in the United States market had not appreciated by this margin would be treated as having been 'dumped' and therefore be subject to the appropriate US legislation and American pressures for the modification of Japanese trade policy generally have continued without respite.

It is not merely a question of price. The two economies have become so enmeshed as a result of the historical conjunctions described in this paper that a more detached – and therefore less friction-prone – relationship can hardly be expected in the near future. The difficulty is particularly great for Japan, since the American market is much more important, percentage-wise, for her exports than *vice versa*. Her trade promotion there has also acquired a dynamism which is difficult to contain, partly because, until recently, it was sustained by a drive to close a balance of payments deficit; and partly because the American market is so suitable for the type of operation in which Japanese business excels, by concentrating on single aspects or areas within a large trade zone and moving on from these to new commercial victories on a similarly selective basis. It is far more troublesome, for linguistic, logistic and marketing reasons, to mount a series of separate campaigns such as is necessary in, for example, Western Europe.

There are also causes of friction arising from trade in the reverse direction, especially the feeling on the part of the United States that, in spite of the removal of trade barriers and the progress of capital liberalization, her firms are still not getting a fair deal within Japan. Here, too, there are difficulties in the way of solutions, some of them springing from fundamental

Japanese attitudes rejecting any avoidable dependence on foreigners, others from aspects such as the need for politicians to conciliate domestic lobbies, both of which are touched on in the opening sections of his paper.

Japan will certainly try to diversify her export markets away from the United States into areas such as West Europe, where the bilateral *political* consequences of commercial friction do not matter to her so much and possible defence consequences do not exist at all. The China market is another possibility – though for reasons already given, it is unlikely to be a panacea. Other areas open to Japanese trade expansion are East Europe, Australia and the Middle East. The Japanese Government has the power to effect many of the changes necessary to assuage American feelings, though the cost in terms of domestic unpopularity and trade friction elsewhere could be considerable. The damage to US-Japan relations in the event of drastic further changes in trade patterns would hardly be less than that which accrues from the maintenance of current trends, the differences being that while it is, broadly, the Americans who have, or who believe they have, the major economic grievances now, it would be the Japanese who would mostly suffer and feel resentment in the event of an intensified protectionist policy.

Nor do the problems in the economic field which trouble US-Japan relations spring only from bilateral considerations. The United States, like other competitors of Japan in third country markets, feels that Japan has an unfair edge over them because *inter alia* of low Japanese defence expenditures, while the disproportionate American share of the burden is felt to be a factor penalizing their own commercial prospects. Tensions of this kind could well become even greater in the event of an expanded Japanese aid programme, if concentrated still on a system of export credits which could have the effect of virtually pre-empting whole markets for Japan. There are, too, fields in which Americans activities in third countries may be thought to be pursued in ways which run counter to Japanese economic interests. President Nixon's China policy, for example, might be viewed in this light if it led to large-scale contracts for American firms in areas of Japanese expectancy. Raw-material procurement is another potential cause of friction between the two countries.

Their interest in Soviet oil and gas is one example. Elsewhere, such as the Middle East, the United States could be irritated by Japanese attempts, e.g. by bilateral deals to obtain privileged access to supplies while Japan could feel that the United States was using the entrenched position of her companies, especially in regard to oil, to gain unfair advantage. More generally, the declared American objective of in future avoiding overseas commitments except where clear and important American interests are involved may lead Japan to judge that her economic position is not receiving the protection to which she has become accustomed.

Economic considerations, therefore, point to many difficulties ahead for Japan-United States relations. But there are also less discouraging aspects which should be borne in mind. The involvement of other states, if not in the specifically bilateral US-Japan problems, then in the general range of difficulties of which they are symptomatic, means that international discussion, in the IMF, OECD or elsewhere, will sometimes be able to help bring about solutions, as in the case of the adjustment of parities in December 1972. The existence of these groups – and the active participation of the United States and Japan in them – does provide some safeguard against isolated exacerbations of economic disputes like those of the pre-war period. To all of which should, of course, be added the awareness in responsible circles, both in Japan and the United States, of the mutual benefits, as well as the problems, of their economic relationship. One is, nevertheless, left with the impression that, especially on the American side, the problems are beginning to weigh more than the benefits and that, although multilateral co-operation and the good sense of the two parties will work to prevent extreme reactions, economic considerations will in the future tend increasingly to strain Japan-United States relations; that the defence link will, in these circumstances, become less convincing, both to the Japanese and to third parties; and that Japan will be under increasing pressure to do more in the defence field for herself. This judgment may err on the side of pessimism. Japan, patently, has at present no wish to assume enhanced defence responsibilities in view of her other more urgent priorities, and indeed she cannot do so in respect of the fields now covered

by the United States, in view of the Constitution's provisions. Those who think that the present American cover is indispensable, therefore, will try to keep economic or other causes of Japan-US friction within bounds and they may yet succeed. In essence the task will be to transcend the inward-looking characteristics so frequently stressed in this paper and to check, by this and other means, the tendency for similar characteristics to develop further within the United States.

These, then, are some of the *indirect* implications of Japanese economic policy. We have presented them first, because of the overriding importance, in the existing defence picture, of the American connection.

Even if one grants that the development of strains in the relationship between Japan and the United States is likely to lessen the latter's defence commitment to the former, it does not follow that any spectacular increase in the Japanese armed forces or change in their role will *necessarily* ensue. Many people, and by no means only those of the Left, are still firmly pledged to an anti-militarist stance and might be expected to prefer a position of non-alignment, with weak Japanese defence capabilities, rather than countenance an attempt to assume responsibilities no longer accepted by the United States. Such attitudes may also appeal, for more hard-headed reasons, to many of those responsible for, or in a position to influence, Japanese economic policies. As far as Japanese industry is concerned, the only section likely to favour a rapid military build-up would be the one involved in the production of arms, but this does not constitute a pressure group of great importance in present circumstances.⁵⁸ In general, internal considerations are, as we have seen, likely to argue in favour of greatly stepped up expenditures on 'social' items such as the control of pollution, the improvement of welfare services, and the implementation of some at least of the ideas in Mr Tanaka's book on the remodelling of the Japanese homeland. At the same time, pressures for the maintenance of a low-tax system are sure to be maintained by the Zaikai on their political protégés. Factors such as these do not suggest that there is likely to be much domestic pressure for a more active Japanese defence policy. Indeed, electoral considerations could well force

the LDP to emulate the pacificism of the Left.

Even those with important economic interests overseas may doubt whether the development of an enhanced Japanese military capacity would do much to protect their properties. They will not have forgotten the lessons of Japan's own, eventually useless, attempt to secure her position by force in China and will have noticed how little has been gained by American military power in Vietnam. They will also have observed the general tendency, on the part of commercial powers, no longer even to attempt to protect economic interests militarily, as symbolized by British withdrawal from the Persian Gulf and American acquiescence in Latin American nationalizations. The inference for Japan, especially in view of her past relationship with the area, is that an attempt to secure economic or communication interests in South-East Asia with defence commitments would probably cause more problems than it would solve.

→ Japan is likely to be led by these considerations to pursue what might be called a non-military overseas defence policy. The active element in this might partly take the form of a greatly stepped-up aid programme, in the hope of promoting stability in the areas with which she is primarily concerned. There seems no reason, constitutional or otherwise, why this activity should not be broadened to include, in selected cases, military arms supplies, if these seemed likely to help secure Japan's interests.⁵⁹ But if her government felt unwilling to go so far for fear of unfavourable repercussions at home or abroad, there are many items of an ostensibly civilian nature she can supply for the eventual use by armed forces in recipient states. Vehicles and electronic equipment are examples. There could also be subventions, covert if necessary, to governments in power whose policies coincide with Japanese economic purposes - or even to parties out of power which, if elected, would be more reliable than those in office. The value of money as a means of persuasion is often greater than the power of arms and whatever else happens, Japan seems unlikely to lack the former commodity during the period under review. The passive element in this non-military overseas defence policy would consist largely of insurance policies against trouble. Better oil stocks is one example, the development of compensation schemes to protect companies whose enterprises

abroad may be illegally nationalized is another. Policies, both active and passive, like those mentioned in this paragraph, are likely to be regarded by Japan as more effective, less costly and far less productive of undesirable side effects than overt military measures.

On the whole, therefore, we are inclined to conclude, on the basis of an examination of Japan's economic policy, that the remarks by Mr Nakasone quoted at the beginning of this paper may indeed be taken as an accurate indication of the line Japan will take, *if she can*. But this does not exclude the possibility that she will simultaneously be preparing herself to cope with 'the contingent and the unforeseen'. She will continue the existing tendency to react, rather than to take initiatives; and will hope gradually to build up for herself a broader range of options, principally through the judicious use of economic power which seems already to be strengthening her position *vis-à-vis* both China and the Soviet Union. The extension of the home islands' perimeter, since the return of Okinawa, to include larger sea areas for which she is responsible, means that the development of the Maritime Self-Defence Forces is in any case likely to be emphasized in the future. It would also be the logical arm to favour from the point of view of gaining at least the beginning of a capability to influence events in widely separated areas overseas, in the event of the non-military measures which she would prefer proving ineffective. It is, however, necessary to emphasize how completely the Japanese Self-Defence Forces would have to be transformed from their present character before they could undertake independent operations in defence of her interests overseas - not to mention the political, constitutional and psychological problems that would have to be overcome. Clearly the size and character of the force would vary enormously in such circumstances, depending on the strength of the opposition, the nature of the terrain, the distance from home and so on. But an independent Japanese task force whose mission was, for example, to defend shipping on the sea routes between Japan and the Persian Gulf could not be contemplated at all without the development of nuclear-powered submarine capacity. This is a far cry from the present maritime establishment even when equipped with the helicopter-transporting vessels authorized as

part of the fourth 5-year Defence Plan ending in 1977. The contents of the succeeding plan can only be a matter for speculation at this stage. So too must be the question of the money Japan will devote to defence. In absolute terms, the defence budget has been steadily increasing, from \$1,075 million in 1967-68 to \$1,640 million in 1970-71. In terms of GNP, however, the share occupied by defence was on a slight decline during these years falling from 0.86 per cent in 1967-68 to 0.78 per cent in 1970-71. Even the rises in absolute terms are less impressive than they appear in view of the ever increasing amounts needed for salaries and the rising cost of equipment. Our estimates of likely budgetary priorities do not suggest the likelihood of any dramatic change in these trends during the 1970s. In all probability, therefore, Japan will reach the end of the decade with forces which are not qualitatively much different from those of today and also therefore with a rather small range of options in narrowly military terms. Her capacity to exert influence on the basis of her economic power, however, will clearly have increased enormously. If she can secure what she wants by this method, the incentive to spend more on armaments will remain small.

As far as alliance patterns are concerned, the 1970s will clearly be a period in which Japan's only existing alliance, that with the United States, will dominate her considerations. Whatever the fate of this relationship, there seems little likelihood of another taking its place, at any rate on the basis of economic considerations, though the question cannot be considered adequately within such a narrow framework. However far relations with China or the Soviet Union - or both - develop economically or politically, an alliance with either is, in our view, out of the question. The whole trend of Japan's policy is towards a new place in multilateral settings rather than towards a new exclusive relationship such as an alliance with one or other of the great powers. Economic self-interest is one of the factors which lie behind this policy since Japan has most to gain if she can develop her commercial relations, including her raw material procurement, as widely as possible. Nor does an alliance relationship seem likely to develop between Japan and Asian or Pacific powers outside the 'quadrilateral'. We have

seen in this paper how important both Australia and Indonesia are to Japan from broad economic points of view though different in the two cases. These countries are also important to each other and Japan is important to them. It is possible to envisage the development of some sort of triangular relationship, on the basis of a broadening of existing bilateral links, but none of the three seems likely to wish it to take the form of a military alliance which would have the double disadvantage of being both politically provocative and of little substance in defence terms. Here again, the keynote in Japan's policy is likely to be the development of options. The process of 'sounding out' and meticulous evaluation will go on to try to determine the grouping with which she should associate herself. It may be - and here perhaps one is brought up against a certain tragedy in Japan's condition - that such a grouping can never be found. Her economic stature is now so great that it may be impossible to accommodate her comfortably in any purely Asian relationship. If she belongs anywhere in the world at large, it is in the councils of the IMF, the OECD, and other Western economic groupings of which she is a member. She is developing a much more genuine affinity with such organizations and their other members than with the nations who are geographically close to her or with whom she has been linked, culturally and otherwise, at earlier stages of her history. China may be all the rage in Japan at the moment, but she has nothing to offer, economically or otherwise, comparable to the opportunities in the various bilateral and multilateral relationships Japan has developed and can develop further within the Western world.

Japanese history is full of zig-zags and there can be no certainty that there will not be changes of course in the future, possibly as abrupt as the switch from militarism to pacifism in 1945. Economic frustration, especially if accompanied by widespread unemployment at home and the denial of what Japan conceives to be her fair place abroad could eventually lead to a mood of disillusion, the rebirth of chauvinism and even attempts to rely on force or the threat of force. The smooth development of the Western economic system and the further integration of Japan within it is the surest guarantee that the difficulties which beset Japan's path, some of

which have been sketched in this paper, will be resolved by her in a steady and temperate

manner, and with proper allowances for the interests of others.

NOTES

¹ See, for example, the following passage from the *People's Daily*, Peking, on 18 September 1971, the 40th anniversary of the Mukden incident: 'The contradictions between the malignant swelling of Japan's economy and her shortage of natural resources and limited markets are even sharper than in pre-war times. This determines that Japanese monopoly capitalism must seek a way out through expansion abroad. For many years, the Japanese reactionaries have done their utmost to put cunning neo-colonialism into effect . . . an "economic power" is bound to become a "military power".' For a variation on the same theme, see 'Japan steps up exploitation of South-East Asia' in *Peking Review*, 2 June 1972. Since the new Japanese Government took office in July 1972, Chinese statements have been more conciliatory to Japan; it remains to be seen whether the change is more than a tactical one.

² Toshihiko Nishiwaki 'Trading with Japan' in *Commerce International*, June 1971. Cf. also Shinkichi Eto's comment quoted by John K. Emmerson on p. 370 in *Arms, Yen and Power - The Japanese Dilemma* (New York: Dunellen Inc., 1971).

³ The latter point of view is graphically expressed by Peter Jay in 'Face of the East behind a Western Mask', *The Times*, 19 June 1972. For a general statement of Japan's cultural orientation, see Professor G. C. Allen's estimate on p. 2 of *Japan's Place in Trade Strategy*, Atlantic Trade Study, 1968.

The debate about Japan's 'westernness' is far from new. Richard Hughes in *Far Eastern Economic Review*, 17 June 1972, quotes Yosuke Matsuoka, the pre-war Foreign Minister, confiding to a press conference in 1940: 'When speaking English I always think in English. This has led me to wonder at times if I am more Western than Japanese. But I have found out by studying my reflexes while under the influence of alcohol that I must be Japanese at heart because I can't think clearly in any language except Japanese when I have taken a little *saké*.'

⁴ The sentiment was by no means limited to governments. Sir Charles Eliot, then British Ambassador at Tokyo, wrote to Arthur Balfour on the eve of the Washington Naval Conference in 1921: 'The army are as a whole opposed to any reduction [in armaments]. The general public do not agree with this, they feel the burden of taxation and would like to see troops withdrawn from Siberia . . . but they still feel

Japan has a mission on the mainland of Asia, and if they were made to feel that they were abandoning that mission by any policy of retrenchment, patriotic sentiment would probably get the better of prudence and financial considerations.' Quoted by Blanche C. Dugdale in her life of A. J. Balfour, Vol. II, p. 322 (London: Hutchinson, 1936).

⁵ Raymond Aron, *Peace and War* (English translation) (London: Weidenfeld and Nicolson, 1966), p. 68.

⁶ Winston Churchill, *The Second World War*, Vol. III (London: Cassell, 1950), p. 521.

⁷ G. B. (later Sir George) Sansom and D. W. Kermode, *Economic conditions in Japan*. Department of Overseas Trade Report No. 541, London, 1933, p. 10. This estimates that over 40 per cent of the value of Japan's export trade was to the United States and that the bulk of these exports to the United States was made up of raw silk.

⁸ Sansom and Kermode, *op. cit.*, pp. 11-13.

⁹ See Emmerson, *op. cit.*, p. 32 for a description of the Japanese national mood in the early 1970s.

¹⁰ Sir George Sansom, *The Western World and Japan* (London: Cresset Press, 1950), gives an authoritative account of these developments.

¹¹ Economic Planning Agency, *Annual Report for 1971* (Japanese Language version), p. 158.

¹² Herman Kahn, *The Emerging Japanese Superstate* (Englewood Cliffs, N.J.: Prentice-Hall Inc., 1970).

¹³ The power of 'administrative guidance' and Bank of Japan 'persuasion' may not be quite what it was. With fewer licenses and other controls, industry has not the same need now to keep in the good books of the government; and the stronger individual positions of the banks makes them less amenable to Bank of Japan direction.

¹⁴ Y. Ojimi, Vice Minister, Ministry of International Trade and Industry, in 'Basic Philosophy and Objectives of Japanese Industrial Policy' which is printed as the introduction to the OECD's report *Industrial Policy of Japan*, Paris, 1972.

¹⁵ For a less solemn illustration of the prestige and non-commercial pressures put upon Japanese business executives see Genji Keita, 'The Championship Banner of the Company President', translated from Japanese by Hugh Cortazzi and published in a volume entitled *The Ogre* by the *Japan Times*, Tokyo, 1972.

¹⁶ *Nihon Rettō Kaizō Ron*. 'A Discussion of the Reconstruction of the Japanese Island Chain'.

The book was published before Mr Tanaka became Prime Minister.

¹⁷ In view of the population increase of the intervening years, the pre-war level of GNP in *per capita* terms was not attained until a little later.

¹⁸ For an account of Japan's post-war oil problems see Peter R. Odell, *Oil and World Power* (Harmondsworth: Penguin original, 1970) especially chapter 6; and *The Japanese Oil Industry*, Shell Briefing Service, August 1971.

Shell (Anglo-Dutch) has also long played an important role in all aspects of the oil industry in Japan. BP did not exist in its present form in 1950, but has sold substantial quantities of crude oil to Japan more recently. The other five companies generally classed as 'majors' are all American and so are many of the 'independents' such as Occidental which have risen to prominence later.

¹⁹ This contrasts with the following ratios (1968) for some of the main countries of OECD Europe: Netherlands about 43 per cent, Belgium 38 per cent, Britain and West Germany about 20 per cent, France 14 per cent. (The United States, however, with an even larger internal market than Japan, shows a ratio of some 5 per cent.)

For these and other details, see *Japan's Economic Expansion and Foreign Trade 1955-1970*, GATT, July 1971.

²⁰ There is a considerable Japanese talent for coming up with a new 'cultural tool' (the collective term for consumer durables) at exactly the right time. Although the home market for conventional equipment may be approaching saturation, there is still plenty of scope for 'knowledge industry' home gadgets. Sony plans to get a video tape recorder 'into every home' during the 1970s. The replacement rate in Japan is also very high.

²¹ In the case of cars, for example, the ratio of exports to total automobile production is still relatively low at around 30 per cent. This contrasts with the following percentage in other automobile industries: 58 per cent (W. Germany), 54 per cent (France), 42 per cent (Britain). See *Quarterly Review of the Anglo-Japanese Economic Institute*, No. 42, April 1972.

²² Quoted by Saburo Okita, Director of the JERC, in a 1972 paper presented to the Joint Conference of the Japan Institute of International Affairs and the International Institute for Strategic Studies.

²³ 'Orderly Marketing': see *Quarterly Review of the Anglo-Japanese Economic Institute*, *op. cit.*, p. 2.

²⁴ This aspect is the one principally developed by Sir John Figgess in his paper on 'Japan and the Atlantic World' prepared for the Atlantic Institute's Conference on this subject in May 1972.

²⁵ There were considerable changes in the geographical emphasis in Japan's overseas trade during

the 1950s and 1960s. In 1955, about 56 per cent of her exports went to the developing world and 45 per cent of her imports came from it. The corresponding figures for the developed world were at that time 42 per cent and 51 per cent. By 1970 the balance had, broadly, been reversed, with exports in the first category down to 37 per cent and imports also proportionately reduced, at 40 per cent of the total. By contrast, the developed world by now took 58 per cent of Japan's exports and supplied 55 per cent of her needs from overseas. The United States, Europe and Australia together thus moved decisively ahead as the main destinations for Japan's exports – and considerably increased an existing lead as the main sources of imports from abroad.

Further details are in *Strategic Survey 1971* (London: International Institute for Strategic Studies, 1972), p. 61 (Table 12).

²⁶ Other examples in East or South-East Asia of large trade dependence on Japan are:

Country (1970)	Proportion of Imports from Japan	Proportion of Exports to Japan
R.O.K.	41.2%	27.4%
Taiwan	45.9%	17.6%
Thailand	35.8%	27.3%
Philippines	37.5%	50.0%
Malaysia	12.0%	24.9%
Vietnam	15.3%	25.0%

Source: Economic Planning Agency, *op. cit.*, p. 113.

Okita (see note 22 above) has estimated that, by 1980, about 40 per cent of these countries' exports will be destined for Japan.

²⁷ *Strategic Survey 1971*, *op. cit.*, p. 60 (Table 11) gives further details of the sources of Japan's raw materials.

²⁸ The sense of insecurity was no doubt heightened by the narrow range of the nationality of the companies, overwhelmingly American and British, and therefore judged liable to be affected by political considerations such as the Arab-Israeli dispute.

²⁹ From an editorial 'Japan and the World Oil Economy', in *Japan Economic Journal*, 30 May 1972.

³⁰ Editorial in *Japan Economic Journal*, 20 June 1972.

³¹ *Australia News*, Australian High Commission, London, 17 February 1972.

³² *Australia News*, Australian High Commission, London, 29 March 1972.

³³ According to the P & O Company, vessel sizes and loaded draught correlate as follows:

Size of Vessel (d.w.t.)	Loaded Draught
200-250,000	65 feet
250-350,000	70 feet
350-500,000	75 feet
1,000,000	95 feet

The maximum size of vessel so far contemplated is about 1,000,000 d.w.t. Ships of between 300,000 and 500,000 d.w.t. are being built and there are many ships in the 200,000–400,000 d.w.t. already in service.

³⁴ See 'The Kra Canal: a nice idea, but is it viable?' in *Financial Times*, 15 August 1972.

³⁵ Tengku Razali Hamzah, Treasurer of the United Malay's National Organization and Chairman of the State Economic Corporation. See *The Times*, 20 March 1972, and also *The Times* (Editorial), 3 April 1972.

³⁶ Tankers too large to use the Suez Canal were already coming into service at the time of its closure and after a difficult transitional period the economies of scale they contributed more or less compensated for the longer voyage round the Cape. Above 300,000 d.w.t. the gain from greater size declines, so that, in the circumstances envisaged, Japan would not get a comparable offset.

³⁷ There is a useful factual article by Kiichi Saeki, 'Japan in Siberia' in *Problems of Communism*, May–June 1972.

³⁸ *Japan Economic Journal*, 22 February 1972.

³⁹ Emmerson, *op. cit.*, p. 208.

⁴⁰ See Emmerson, *op. cit.*, p. 211 for the circumstances of the 'Yoshida letter' about the denial of Ex-Im credits to trade with China.

⁴¹ 'China's New Status in Oil', in *Petroleum Press Service*, October 1971, reprinted in *Survival*, March/April, 1972.

⁴² Quoted in the *Monthly Bulletin of the Anglo-Japanese Economic Institute*, No. 128, May 1972.

⁴³ 'Uranium: The Australians' Quiet Bonanza', in *The Times*, 20 May 1972. See also, for a summary of the treaty, *Financial Times*, 23 February 1972.

⁴⁴ *Financial Times*, 26 May 1972.

⁴⁵ Cf. the late Leonard Beaton, 'The Bomb Threat in the Atomic Power Programme', in *The Times*, 22 May 1972.

⁴⁶ Zbigniew Brzezinski, *The Fragile Blossom* (New York: Harper & Row), p. 108.

⁴⁷ The original US–Japan bilateral safeguards agreement was transferred to the IAEA in 1963. Japan is one of the countries which has expressed dissatisfaction with the IAEA system.

⁴⁸ *Far Eastern Economic Review*, 18 December 1971, quotes Kiichi Miyazawa, a former Minister of International Trade and Industry: 'If major nations of the world who have nuclear capabilities try to be too assertive and push Japan around too much and too far, they may run the risk of opening up what they most want to avoid and what the majority of Japanese people today are still determined to avoid. I mention this pointedly, because it looks to me as though the foreign policy decisions of some major countries have recently tended to be influenced by what they fondly call realpolitik and they have made

distinctions between "first rate" and "second rate" nations, using nuclear capabilities and atomic stockpiles as their yardstick.'

⁴⁹ A much fuller discussion of the nuclear question and Japan's security generally is contained in a paper by Kunio Muraoka, *Japan–United States Defence Relations*, written for the International Institute for Strategic Studies.

⁵⁰ These figures are offered for comparative purposes only. It is notoriously difficult to give an 'objective' value to investments overseas, especially those in the raw-material extraction sector, as the talks between OPEC and the oil companies over participation have shown in 1972.

⁵¹ Cf. the following opinion reported in the *Japan Economic Review*, 15 February 1972. 'The advantages Japanese manufacturing firms can enjoy with regard to the use of logs from South-East Asia included the fact that they could control the prices to some extent by means of offering technical assistance to these developing countries. . . . Due to the aggravating problem of industrial pollution, voice is gaining strength here that production of paper using pulp made in Japan from imported logs is not a good way . . . logs should be processed into pulp in the South-East Asian countries.'

⁵² For a (critical) summary of Japanese aid policy, see Dick Wilson, 'The Charity Profiteers', in *Far Eastern Economic Review*, 15 April 1972.

⁵³ Speech by Mr Kiichi Aichi in *Japan Economic Review*, 15 May 1972.

⁵⁴ Brzezinski, *op. cit.*, p. 75.

⁵⁵ See *Quarterly Review of Anglo-Japanese Economic Institute*, No. 42, April 1972, for details of the company.

⁵⁶ Cf. *Industrial Policy of Japan*, *op. cit.*, pp. 70–71. Mr Ojimi compares the giving away of unsophisticated industries to the passing on of discarded suits by an elder to a younger brother.

⁵⁷ Victor Zorza writes in *The Guardian*, 17 June 1972: 'The implied [Soviet threat to Middle East Oil] has not been ignored in Washington. Already the navy is using it as an argument for a "new role" for the US fleet. Admiral Elmo R. Zumwalt . . . has asked for more money this year than either the air force or the army. He says that he needs it to build the ships to protect the 1,000 tankers that will be transporting oil to the United States by the mid-1980s . . . Washington officials also argue for an increased US presence in the Indian Ocean in order to be able to protect the flow of oil to Japan and other US allies in Asia.'

⁵⁸ See *The Arms Trade with the Third World*, Stockholm International Peace Research Institute (SIPRI) (Stockholm: Almqvist and Wiksell, 1972), pp. 324–27.

⁵⁹ *The Arms Trade*, *op. cit.*, p. 316 quotes a 1967 statement by Mr Eisaku Sato: 'Although there are

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Japan Sets Out to Remodel Itself

The obsession with exports and rapid growth is giving way to concern for the quality of life. A \$1-trillion effort is under way to clear up pollution, redeploy industry, and revamp attitudes toward work and leisure.

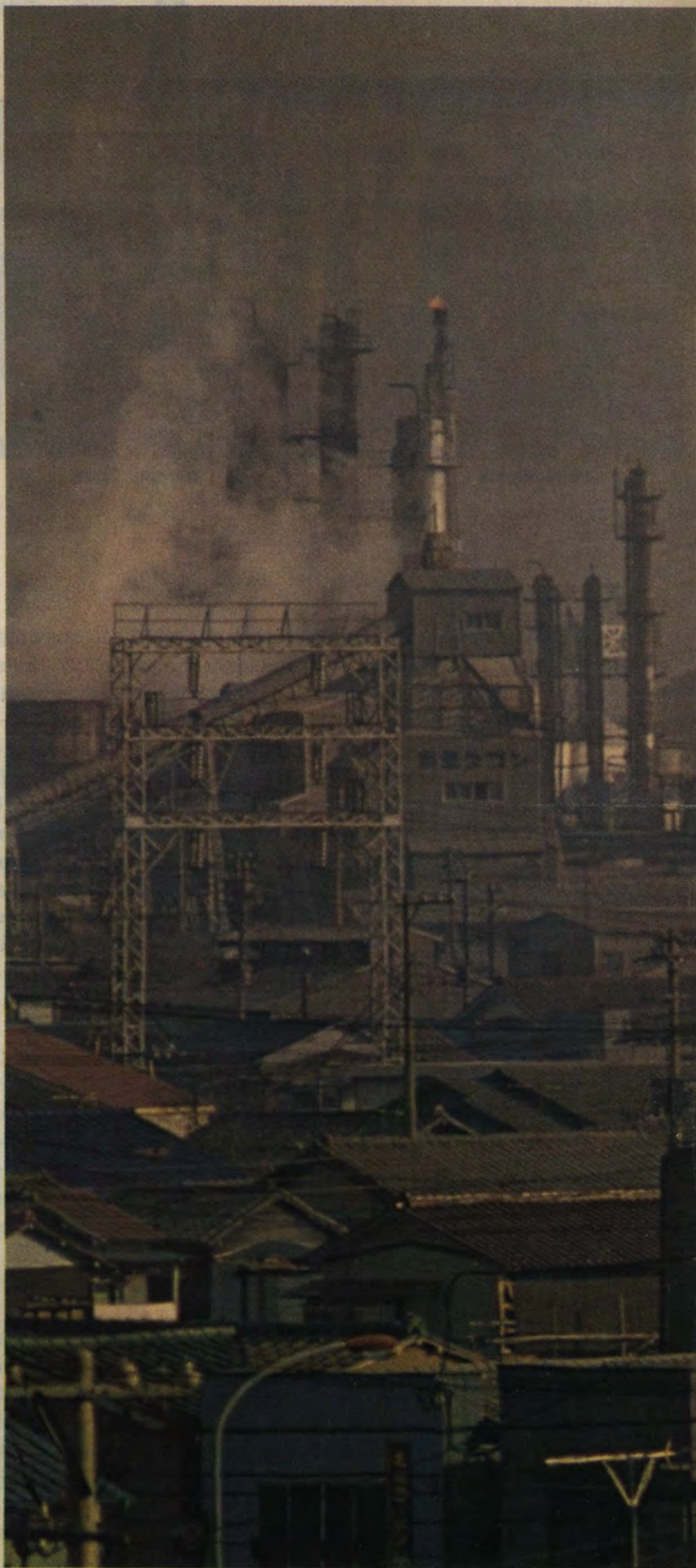
by Louis Kraar

Driven by a deep sense of national purpose, Japan has attained remarkable economic growth, a tremendous export surplus, and a commercial prowess that is the envy of the rest of the world. But gradually the Japanese are coming to realize that they have paid heavily for these achievements. Tokyo, Nagoya, and Osaka are megalopolitan nightmares, hopelessly congested and permeated with choking fumes. The atmosphere is killing the famed cherry trees in Tokyo, and in nearby Kawasaki it is killing people as well. In a nation that ranks among the top economic powers, only 15 percent of the homes are connected to sewers.

Now Japan is at last beginning to change course. The obsession with ever rising production and high-pressure exporting is giving way to a fresh national goal. The Japanese are mobilizing to undertake a vast restructuring of the entire nation and its economy. To check the horrendous pollution and urban congestion, factories will be dispersed to the countryside and dozens of new towns will be created and linked by networks of superhighways and express railways. Above all, the objective is to improve the quality of life.

The ambitious effort, which the Japanese call "remodeling," will require an estimated investment of \$1 trillion in public and private funds. "This is the largest peacetime project in the history of mankind," says Garrett Scalera, the Tokyo representative of the Hudson Institute who has spent months analyzing the government's master plans. If Scalera's statement

Polluted air clouds Kawasaki, a city near Tokyo where houses and shops stand cheek by jowl with chemical plants and oil refineries. It is an extreme example of conditions in the megalopolitan belt along Japan's Pacific coast.





Philadelphia



Laredo, Texas



and Newark

women's apparel imports rose from 6 percent of consumption in 1961 to 20 percent in 1970 and to 25 percent in 1971. In some categories the penetration has been higher—87 percent for sweaters, 51 percent for women's and children's blouses.

The garment unions have only sketchy data about plant closings attributable to imports, but it is clear that the work force has not grown appreciably and that unemployment has been higher than the national average, the rate increasing from 5.9 percent in 1969 to 9.7 percent in 1971. The recession obviously had an impact, but the unions, not unreasonably, also blame imports. Union membership has declined, despite new organizing. The I.L.G.W.U., for example, dropped from 457,517 members in 1969 to 432,331 two years later.

After the cotton agreement was concluded over a decade ago, the major concern of the unions soon shifted to wool and synthetic fibers, imports of which began rising sharply in 1965. Both presidential candidates promised relief in 1968, but it took three years of prodding by the U.S. Government before Japan, Taiwan, Korea, and Hong Kong agreed to voluntary quotas. Since then, the unions have been troubled by what they regard as loopholes in the agreement—garments have been coming in from Macao and Indonesia, for example—and they have enthusiastically lined up behind Burke-Hartke.

No audience for a free trader

The deluge of imports in apparel and consumer electronics is hardly surprising, for it is in just such labor-intensive industries that developing countries have a decided advantage. The shocker has been steel, in which American productivity long led the world but then was surpassed by advanced technology abroad. Imports zoomed from 1,150,000 tons in 1957 to 18,300,000 tons in 1971—18 percent of the market.

Steelworkers become most keenly aware of imports when a new contract is signed, for that is generally a period of unem-

ployment after several months of frantic production and stockpiling in anticipation of a strike. When 104,000 workers were laid off in 1971, it was easier to blame imports than the industry's bargaining cycle. The leaders of the United Steelworkers reinforce the resentment by asserting, as President I.W. Abel did in a recent speech, that every million tons of imported steel "represents the export of 6,000 full-time job opportunities." Thus there would have been 110,000 more jobs in 1971—and no unemployment—had there been no imports. No free trader is going to stand up in a union hall against that argument, however spurious it may look to economists.

Who cares about retaliation?

Since the United Steelworkers, with 1,400,000 members, is the largest union in the A.F.L.-C.I.O., it has been pivotal in swinging the federation to a protectionist position. The union held to its traditional free-trade views until 1965, when Abel replaced David J. McDonald after a bitter election campaign. McDonald used to grumble about imports, but took no action. Abel joined the industry in a plea for quotas, which were finally negotiated in 1968 and again in 1972. The new quotas reduced imports 4 percent below the 1971 peak.

But that is modest relief indeed compared to Burke-Hartke's quota system, which generally would roll back imports to their average annual levels during the period 1965-69. Last year a study by the Commerce Department showed that if Burke-Hartke had been in effect in 1971, imports would have been reduced by \$10.4 billion from their actual levels—almost a quarter of the total for that year. Canada would have lost \$3.6 billion—30 percent of its exports to the U.S.; Japan, \$3.1 billion; the Common Market countries, \$1.8 billion.

With cutbacks of this magnitude, retaliation would be inevitable. Yet advocates of Burke-Hartke scoff at the danger. The common response among unionists is that foreigners buy in

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T. Tanuma

A Vast Relocation of People



seems like hyperbole, it is pardonable, for the government's grand vision is already taking shape in elaborately detailed blueprints. Despite the scope of the task, the Japanese, with their exceptional ability for taking unified action toward agreed-upon goals, may well be capable of pulling it off.

Ultimately, Japan's shifting priorities should have significant impact on business and consumers around the world, especially in the U.S. By stressing exports and stinting on its own social needs, the nation has, in effect, given away products to the world at low prices—and at the expense of its own people who produced the goods. The Japanese have worked hard and long, and American consumers, among others, have enjoyed the fruits of their labor. Now Japan's social objectives are becoming more like those of the U.S. and other advanced Western countries. And in the new framework of national priorities, Japanese businessmen will soon be competing on a more equal footing with Western industry. Already, the revised national goals are drastically altering the strategies of Japanese corporations in ways that will undoubtedly affect world trade in years to come.

Sudden awareness of *kogai*

Prime Minister Kakuei Tanaka has made remodeling the focus of his new regime, and he is a forceful, practical man capable of directing a national transformation. Unlike most Japanese politicians, who plod upward through the government bureaucracy, he came into politics after a lucrative career as a building contractor. The youngest postwar Premier, Tanaka, fifty-four, is far more venturesome than his predecessors. Witness the ambitious target date he has set for completion of the entire transformation—1985.

Last June, Tanaka presented the grand design for social and economic change in a book, *Remodeling the Japanese Archipelago*, which became a best-seller and helped boost him to power. Although the concept is now generally termed "the Tanaka Plan," the ideas have actually been taking shape for several years within the cohesive government-business establishment. Thus there is already a consensus on the basic thrust. And while many practical problems and inevitable resistance to some features are still being overcome, both the bureaucracy and private corporations are already starting on a path to transfigure the nation.

A gradual evolution in public opinion underlies the change and makes it possible. "While our factories are the most modern, we have shabby homes, heavy pollution, and not-so-good living conditions," notes Dr. Saburo Okita, an influential government adviser, who is president of the Japan Economic Research Center. "People suddenly became aware of this." Indeed, communities have become so agitated over the ill effects of *kogai*, as the Japanese call environmental disruption, that many industries find it impossible to overcome public resistance to the building of new plants. Complaints about pollution and lawsuits against corporations have risen dramatically in the past few years. The ever worsening traffic snarls and dangers of driving in Tokyo and other big cities have reduced many proud car owners to merely displaying their autos in



Prime Minister Kakuei Tanaka consults with his Council on Remodeling the Japanese Islands, whose members come from corporations, local governments, and other groups. Such meetings seek a consensus that will spur unified efforts toward the new national goals.

front of their homes, rather than risk driving them. And lately the Japanese have been troubled to find that urban children, who are accustomed to playing on apartment steps and dodging cars in back streets, often don't know quite what to do when they are taken out to the countryside. They just sit on the grass and play cards.

Preparing the people for big spending

The industrious Japanese have long taken a special pride in their escalating production and exports, and their real personal income has gone up, too. But now many people feel cheated and say so loudly, even in a society that highly values politeness and respect. A ranking government official proudly describes the country's economic progress to a group of foreigners at a Tokyo dinner party; suddenly, a young Japanese professional woman interrupts: "How can you keep saying how rich we are? Look at our housing, our social-security system." The new consciousness evident throughout the country was accurately summed up by a Japan Broadcasting Corporation commentator in a remark that would have been unthinkable a few years ago: "While accumulating huge foreign currency reserves, which have nothing to do with our lives, we've been suffering from the lack of social necessities that really serve our welfare."

As an astute politician, Tanaka is selling his plan to the public as *the* means "to remove the root causes of our present troubles." Official white papers now reflect the view of many

discontented Japanese and meticulously describe the wide disparity between national wealth and social welfare. It's now openly acknowledged that Japan is a backward society by many a measure of public well-being, from social-security coverage to public park space. A recent government analysis revealed that the country lags a decade behind the U.S. and Western Europe in housing, sanitation, and other essentials. Such grim deficiency reports are partly designed to rally support for the gigantic investments required to transform the nation. Government ministries have drafted a list of high-priority public works, which, in the next five years alone, would cost more than \$250 billion.

The main trouble is that much of Japan's industry and a third of its population—some 35 million people—are crammed into barely 1 percent of the country's total area. To relieve the congestion in the urban belt along the Pacific coast and to end the economic stagnation of underpopulated rural areas, the government recently formed the Corporation for the Relocation of Industry. It is headed by Keiichiro Hirata, a former Vice Finance Minister, who also serves as chairman of the Comprehensive National Development Council, an influential group of economists and business leaders that sets Japan's economic

priorities. Hirata boasts that the redevelopment plan "will give us a new Japan."

The relocation corporation has designated zones in relatively open areas covering 75 percent of the country, and it is beginning to lure factories into these regions from the overcrowded cities (see map on page 100). "Japan is not a socialist country, so we use indirect methods," notes Hirata. The government offers financial incentives both to the companies that relocate and to the communities into which they move. Tanaka estimates that these subsidies will have totaled from \$7 billion to \$10 billion by 1985. So far, dozens of companies have applied for loans to cover their moving costs, for accelerated depreciation on vacated buildings and equipment, and for other government assistance. Those considering a move out of Tokyo include Azuma Steel, Meidensha Electric Manufacturing, and Mitsubishi Steel. Nippon Aluminum and Yanmar Diesel are planning to leave Osaka. To encourage outlying communities to accept industry, the government offers them grants to build parks and pollution-monitoring facilities. Later, Tanaka hopes to add a "factory-expulsion tax"—a special surtax on factories that remain in congested cities.

If relocation succeeds, about half the wretched industrial jungles around the cities of Tokyo, Nagoya, and Osaka will be razed, making way for parks and housing. At the same time, existing rural towns will be painstakingly developed into model communities, each with some 250,000 people, verdant industrial parks, and strict environmental controls. Sites have been selected for more than seventy such new towns and detailed design is swiftly going ahead. The government plans to invest an average of \$1.8 billion in each new town.

It will also vastly expand the high-speed railways and auto expressways so as to bring all parts of the archipelago within a day's journey and cut the time between most major cities to an hour or less. Much of this network is already budgeted, and Japanese National Railways is currently perfecting a super-express capable of more than 300 miles an hour—twice the speed of today's justly renowned bullet trains. "It's a rather grand design, but it's our new direction," says Hirata. "It will also involve a large amount of funds, but we're economically strong and can well afford it."

Land-grabbing and politics

Many companies, seeking quick profits from the national remodeling, have invested so heavily in real estate as to pose a threat to the plan itself. The land-buying spree began right after publication of Tanaka's book, and it has pushed prices up by as much as 50 percent in some places. The government anticipated a 12 percent increase in land values in the fiscal year ending March 31, but prices shot up an average of 20 percent in the first half. Hideo Edo, president of Mitsui Real Estate Development Co., says with great dismay: "In the past, increases were mostly in a few big cities. Now they extend from one part of the country to another." Much of the speculation involves land earmarked for new towns and factory sites, but astronomical land prices could sabotage many remodeling projects.

The land-grabbing has stirred public controversy over the

Tanaka plan. During recent parliamentary elections, opponents accused the Premier of personally profiting from land deals. They also attacked the plan as favoring the interests of big business and charged that it would merely spread pollution around the islands. The Communist party of Japan, which directed its campaign at discontented city dwellers, gained seats in the election, and the Japanese press now makes a habit of calling Tanaka's leadership "disappointing."

But this judgment overlooks the fact that most of the changes Tanaka has popularized are already beginning to happen. Tanaka's Liberal Democratic party, which has ruled since its formation in 1955, has retained its overwhelming absolute majority. Moreover, since the impetus for remodeling comes from the tight-knit Japanese establishment, the plan's support and success are independent of Tanaka's political future.

In response to the sharp complaints, the government has prepared measures to curb speculation by levying new taxes on land transactions and by penalizing purchasers who hoard land rather than develop it. A stiffer environmental law is designed to prevent corporations from packing every corner of industrial sites with plants, as they often do now. Factories will be limited to 40 percent of the land within a site, leaving room for offices, breathing space, and greenery. The potent Ministry of International Trade and Industry intends to review proposed layouts for factories in the countryside and, as one official warns, "order revision, if necessary."

Converting the farmers

The dispersal of industry to the countryside promises to bring about some profound political changes that will make Japan less protectionist and benefit its consumers. Some 7,600,000 Japanese, nearly 16 percent of the labor force, work on farms, many of which are small and inefficient. Japan produces rice, to name one major crop, at three times the U.S. cost. A staunchly protectionist voting bloc, the heavily subsidized farmers bitterly oppose food imports. But in the long run, remodeling offers the government a way around this tough domestic pressure group. As manufacturing plants and new communities locate in rural areas, many farmers will be lured from the land by real-estate agents offering handsome prices and by factory jobs. Already over half the earnings of agricultural workers come from nonagricultural sources, such as seasonal employment in industry.

Tanaka is already feeding more government funds than ever into programs to meet social needs. Government spending in this fiscal year will jump 22 percent, to \$38 billion, with most of the increase going into public works, housing, and welfare programs. The budget will climb some 25 percent next year—the largest increase since World War II. Some of this spending will be used to correct a glaring shortcoming in a society that defers to seniority. Japan now devotes only 6 percent of its national income to social security, compared with 15 to 20 percent in Western European nations. Though most workers retire at fifty-five, they must wait until sixty to qualify for social-security pensions. Some workers get a lump sum of retirement pay from their employers, which helps them bridge the five-



American hamburgers in Tokyo's Ginza district are a visible sign of a broad shift. Barriers against foreign investment are falling, and McDonald's is among the U.S. companies entering a long-closed economy.

year gap, but others must live off savings or relatives. The social-security payments themselves have been ridiculously low, and poverty has contributed to a suicide rate among the elderly that is one of the highest in the world. As a start, the Tanaka government expects to double the monthly pension to \$162, and will doubtless have to raise it further in the future.

Underscoring the nation's changing values, the government will soon come out with a new measurement of national progress—an official index of “net national welfare.” Such an index, which some economists have been recommending for the U.S., is computed by deducting from the G.N.P. all the undesirable side effects of growth, such as the many hours lost in traffic congestion and the toll of environmental pollution. Positive elements, such as increases in leisure time, may be added. “Although there are many technical difficulties in calculating N.N.W., we hope the new concept will be fully utilized in future planning instead of just G.N.P.,” says Isamu Miyazaki, counselor of the Economic Planning Agency. Because the Japanese are so zealously devoted to achieving specific objectives, the index is more than a mere gesture. Since they no longer accept ever rising G.N.P. as an assurance of well-being, they hanker for a quantitative yardstick to measure progress toward their new qualitative goals.

To enhance personal welfare, Tanaka hopes to establish a standard five-day work week by 1975. Most Japanese workers

still put in a full six days, and innumerable opinion surveys show a popular demand for more leisure. But the Japanese, caught in a swirl of changing attitudes, are torn between their almost fanatical devotion to work and their genuine desire for greater leisure. Younger people are especially impatient with long hours, but the Japanese have been conditioned to demonstrate loyalty to employers by staying on the company premises late every night and giving up a part of their vacations. Executives—who are the most addicted to the old ways—resist a shorter work week on the grounds that it would raise labor costs. These ingrained attitudes, once considered assets, are now earmarked for remodeling, too. The government is pressing civil servants to take their full allotment of holidays and is urging banks to close on Saturdays.

Less steel, more knowledge

Actually, the Japanese are already hotly pursuing leisure and a wider variety of life styles. Demand for the goods and services that provide these personal satisfactions has leaped, making housing, sports activities, travel, and retail sales standouts in the economy. The sudden success of bowling is symbolic; in the past year the number of bowling alleys almost doubled to 120,000, and the money invested in them for that peak year nearly equaled the amount spent for new equipment in the steel industry.

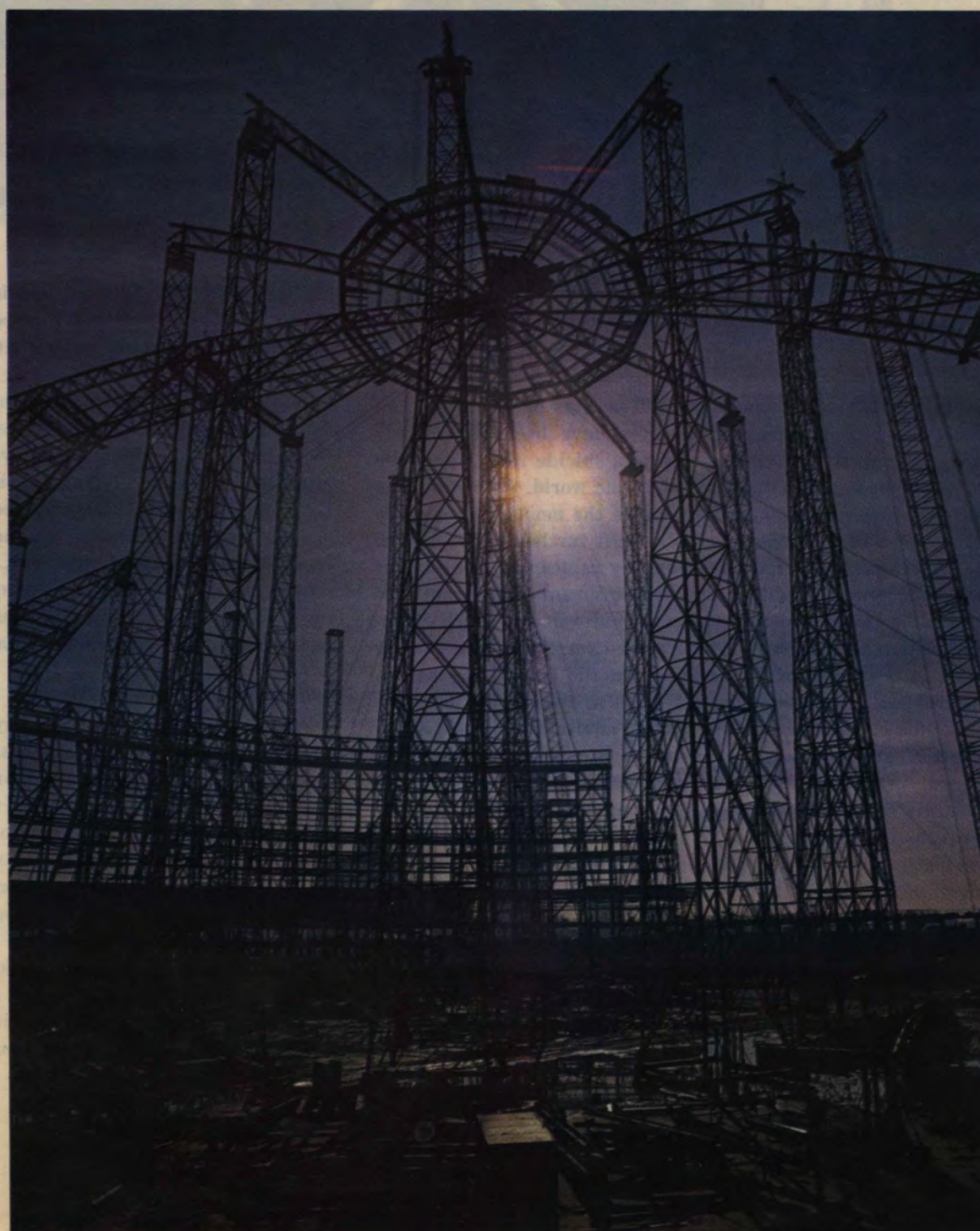
At the same time, the once spectacular growth of heavy industries has begun to slow down, and that has made Japanese businessmen even more responsive to demand in new fields. “Actual conditions, not our plans, are causing the companies

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It's Promoters vs. Taxpayers in

Steelwork against the skyline signals construction of New Orleans' \$151-million Louisiana Superdome, the biggest enclosed stadium ever built. Houston's Astrodome, as New Orleans promoters are fond of pointing out, could fit comfortably inside it. The girders of the dome—680 feet in diameter—are spun out from the center like the strands of a giant spiderweb. The supports shown in the photograph at the right are temporary. Louisiana is gambling that the Superdome will generate enough economic activity of all kinds to offset its enormous construction and operating costs.



Japan Remodels Itself *continued from page 103*

to shift direction," points out one government economist. Whatever the impetus, the change in corporate strategies is gradually reshaping the industrial structure into a new form the government favors.

Instead of the lopsided stress on steel, heavy machinery, and chemicals, there is a steady shift toward new growth areas, including modern retail distribution and technically sophisticated industries like computers and communication. Eventually, businessmen and government officials intend that these "knowledge-intensive industries" will become predominant. And by de-emphasizing the industries that have been most responsible for pollution and high exports, they hope to alleviate Japanese discontent and to lessen international concern about the country's aggressive trading practices. Tanaka maintains that the new Japanese economy will continue to generate high growth; by 1985, he estimates, Japan will have a \$1-trillion gross national product, about the size of the G.N.P. in the U.S. today.

Straining the limits of resources

Japanese leaders could see that the old route to economic growth was fast approaching a dead end. For one thing, the heavy industries, which paced the rapid postwar expansion, have reached capacities far exceeding domestic demand. But because international resistance to Japanese exports has stiffened, companies could not dump so much of their surplus production abroad. For example, the steel industry's capacity of about 120 million metric tons became so excessive that a government-approved cartel last year limited actual output to less than 100 million tons.

Moreover, if Japan did not lessen its emphasis on heavy industry, it could face the prospect of running out of resources. Projecting past trends, Japan would consume a third of the world's trade in basic raw materials and fuel by 1980, and half the world's trade shortly thereafter. Industrial workers, already in tight supply, would become even scarcer. And pollution, already considered hazardous, would go completely out of control. "We're now on a spot where everything has to change," declares a senior official of the Economic Planning Agency.

One revealing sign that a turnabout is well under way is that 60 percent of all corporate capital expenditures is now flowing into nonmanufacturing business. This complete reversal of the past pattern indicates Japan's transition to a mature economy more strongly oriented toward services.

Corporations are turning toward fresh sources of growth with startling speed. In just two years Teijin Ltd., a producer of synthetic textiles and chemicals, has invested \$60 million in oil exploration in Iran and Nigeria, in a company to market American minicomputers in Japan, in a venture with ICI of Britain to make a herbicide, and in other new enterprises. "In such a changing society, a company that sticks too much to existing business will find it difficult to survive," observes Miroru Abe, Teijin's senior executive vice president. A future-development division is studying many promising fields, including construction materials, leisure, and environmental control,

and Teijin is determined that within a decade two-thirds of its income will come from new activities.

Many of the corporations experiencing the most spectacular growth these days are those that have made similar adjustments. When earnings began sagging several years ago, Taiheiyo Coal Mining moved into real-estate development—which proved so profitable that it has become the company's main business. Under its new name, Taiheiyo Kohatsu, the corporation has now branched out into athletic clubs, weekend villas, condominium apartments, golf courses, and psychological testing. Managing Director Rokuro Furadata, who engineered the turnabout, says: "We specialize in developing new life styles for people. It represents the direction of the economy and pays well." Another example of profitable diversification is provided by Kanebo, which formerly specialized in textiles and boosted profits 40 percent last year by putting more reliance on cosmetics, pharmaceuticals, and food products. Kanebo is now broadening its interests into housing and waste disposal to make growth fields outside textiles its main business.

Complete transformation is far tougher for companies in basic capital-intensive industries. But they are adjusting by producing higher grades and a greater range of items within existing lines. Hitachi plans to put less emphasis on heavy electrical equipment, its present mainstay, and more on communication gear and such consumer products as microwave ovens, air conditioners, and other appliances. Mitsubishi Chemical Industries, whose sales growth has tapered off of late, plans to turn its attention away from industrial chemicals and toward those used in medicines and dyestuffs. "We still expect to continue enjoying a high rate of profit," says Chairman Hideo Shinojima. "Instead of making large volumes of cheap chemicals, we'll make smaller amounts of high-value ones." Likewise, steel manufacturers are now emphasizing the more sophisticated specialty steels, and they are pushing sales of steelmaking equipment to affiliates overseas.

Naturally, the champion exporters and the men who dominate heavy industry are reluctant to give up their positions of prowess. Yoshihiro Inayama, president of Nippon Steel, the country's leading manufacturer, grumpily denounces the new strategy. "It's wrong to lump steel with this," he says. "I think our policy makers are going to misdirect the economy." Widespread complaints about pollution are nonetheless making steel producers consider putting more facilities overseas. Nippon already has subsidiaries in six developing countries, and Inayama acknowledges that there's a clear limit to domestic expansion. "In the future," he says, "there will not be more than 150 million metric tons of crude steel produced in this country."

A role for the all-powerful traders

No enterprises are more important in the new scheme of things than the general trading companies, which finance most manufacturers and control the wholesale distribution of goods at home and abroad. The biggest trading firms have annual sales of about \$15 billion and outstanding loans to clients of some \$2 billion. Their close association with government leaders enhances their ability to anticipate the impact of changes

continued page 186

Which of these cities has the highest infant mortality rate?



Boston



New York



Philadelphia



Chicago



St. Louis



San Francisco



Los Angeles

For every 1000 babies born in Chicago, the latest records show, 24.4 die within their first year. Which is the highest infant mortality rate among these cities.

San Francisco is lowest, with 18.4 deaths per thousand live births.

But no matter the location, the nation as a whole has little to be proud of in this regard. In the latest U.N. ranking, 22 countries have lower infant mortality rates than the United States.

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Who need information.

About S.I.D., for example. Sudden Infant Death. KMOX St. Louis told listeners about this mysterious syndrome, the No. 1 killer nationwide of babies under one year old.

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KCBS Newsradio 74, San Francisco
KNX Newsradio 1070, Los Angeles
Represented by CBS Radio Spot Sales

Source: City rankings based on data for Standard Metropolitan Statistical Areas for each of these seven cities, National Center for Health Statistics, Public Health Service, U.S. Department of Health, Education, and Welfare; Country rankings from the Statistical Office of the United Nations; S.I.D. data from National Foundation for Sudden Infant Death.

Japan Remodels Itself *continued from page 103*

to shift direction," points out one government economist. Whatever the impetus, the change in corporate strategies is gradually reshaping the industrial structure into a new form the government favors.

Instead of the lopsided stress on steel, heavy machinery, and chemicals, there is a steady shift toward new growth areas, including modern retail distribution and technically sophisticated industries like computers and communication. Eventually, businessmen and government officials intend that these "knowledge-intensive industries" will become predominant. And by de-emphasizing the industries that have been most responsible for pollution and high exports, they hope to alleviate Japanese discontent and to lessen international concern about the country's aggressive trading practices. Tanaka maintains that the new Japanese economy will continue to generate high growth; by 1985, he estimates, Japan will have a \$1-trillion gross national product, about the size of the G.N.P. in the U.S. today.

Straining the limits of resources

Japanese leaders could see that the old route to economic growth was fast approaching a dead end. For one thing, the heavy industries, which paced the rapid postwar expansion, have reached capacities far exceeding domestic demand. But because international resistance to Japanese exports has stiffened, companies could not dump so much of their surplus production abroad. For example, the steel industry's capacity of about 120 million metric tons became so excessive that a government-approved cartel last year limited actual output to less than 100 million tons.

Moreover, if Japan did not lessen its emphasis on heavy industry, it could face the prospect of running out of resources. Projecting past trends, Japan would consume a third of the world's trade in basic raw materials and fuel by 1980, and half the world's trade shortly thereafter. Industrial workers, already in tight supply, would become even scarcer. And pollution, already considered hazardous, would go completely out of control. "We're now on a spot where everything has to change," declares a senior official of the Economic Planning Agency.

One revealing sign that a turnabout is well under way is that 60 percent of all corporate capital expenditures is now flowing into nonmanufacturing business. This complete reversal of the past pattern indicates Japan's transition to a mature economy more strongly oriented toward services.

Corporations are turning toward fresh sources of growth with startling speed. In just two years Teijin Ltd., a producer of synthetic textiles and chemicals, has invested \$60 million in oil exploration in Iran and Nigeria, in a company to market American minicomputers in Japan, in a venture with ICI of Britain to make a herbicide, and in other new enterprises. "In such a changing society, a company that sticks too much to existing business will find it difficult to survive," observes Miroru Abe, Teijin's senior executive vice president. A future-development division is studying many promising fields, including construction materials, leisure, and environmental control,

and Teijin is determined that within a decade two-thirds of its income will come from new activities.

Many of the corporations experiencing the most spectacular growth these days are those that have made similar adjustments. When earnings began sagging several years ago, Taiheiyo Coal Mining moved into real-estate development—which proved so profitable that it has become the company's main business. Under its new name, Taiheiyo Kohatsu, the corporation has now branched out into athletic clubs, weekend villas, condominium apartments, golf courses, and psychological testing. Managing Director Rokuro Furadata, who engineered the turnabout, says: "We specialize in developing new life styles for people. It represents the direction of the economy and pays well." Another example of profitable diversification is provided by Kanebo, which formerly specialized in textiles and boosted profits 40 percent last year by putting more reliance on cosmetics, pharmaceuticals, and food products. Kanebo is now broadening its interests into housing and waste disposal to make growth fields outside textiles its main business.

Complete transformation is far tougher for companies in basic capital-intensive industries. But they are adjusting by producing higher grades and a greater range of items within existing lines. Hitachi plans to put less emphasis on heavy electrical equipment, its present mainstay, and more on communication gear and such consumer products as microwave ovens, air conditioners, and other appliances. Mitsubishi Chemical Industries, whose sales growth has tapered off of late, plans to turn its attention away from industrial chemicals and toward those used in medicines and dyestuffs. "We still expect to continue enjoying a high rate of profit," says Chairman Hideo Shinojima. "Instead of making large volumes of cheap chemicals, we'll make smaller amounts of high-value ones." Likewise, steel manufacturers are now emphasizing the more sophisticated specialty steels, and they are pushing sales of steelmaking equipment to affiliates overseas.

Naturally, the champion exporters and the men who dominate heavy industry are reluctant to give up their positions of prowess. Yoshihiro Inayama, president of Nippon Steel, the country's leading manufacturer, grumpily denounces the new strategy. "It's wrong to lump steel with this," he says. "I think our policy makers are going to misdirect the economy." Widespread complaints about pollution are nonetheless making steel producers consider putting more facilities overseas. Nippon already has subsidiaries in six developing countries, and Inayama acknowledges that there's a clear limit to domestic expansion. "In the future," he says, "there will not be more than 150 million metric tons of crude steel produced in this country."

A role for the all-powerful traders

No enterprises are more important in the new scheme of things than the general trading companies, which finance most manufacturers and control the wholesale distribution of goods at home and abroad. The biggest trading firms have annual sales of about \$15 billion and outstanding loans to clients of some \$2 billion. Their close association with government leaders enhances their ability to anticipate the impact of changes

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JAPAN AND AMERICA

The Troubled Alliance

D.F. Shaughnessy

March, 1973

In a more logical world, Japan would scarcely exist as a nation. Consider a few facts: the entire country is essentially a chain of rocky islands - four large ones and more than three thousand smaller ones - with a total land area only slightly greater than the State of Montana. Only one fifth of this land - all of which is constantly threatened by earthquakes - is arable but somehow the Japanese manage to sustain a population of more than one hundred million people. The country has no large deposits of iron ore - or any other mineral resources - and must import 99 percent of her total oil requirements. Yet, last year Japan produced more steel than the Soviet Union and by 1980 will have a per capita Gross National Product (GNP) approximately equal to that of the United States.

As late as 1960, the United States had an aid program in Japan to improve industrial productivity and until 1965 Japan was precariously dependent upon the United States for economic support. But, in that year, the chronic trade deficit with the United States changed to a surplus and has been growing ever since.

In 1965, when Japan had a GNP of \$100 billion, that of the United States was approximately \$700 billion, or a ratio of 1 to 7. By 1970, the Japanese GNP had doubled to \$200 billion while the United States GNP increased to \$975 billion, or a ratio of less than 1 to 5. By 1975, the Japanese GNP will double again and at that time the United States GNP will be

about \$1,400 billion, or a ratio of 1 to 3.5. At these rates of growth - which are unlikely to continue - Japan's GNP would equal that of the United States before the year 2000.

Only a small portion of this growth is accounted for by Japan's burgeoning export trade. First and foremost, Japan is a rich and large internal market. In fact, Japan exports a smaller percentage of its GNP - not much more than 10 percent - than do most Western European nations.

Japan's economic growth rates during the 1970's will be less than those she enjoyed throughout the 1960's - about 12 percent annually - but the impact of her economic output on the outside world will be felt even more strongly in 1980 than at present. By then, her total overseas investment - which was \$2.6 billion in 1970 - will be more than \$25 billion.

Government officials, economists and journalists have labored long and hard to explain this 'economic miracle' and have come to a variety of conclusions. Some see the Japanese as ruthless 'economic animals' out to do with the yen in the 1970's what they failed to do with the bayonet in the 1940's. Others perceive a 'conspiracy' of Japanese industrialists, bankers and government officials in relentless pursuit of the world market. They charge the Japanese with 'unfair competition' and allege that the Japanese government subsidizes exports by making outright cash payments allowing industry to 'dump' their products on the world market.

This latter explanation - part of the 'Japan, Inc.' theory - is rejected by Professor Henry Rosovsky of Harvard. "I emphatically reject as simplistic and erroneous a Japan, Incorporated,

interpretation of the Japanese economic system whereby the government is seen as the initiator, leader and long-range planner, giving the marching orders to Japanese big business to implement."

James Sterba, the South East Asian correspondent for The New York Times, has watched the Japanese become the economic arbiters of that region. "They are in Asia, in Europe and in America," he wrote, "to do business. And what is so exasperating, so difficult for Asians, Europeans and Americans to accept is that after all the arguments, both legitimate and illegitimate, are peeled away, what Japan does, essentially, is not just good business but better business."

There is no doubt that the Japanese government does aggressively promote exports and made a high rate of economic growth its principal policy objective throughout the 1960's. But most of the measures used by Japan - subsidies, incentives, insurance schemes and others - are also used by other countries to encourage exports. The Japanese only do it better and more often than other governments.

Thanks to the United States 'nuclear umbrella' the Japanese were able, during the 1960's, to keep their defense expenditures to less than 1 percent of the GNP - compared to 8 percent of the GNP for the United States - and imported most of their technology which allowed them to keep their research and development costs down.

But the key to the so-called 'economic miracle' was the abundant, skilled, disciplined and educated labor force and the 'unique relation' of the Japanese employee to his company.

Through the radio, television and the national press, the Japanese government developed a widespread consensus among workers about the pre-eminent importance of economic growth and the importance of producing for a world market. And in every year throughout the 1960's, productivity increased at a faster rate than wage levels. Work stoppages were almost unknown and most workers put in a six day - now down to five and a half - week. On top of this, Japan has one of the highest literacy rates in the world - almost 98 percent - and the average Japanese consumes more newsprint, in the form of newspapers, magazines and books, than the average American each year.

However, none of this might have added up to anything if the 'unique relation' of the employee to his company didn't exist in Japan. The Japanese employee 'belongs' to his company and his company provides him with an identity and social status. There is a shared community of interests between the employee and the company and it is considered 'natural' for the employee to be 'loyal' to the company to which he 'belongs.' Moreover, this loyalty transcends job classifications, occupational categories and even professions. For example, a lawyer who works for Seiko will identify himself, first, as an employee of Seiko and then, perhaps, describe the work he does. In other words, the commitment is to the company rather than to a line of work or a profession. And since neither the company nor the worker is wedded to an occupational speciality, there are no incentives to resist the introduction of labor saving devices. That is to say, technological change proceeds smoothly without the

'luddite' interruptions characteristic of American industry.

On the other hand, the man or woman who works for Mitsui, Datsun, Seiko, Nissan, Mitsubishi, Sony, Panasonic and other larger firms, is assured of stable employment, steady promotion, relatively high wages and the prestige that comes from identification with a 'big enterprise' that is making an important contribution to the national economy.

There is yet another unquantifiable factor that looms large in any explanation of the 'economic miracle.' Japan is dominated by its capital, Tokyo, to a degree unknown in many other countries. Tokyo is not merely the political, financial and commercial hub of the country but it is also the communications center, the educational and cultural focus and the manufacturing heart of Japan. In fact, the narrow strip of land between the ocean and the mountains that runs from Tokyo to Osaka - about 1 percent of the total land area - accounts for more than 40 percent of Japan's total industrial output.

Tokyo represents, in other words, an overwhelming concentration of the movers and shakers of Japanese society. The leaders of government, business, banking, industry and communications can and do meet easily and informally at clubs, associations, restaurants and geisha houses where they exchange information and ideas and reach agreements.

This tight association of decision-makers - and the 'old boy' network that operates throughout the upper reaches of Japanese society - undoubtedly adds momentum to the 'economic miracle.' But, so far, it has not appeared as a factor in calculating the GNP.

Despite their economic success - or perhaps, because of it - the Japanese seem unready or unwilling to accept a leading position in the world's economy. According to recent polls, a growing number of them feel increasingly isolated, disillusioned with the West and its way of life and are beginning to experience a resurgence of nationalism.

Many Japanese still tend to see their country as overpopulated, insular and poor. To be sure, there is a certain amount of evidence to support this view. As they look around the cities, the Japanese see a severe shortage of housing, an antiquated educational plant, traffic-jammed highways and roads and a completely inadequate water and sewage system. To date, Japan's wealth has been invested in factories, plants, office buildings, machines tools, aircraft and ships rather than in public amenities.

Moreover, when the leaders of present day Japan were growing up, the country was, in fact, relatively poor. Then came the devastation of World War II, when more than two-thirds of Tokyo lay under ashes and two of the country's larger cities - Hiroshima and Magasaki - were completely obliterated. These impressions remain and affect today's values even though the reality may be very different.

"As many Japanese have been raised in the atmosphere of Japan's past backwardness," noted Ambassador Nobuhiko Ushiba, "they tend to underestimate their actual strength. In other words, our attitudes do not always keep pace with reality."

The reality is that even though Japan is now the third largest industrial power in the world, the Japanese people seem incapable of adjusting to their role as a 'have' nation.

"Many of my countrymen," explained Ambassador Ushiba, "are not yet free from what I call a 'late comer' mentality. Ever since the Meiji Restoration, the concern of the people has been centered upon catching up with Western civilization. The abnormal preoccupation of the Japanese people with GNP illustrates this. In Japan, even small shop keepers and taxi drivers know what GNP means and how high Japan stands now in the world ranking."

And just under the surface of this concern with economic success is the instinctive feeling that no matter what heights they may reach, Japan will never be accepted as a full and equal partner by the Western industrial countries, including the United States.

For years, former Prime Minister Eisaku Sato assured the Japanese people of the close and friendly ties that existed between Washington and Tokyo and of his deep, personal relationship with President Nixon. The Japanese people almost came to believe that they had, at last, found an ally who would give them the respect and recognition they value so highly.

But the events of 1971 soured this hope. Prime Minister Sato learned about President Nixon's New Economic Policy from the newspapers and heard the first reports of the President's planned visit to Peking over the radio. And then, at the request of the United States, Japan supported the 'two China' resolution in the United Nations only to learn - on the day the votes were counted - that Dr. Kissinger was in Peking 'renegotiating' the American position on Taiwan.

Would the United States treat one of their racial cousins - such as Great Britain, Germany or France - in such an off-handed

fashion, the Japanese ask. The events of 1971 revived memories of the Japanese bid for a statement of racial equality at Versailles - which was turned down by the Americans - and the prejudicial terms of the United States Exclusion Act of 1924.

Of course, in some important ways the Japanese are 'different.' To a degree almost unknown in the West, the Japanese are an unusually homogeneous people with no significant minority groups. They are a remarkably insular people, relatively isolated from foreigners throughout most of their history and possess a sense of national identification unmatched by any other country.

However, they are also the third greatest industrial power in the world - on their way to becoming the second - and both the Japanese and the Western nations have, so far, failed to adjust to this fact. Former U.S. Ambassador to Japan, Edwin Reischauer, put the question this way: "How can this extraordinary nation, with its own special institutions, practices, economic structure and ways of thinking be accommodated in a world trading and monetary system that was devised primarily in response to Western institutions, structure and habits of thought? That is the problem for the United States and the whole industrialized trading world."

And for Japan, too.

Currently, the Japanese seem to be engaged in an experiment in international relations which, if they pursue it successfully, could alter the relations between nation-states. Essentially, what they have done is reject the theory that military strength is the natural consequence of economic power.

Dr. Saburo Okita, president of the Japan Economic Research

Center, calls that theory "outmoded." "Chou En-lai and others," wrote Dr. Okita, "claim that Japan is bound to build up military strength to protect its overseas investment. From the Japanese point of view, such possibilities are most unrealistic since in the modern world military strength cannot effectively protect overseas private assets We are living in a century when such military action is no longer viable."

But, obviously, military strength has other purposes and serves other needs than protecting overseas assets. Can Japan strike a credible international posture with a Self-Defense Force of less than 300,000 men? Can they really expect to speak on equal terms with China and Russia?

The answer is they are trying and, so far, have succeeded rather well. Of course, the United States is standing by holding a 'nuclear umbrella' over Japan. But that appears to be part of the experiment which, if allowed to go forward, could result in a Pacific basin defense system very unlike that which has been developed in Western Europe.

Unfortunately, the resurgent tides of nationalism in both the United States and Japan are likely to swamp the experiment before it goes much further and the present movement appears to be a drifting back to independent, nation-state defense capabilities.

Should the Japanese decide to develop their own defense capability, it will not be an easy decision for them to make. Though they are extremely restless at the continued presence of American bases on Japanese soil, they are also a strongly

pacifistic people with a genuine abhorrence of militarism. A decision to build a full-scale military force would encounter formidable domestic resistance. For example, the decision taken last year to double the existing Self-Defense Force over the next five years - at a cost of \$15 billion - was announced in sparse, almost bookkeeping terms, as basically a maintenance and upgrading effort. "It is still necessary for the future peace and security of Japan," explained Prime Minister Kakuei Tanaka, "to keep in good order its minimum capabilities of self-defense while firmly upholding the mutual security system with the United States. This is the reason why the Government adopted the Fourth Defense Buildup Program."

Meanwhile, for the past two years, the United States government has been nudging the Japanese toward rearmament but always pulling back when the pace of the rearmament movement threatened to gain a momentum of its own. If the Japanese find America's position ambiguous, it is only because Washington seems to be unclear about its own goals. We seem to be asking the Japanese to assume a greater security role in Asia without defining limits, proposing options or declaring our own objectives in the area. "I would hope," said former Secretary of Defense Laird, in August, 1972, "that we would continue the nuclear shield responsibility but I would hope that they would take over some of the other responsibilities which they have not done in the past few years."

What are these "other responsibilities?" Clearly, they now include for Japan the defense of Okinawa. But do they also

include a share in the defense of South Korea? And does this mean that Japan is to fill a part of the security gap that the United States withdrawal is creating in South East Asia?

'Japanization' of Asian security does not appeal either to the majority of the Japanese public or to most Asians. Yet, the United States has created the impression that the major objective of the Nixon Doctrine is to obtain a larger military involvement of Japan in Asian security.

Some Japanese believe that the United States has other motives in urging at least partial rearmament. Any rearmament program, they insist, will be undertaken with United States manufactured planes, tanks, warships and other weapons as part of an overall American effort to correct the balance of payments deficit. And Defense Department officials agree that this would be the most sensible way of shifting some of the economic burden for the 'nuclear shield' which the United States is providing Japan.

Undoubtedly, our balance of payments problem is one reason why we want the Japanese to assume those "other responsibilities." "Americans complain," writes James Sterba, "because Japan doesn't play by American rules, one of which is you must spend your national fortune each year on more and better bullets, bombs and missiles Japan, they argue, has a moral obligation to sap its economic vitality on defense spending and defense sharing. The very least Japan could do is buy a couple of billion dollars worth a year of American weapons to help balance trade."

If this is true - and it probably is - then we really do misread the Japanese. If we actually believe that Japan can be

led to paying out larger amounts for armaments without deciding to build her own arms industry - for which her industrial base is ideally designed - then we are engaged in a kind of political infantilism.

A few years ago, it could be stated confidently that the United States did not want a nuclear Japan. But now, not even on this critical issue, is our position clear. Since we stopped urging the Japanese to sign the nuclear non-proliferation treaty, we seemed to have adopted a nuclear neutrality policy, neither encouraging nor discouraging a Japanese decision to develop nuclear weapons. Should Japan take our silence to imply acquiescence, she could develop a respectable nuclear missile capability in less than three years.

If Japan does go down the nuclear road, it will be a political disaster of the first order. Not only would it destroy the feeble attempts presently underway to develop a Pacific basin defense system but it would also destabilize the whole of Asia. In the interview with Premier Chou En-lai, James Reston of The New York Times discovered an obsessive concern on the part of the Chinese with a remilitarized Japan. A nuclear-armed Japan would drive China even further and deeper into the arms of the militarists, now seemingly subordinate, and the lights of Moscow's defense ministry would burn all night. There is nothing more important for the peace of the whole Pacific area - and of the world, perhaps - than that the United States do everything to discourage Japan from joining the 'nuclear club.'

This means, among other things, that the United States must maintain a sufficient military presence in the Pacific

not merely to deter potential enemies but also to give the Japanese the security they need so they can resist the pressures to build up their own establishment.

According to former Ambassador Reischauer, the latter will require "a restructuring of the American-Japanese defense partnership in such a way as to give the Japanese a sense of military security, even though they lack a major military power of their own and, at the same time, a sense of full equality with the United States and of independence in foreign policy."

If the United States is to discourage Japan from 'going nuclear,' it also means that America must be prepared to carry the larger share of the burden for the Pacific basin defense costs. However, Japan can equalize this defense burden by providing funds for a vastly expanded program of economic aid for the countries of South and East Asia to be channeled through the Asian Development Bank and the World Bank.

In addition, Japan should be invited to join the United Nation's Security Council and to take a seat alongside Great Britain, France, China, the Soviet Union and the United States. Japan's admission would destroy the image that nuclear weapons serve as a ticket of admission to the Security Council and it would involve Japan further in international peacekeeping activities. It is only our own parochialism that forces us to think of Japan as an Asian power when, in fact, few countries have a greater interest in maintaining peace and political stability in the Middle East, where most of Japan's oil comes from, as well as in other parts of the world. And finally, it would quash the theory, now widespread among the Japanese

political elite, that there is a concerted effort among Western nations to exclude Japan from the councils of the world powers. "If Japan is going to be isolated," recently warned a senior member of the Japanese Diet, "that is not good for peace, for economics or the politics of the world."

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Last year, China and the United States, after exchanging threats and insults - and on occasion, gunfire - for more than twenty years, decided to recognize each other's existence. Today, the American people, from Montauk to Monterey, are riding high on a wave of Sinophilia. China 'experts' have been brought back from oblivion, mao-tai is replacing scotch, acupuncture is 'in' and journalists vie with each other for an invitation to Peking.

In almost all matters regarding China, the American people have subordinated judgment to enthusiasm and in Washington there is increasing partisanship for all things Chinese and contempt and intolerance for those who disagree with this new found policy.

Unfortunately, for these China enthusiasts, China is not likely to play the dominant role in Asia to which they've already assigned it. There is only one large industrial power in the Far East and that is Japan. By comparison, China is an industrial pygmy even though it is twenty-six times larger than Japan and has an eight to one advantage in population.

But China is also an inward-looking, agricultural country with a per capita GNP only slightly in excess of \$100 while Japan is an industrialized, technologically-advanced society

with a per capita GNP of more than \$1,500.

Moreover, China has one of the slower rates of economic growth among low-income countries while Japan's growth rate leads all other industrialized nations. In other words, today's yawning economic gap between China and Japan will be broader tomorrow and widening for a long time to come.

Nevertheless, a struggle between China and Japan for hegemony in South and East Asia is already shaping up. The contest offers the people - from Pakistan to the Philippines - two distinctively different models of economic growth.

"A very important issue for the South and East Asian countries in choosing their course of development," wrote Dr. Okita, "is whether to depend on an inward-looking policy which emphasizes the distribution of income and employment or an outward-looking course which takes advantage of the international division of labor and achieves a larger export trade and a higher rate of growth, accompanied by a somewhat inequitable distribution of income They will be placed under two different types of external influence, one from Japan and mostly economic, the other from China and mainly political."

An equally basic difference, as Professor Chalmers Johnson, chairman of the Center for Chinese Studies, University of California, recently noted is the fact that China and Japan represent almost diametrically opposite responses to Western ideas and values. "Japan adopted the reformist strategy," he wrote, "grafting Western institutions onto her essentially feudal social structure, changing in subtle ways but, at the same time,

maintaining a distinctive national identity and continuity with the past. China rejected reform, since it seemed to imply an unacceptable accommodation of Confucian culture with barbarian (uncivilized) mores, and was ultimately forced by implacable imperialist pressure to revolution - a revolution in which the traditional culture was to be totally dismantled and replaced with a new culture that could prevent the incessant foreign 'humiliations' and restore a sense of national dignity."

In the language of the systems analyst, Japan - the most reformist nation in modern history - and China - the most revolutionary - offer to the countries of South and East Asia an approximate measure of the costs and benefits of alternative paths toward development.

In this contest for influence, Tokyo unquestionably has an industrial head start but Peking has more than twenty million Chinese emigrants scattered - mostly in strategic urban areas - from Bombay to Manila.

Since 1965, Japanese investments and export credits to South and East Asia have been steadily climbing and today, according to James Sterba, Japan is the "economic arbiter" of the region. "Japan does more business, gives more aid, sends more tourists and even plays more golf in the region than any other country," he wrote. "Her steel builds virtually all the buildings, her cars and motorcycles dominate the roads, her ships fill the ports, her radios bring the news and her advertising keeps both the region's press afloat and its cities lit up at night."

In 1969, Japan not only replaced the United States as

Asia's largest trading partner but also moved ahead of the United States as the largest donor of economic aid for the region.

But the countries of South and East Asia are not rolling out any red carpets for the Japanese. In fact, in Thailand, Indonesia, Singapore and the Philippines, there have been 'student-led' demonstrations against the Japanese economic 'over-presence.' And some Japanese businessmen have confirmed the Asian's image of all Japanese as arrogant, overbearing and ruthless. To counter this trend toward the 'ugly Japanese' concept, the government in Tokyo recently established the Japan Foundation which provides grants and scholarships for extended tours and periods of study in Japan.

To the Chinese, supremely confident of the superiority of their own culture, Japan's growing economic power is not merely a threat but also an insult. The Japanese 'annexation' of Taiwan, the Twenty One Demands, the seizure of Manchuria and the Sino-Japanese War are all events that took place within the lifetimes of Mao Tse-tung and Chou En-lai. This recent history is good enough reason for the Chinese to regard the Japanese with suspicion and to believe that Japan's economic power is an inevitable precursor of another round of militarism and imperialism.

Since the 'normalization' of diplomatic relations between China and Japan last year, neither country has appointed an ambassador and trade negotiations have only inched forward.⁺ On balance, China needs Japan's wide range of sophisticated industrial products more than Japan needs Chinese textiles,

⁺ See Note, pg. 28

agricultural produce and raw materials. Though Japan supplies about one-quarter of China's total imports, China accounts for less than one percent of Japan's.

Partly for this reason, the Japanese have a hard time viewing the Chinese as a serious economic challenge. "It is perhaps not too far fetched," observed Professor Johnson, "to describe the Japanese attitude toward their continental neighbor as somewhat comparable to the English or German industrialist's attitude toward an Italian or Spanish aristocrat recently gone into commerce. He admires and is slightly intimidated by the ancient cultural achievements to which his modern counterpart is heir, but he finds it almost impossible in the company board room to suggest seriously that the new boy might become a competitor or a threat."

Initially, China demanded as the price for 'normalization' of diplomatic relations with Japan that she cut her economic ties with Taiwan and South Korea, that she end her alliance with the United States, renegotiate a new peace treaty with China and adhere strictly to the disarmament provisions of the present Japanese constitution. These demands were later modified.

"My decision to normalize our relations with China," Prime Minister Tanaka told the Japanese Diet, "was made only after careful consideration of the changes in the international situation and of the unfortunate relations which had existed between Japan and China during the past half century."

President Nixon's visit to Peking preceded Prime Minister Tanaka's announcement by six months and one of the "changes" the

Prime Minister might have had in mind was the sound of Chou En-lai and Richard Nixon clinking champagne glasses.

Undoubtedly, the major reason for China's decision to establish 'friendly' relations with the United States was to deter the chance of a Soviet 'preventive' attack. But almost equally important - from Peking's perspective - was the hope that she might drive a wedge in the Japanese-American alliance.

This alliance is not at all to China's liking since it appears that Japan is increasingly capable of filling the vacuum in South and East Asia being created by the United States withdrawal. China would prefer a Japan, whom she knows she will someday have to confront in Asia, detached from the United States and more amenable to Peking's balance of power maneuvers. And possibly even as an ally.

The latter is a remote possibility but, according to George Ball, former American Under Secretary of State, the pressures on the Japanese to follow "an independent course of action toward China have now become irresistible because the insensitive handling of the President's China trip has impaired, if not destroyed" the Japanese-American alliance.

If Japan does turn toward China, what are the consequences for the United States of a combination of Japanese technology and Chinese manpower?

In the current political enthusiasm for China and all things Chinese, the Americans are betting a heavy wad of international chips on a country with a very uncertain future. As John Paton Davies, a recognized China 'expert' and former member of the

leading toward economic regionalism, growing political rivalries and possibly, in the long run, catastrophe for everyone."

Since that time, there has been - with only a few exceptions - a steady and extensive deterioration of Japanese-American relations and the impact has been felt across the full range of economic, political, cultural and security matters affecting both countries.

In February, 1973, Richard Halloran of The New York Times, reported from Tokyo that "United States-Japanese relations are at their lowest ebb since 1960 when riots forced Tokyo to cancel a visit by President Eisenhower."

America's persistent unfavorable balance of trade with Japan - which last year amounted to nearly \$3 billion - is only one of the differences between the two countries.

For too long, the United States has been Japan's 'guardian' and has developed the habit of assuming Japan's compliance and acquiescence on all matters of mutual interest. 'The Japanese have no where else to go' - seems to sum up the American attitude. And many politically articulate Japanese resent this more than any other burr in the relationship.

Japan's Foreign Minister Masayoshi Ohira spoke directly to this point when he announced last year "a new era" in Japanese-American affairs. "The guardian-protege relationship of the past," he said, "is, at long last, evolving into a mature partnership It is the prerequisite for a mature partnership that each partner can communicate his ideas fully to the other. Neither partner should see the other through glasses tainted

with pre-conceived ideas, emotionalism or a desire to be pandered. Constant efforts are required to understand accurately with what problems the other is faced."

And this implies, as Richard Halloran pointed out, a sound knowledge of the other government's objective, the way it operates and the personalities in charge. "In the case of America and Japan," he recently concluded, "each government is woefully ignorant of the other."

The Japanese-American alliance is in deep trouble today and there is a sufficient amount of ignorance, fear and suspicion for both sides to share equally in the blame.

The American attitude is a mixture of awe at Japan's economic achievements, resentment at her alleged protectionist policies and fear of future Japanese-American economic prospects.

As long as the Japanese competed effectively only in the wristwatch and radio markets, Americans didn't seem disturbed. But when the Japanese began to undersell us on the world market in 'our' products - such as steel and automobiles - then we became truly angered. Many Americans reacted as though the laws of the Medes and the Persians had been amended to declare that all steel and automotive products shall come forth for all time from Pittsburgh and Detroit. And that the Japanese 'economic animals' had violated this basic precept.

This mixture of resentment, anger and fear might explain why, according to Richard Halloran, "the Nixon Administration appears to have been insensitive to the Japanese with its political tactic of 'massive retaliation.' From the President

on down, the Administration has ignored the importance that the Japanese attach to personal relations, to prestige and 'face' and to resolving issues slowly and by compromise and without surprise."

Japan is still considered by most Americans the most protectionist of nations although its tariffs are not significantly higher than those of other major developed countries. More to the point is the probability that if the Japanese removed all import restrictions tomorrow, many American products would still not make a significant dent in the Japanese market. Does anyone seriously believe that American automobile manufacturers could compete effectively with Detroit's products in the Japanese market? Price, quality and design would be more effective barriers than any government import restrictions. Could Pittsburgh steel undersell Yokohama steel in Japan? Could General Electric, Zenith or Westinghouse turn out a higher quality and less expensive television set than Sony, Panasonic or National?

But the charge of 'protectionism' is not without merit. To be sure, Japan consistently pursued over a period of years a basic policy of discouraging imports which would directly compete with her domestic production but, since the fall of 1969, the pace at which these restrictions have been removed has been, by Japanese standards, quite remarkable.

Almost every American businessman who attempts to penetrate the Japanese market, returns home with elaborate tales of 'different' customs and practices, complaints against 'the Japanese way of doing business' and the ambivalent rules of the 'administrative guidance' procedures.

Japan does have 'different' customs and practices, there is a uniquely 'Japanese way of doing business' and the rules of the 'administrative guidance' procedures are not like similar rules in France, Germany or the United Kingdom.

But enough American traders and investors learned these different rules, customs, practices and ways of doing business - and a few even overcame the language barrier - to account for the more than \$750 million invested by more than 300 American companies in manufacturing and service facilities in Japan.

Meanwhile, Japanese complaints about American trade practices and policies go unnoticed in the United States. These include import surcharges, various 'buy American' State laws and the 'voluntary' restraints which Japan imposes on its exports to the United States.

What most irks the Japanese is that the United States has demanded 'voluntary' restrictions of Japan not even requested of other industrialized nations. Japan is currently exercising 'voluntary' restraints on more than 70 export items and, needless to say, these controls are hardly 'voluntary.'

Nevertheless, the question is repeatedly asked at American trade association meetings: "Why should America open its market with substantial freedom to the products of Japanese industry if Japan keeps its great market substantially closed to the products of American industry?"

Inevitably, there will be areas of friction and misunderstandings between any two nations whose total trade volume is in excess of \$12 billion, as it is in the case of Japan and the United States. This amount - expected to grow rapidly - is not

unusually high given the GNP of both countries.

For Japan, the United States is her biggest trading partner and Japan is the largest customer in the world for American agricultural products. More than 30 percent of all Japanese exports find their way into the American market. In 1960, Japan accounted for 7 percent of the total United States imports. Ten years later, this had increased to 15.5 percent.

Japanese exports to the United States rose dramatically between 1965 and 1970, the period of our most severe inflation and it was during this period that the American trade deficit with Japan climbed most sharply.

Prior to 1965, when Japan had the trade deficit with the United States, the American government repeatedly told the Japanese that trade should aim at a multilateral balance. In other words, Japan should make up her deficit in the American trade with a surplus in other areas. But now that the position is reversed, the United States is concerned only with establishing a bilateral balance in trade with Japan.

Though United States imports from Japan are only slightly more than 1 percent of the American GNP, the impact has been widespread. These imports consist of highly visible items - automobiles, television sets, transistor radios and other consumer appliances - whereas Japanese imports from the United States - which account for more than 5 percent of the Japanese GNP - consist of less visible items such as agricultural products, raw materials and highly technological equipment. Moreover, few of the American exports are competitive with Japanese sources

of supply while virtually everything Japan sells the United States is in direct competition with American industry.

Alleged inequities in the Japanese-American trade patterns are only one source of economic discontent between the two countries. Another is the restrictions Japan imposes on the entry of foreign private capital.

Most countries, including the United States, impose limitations on the inflow of private foreign capital. But Japan, alone among the advanced countries of the world, maintains an extensive network of controls that makes other than minority participation by foreigners in most Japanese firms virtually impossible.

To be sure, the unique financial structure of Japanese industry makes such controls almost mandatory if the government is to exercise any control over the economy.

In the Japanese corporate sector, debt/equity ratios of 80:20 are typical while the reverse ratio is more characteristic of corporations in America. Japan fears - not without some evidence - that the high debt/equity ratios of Japanese industrial enterprises makes them vulnerable to takeover by heavily capitalized American firms.

But along with a relaxation of trade restrictions, Japan has also pursued a course of liberalizing its investment policy during the past three years.

Nevertheless, there is need for greater reciprocity by Japan. The Japanese do not yet appear to fully understand that the best way to safeguard their access to the American market is by moderating and diversifying their export policy and

adjusting their trade and investment policies to provide reasonable reciprocity to American business in the Japanese home market.

Although some problems are likely to arise in the future, there is no reason to discourage further expansion of economic relations between Japan and the United States. The interest of the two economies is complementary and increasingly interdependent. Instead, we should welcome Japan's growing relative strength and be prepared for the alliance to evolve in response to changing circumstances.

Unfortunately, preoccupation with Japan as an industrial competitor has led us to neglect her political significance. American national interests requires a politically stable and economically sound Japan as a pillar in our Asian policy. For without Japan's vital cooperation no American policy for the peace and prosperity of the Pacific will succeed.

For example, to the extent that the United States withdraws its presence from South and East Asia, hopefully it will be Japan - rather than China or the Soviet Union - that will occupy the vacuum. And Japan has indicated that she is willing to make available economic resources to her neighboring countries thus enabling these countries to shoulder more of their own defense support and thereby conform with the Nixon Doctrine.

The time is past for putting trade and investment between the United States and Japan on an equal basis and for removing other sources of friction. The United States can no longer take Japan for granted nor can Japan any longer expect America to behave like an indulgent uncle. And both nations have much work to do together to repair the erosion of the trust and confidence

that has worn the Japanese-American alliance dangerously thin during the last few years.

+ On 27 March 1973, Ambassador Chen Chu of China arrived in Tokyo and the Japanese Ambassador, Heishiro Ogawa, occupied his residence in Peking shortly after.