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CASE STUDY

JAPAN'S CURRENT DEBATE OVER INVESTMENT POLICY IN THE 70'S

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THIRTEENTH SESSION SENIOR SEMINAR IN FOREIGN POLICY Washington, D. C. 1970 - 1971

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THE SENIOR SEMINAR IN FOREIGN POLICY

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JAPAN'S CURRENT DEBATE OVER
INVESTMENT POLICY IN THE 70'S

A Case Study

by

James O. Howard
Department of Agriculture

April 1971

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SUMMARY

Japan's rapid economic growth in the 1960's involved a great concentration on industry, particularly heavy industry, with less attention paid to consumer goods, public services, and environmental protection. Consumer resentment of these priorities is growing.

This paper reports on the expected growth pattern of the Japanese economy in the 1970's. It finds that growth will be vigorous but not quite as rapid as in recent years. Gross National Product is expected to double within seven years.

There will be a modest increase in emphasis on consumer interests, particularly housing, and on those public services such as highways, railroads and ports which are important to economic growth.

Pollution is the subject of much rhetoric and of growing grass roots pressure. Considerable activity has begun and much more is planned. But a consensus has not yet developed as to how fast Japan should move to deal with her formidable pollution problem.

New industries which are likely to move ahead in the 70's include prefabricated housing, computers, aircraft, atomic energy, synthetic chemistry, high-quality clothing, high-quality furniture, and information-based businesses.

To obtain the raw materials needed for this industrial growth, Japan will rapidly accelerate its overseas investment of capital and of management.

The probable result of this industrial activity is that by the end of this decade the average Japanese will be better off than the average American is now, and Japan's GNP will be on the verge of passing Russia's.

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I. Introduction: Japan's Economy at the Beginning of the 70's

A. The Economic Miracle

In 1961 President Kennedy pledged that by the end of the decade the United States would have landed a man on the moon. A year earlier Prime Minister Hayato Ikeda asserted that by 1970 Japan's Gross National Product would have doubled.

Both predictions were greeted with considerable scepticism. Both came true. The Americans put not one but two men on the moon. The Japanese, having doubled their GNP, went on to triple it.

When Prime Minister Ikeda made his prediction, he had in hand the plans of his government's Economic Planning Agency which laid out how this growth could occur. The plan depended on the very high rate of savings, the excellent work habits, the high level of education, and the outstanding planning and business organization which characterized the Japanese society.

This growth moved Japan from the status of a small nation to that of a middle-sized one, with the second largest GNP in the free world. It had passed West Germany, France, the U.K. and Italy. Only the U.S. and U.S.S.R. had larger GNPs.

On a per capita basis, Japan was still well down the scale, in twentieth place, ahead of Italy but behind Israel and Australia. Yet compared to the beginning of the decade the Japanese consumer's lot had improved substantially and his per capita income was over \$1400 at 1965 prices.

B. The Price Paid

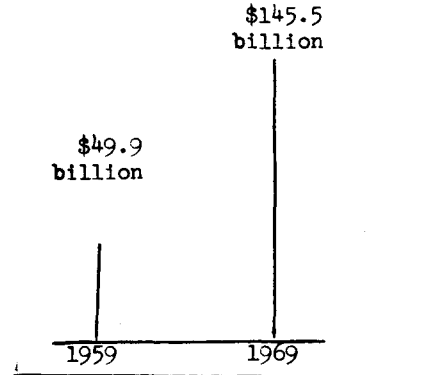
Japan paid, and is still paying, a price for this growth.

Consumers put off expenditures. The capital expenditures which fueled the growth in the Japanese economy came from the savings of the Japanese people rather than from retained corporate earnings. The Japanese people maintained a very high rate of savings for several reasons. First, it was an habitual Japanese pattern. Second, they saved for the things that motivate consumer savings everywhere - to provide for their old age, to educate their children, to buy homes. Finally, they saved because it was only from savings that certain consumer purchases could be made, since consumer credit, unlike commercial credit, is poorly developed.

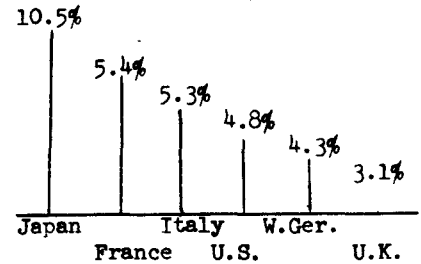
The Japanese generally did not consider this to be a particular sacrifice. They were used to saving a large portion of their income, and their standard of living was increasing, although not as quickly as their income. While GNP tripled during the decade, average household expenditures did not quite double.

Housing remained scarce, and this hurts. Japanese living quarters are small and expensive. Fifty-five percent of Tokyo's population live in one room apartments. Although Japan built new residences at an average rate of 550,000 per year from World War II through 1965 and has built at a somewhat faster rate since then, this has been far short of the need. When one recalls that in some urban areas as much as 90 percent of the residential units were destroyed during the war, and couples that with the population growth and rising incomes, since, the size of the housing demand begins to become apparent

JAPAN'S G.N.P.
At 1965 prices



AV. ANNUAL GROWTH RATE
OF G.N.P. 1961-68
at constant prices



U.S. - p. 11

As Japanese consumers bid against each other for available housing, rents and purchase prices have risen rapidly. Land prices in the Tokyo area are said to be increasing at the rate of twenty-five percent a year. Public service facilities have also suffered from a low priority.

Sewage disposal, for example, remains a major problem. In most urban areas sewage is still collected each morning by honey wagons going from house to house, and is then hauled to disposal sites. In 1970 sewage facilities covered only 22.8% of Japan's urban area and 34.7% of her urban population.

Transportation is another neglected area. Automobiles increased from about a half million in 1960 to seven million in 1969. By 1975 they are expected to reach seventeen million. Tokyo already has some of the worst traffic jams in the world.

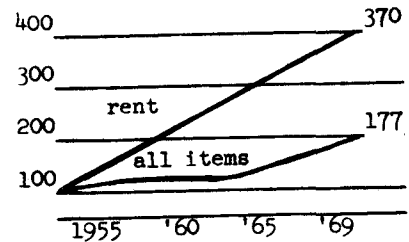
Outside the cities, roads are generally narrow and unpaved. Although Japan boasts one railroad which is among the world's best, railroad service to most areas of the country is inadequate.

Pollution of the environment is one of the most obvious prices which Japan has paid. Tokyo Bay is said to be one of the most polluted waterways in the world. Until recently most factories paid little attention to pollution. One industrial town has estimated that its factories pour out enough soot and other airborne waste each day to fill one hundred and forty garbage trucks. Tokyo has calculated that the Sumida River, which runs through the city, carries a daily load of 1.3 million tons of waste products and filth thrown in by factories and by the city and its inhabitants.

Japanese consumers stoically accepted this neglect until recently. But as the decade drew to a close they were beginning to complain - not just at the pollution and the growing cases of poisoning from industrial waste, but also at the priorities which give major attention to industrial expansion at the expense of the consumer. Consumer organizations are now growing rapidly, and student protest has been vociferous. Newspapers have added full time reporters who cover pollution news with all the enthusiasm of sports reporters. Ralph Nadar was recently brought to Japan under the joint sponsorship of one of these newspapers and one of the consumer organizations. His visit was a major news event.

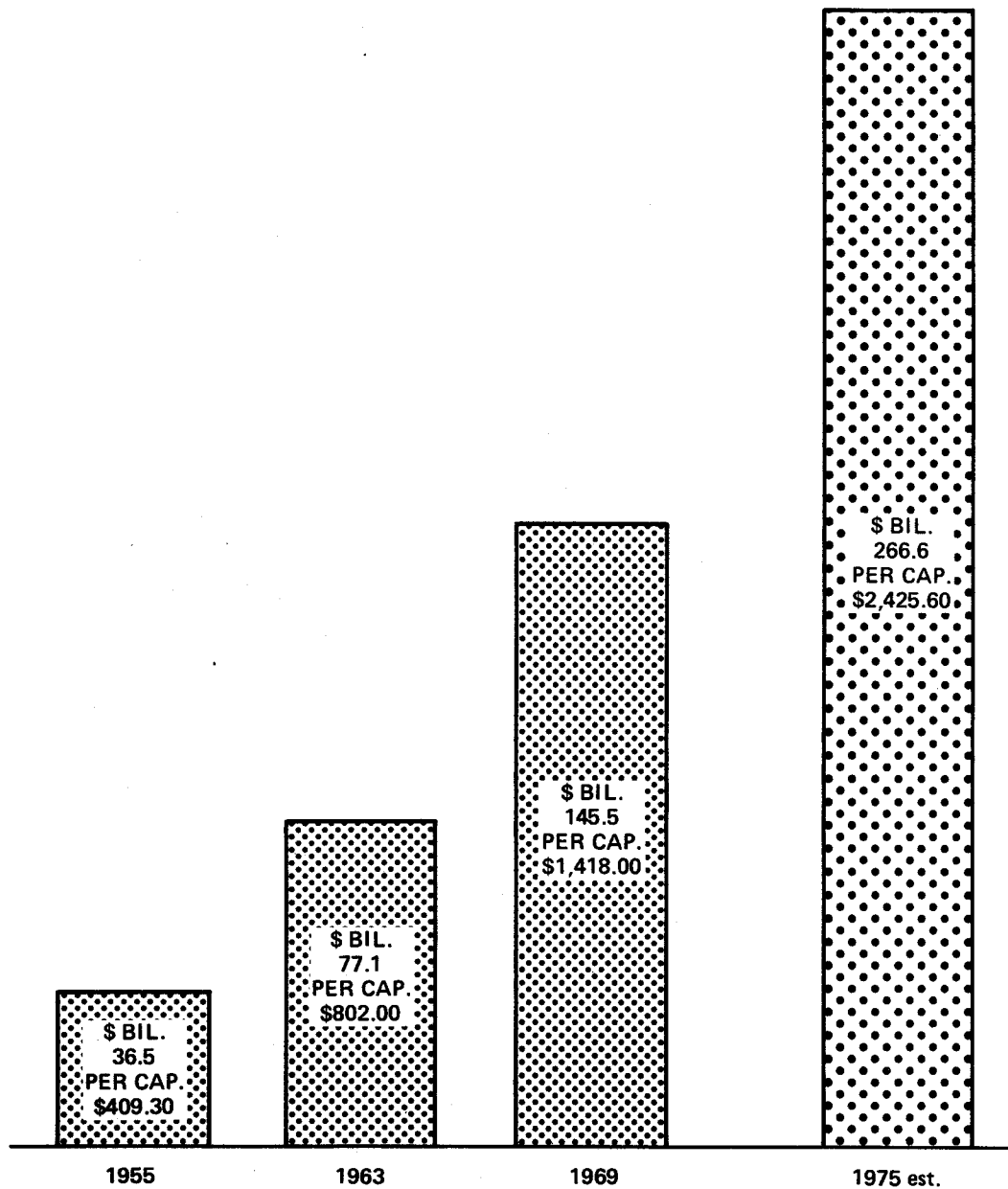
This brief survey of Japan's post-war economic growth and the pressures it produced leads to two questions about Japan's economy in the decade of the 70s: at what rate will the economy grow, and how will the growth be distributed? Will the economy continue in the pattern of the 60's, or will adjustments be made to meet growing consumer demands?

JAPAN: URBAN CONSUMER PRICE INDICES: All items vs. rent 1955 = 100



JAPAN: GNP AT CONSTANT (1965) PRICES

0 9 1 5 0 0 0



0 9 1 5 0 0 0

II. The Decade of the 70's. Will the Economy Continue to Grow? If so, at What Speed?

The same Economic Planning Agency which masterminded Prime Minister Ikeda's prediction that Japan would double its GNP within the 60's has recently published a new six-year Economic and Social Development Plan for the period 1970-75 inclusive. This is an important document which represents the work of several years and which involved various key ministries and business leaders, as well as the Prime Minister's office. Supplementing the general plan are the detailed plans which individual ministries have developed to carry out those aspects of the general plan which fall within their particular areas of responsibility. Now that this group of integrated plans has been developed, the nation's business establishments will assume, if they behave as in the past, that the plans will be carried out and the goals achieved, and will make their own plans accordingly. Thus the plans tend to be self-fulfilling.

What does the new plan provide? It provides that:

1. Japan's rate of economic growth will slow down somewhat. There are several reasons for this. Inventories in some industries are high and the economy is feeling a slight recession at the moment. Some segments of the economy have moved faster than desired and others a bit slower, so adjustments need to be made. Perhaps more pressing, however, is the recognition by government planners and business leaders of the need to correct some of those shortcomings in the nation's infra-structure which were discussed above and to concentrate more attention on the consumer sector, though they apparently have no intention of making such a shift in priorities as to seriously affect economic growth.
2. The GNP growth rate during the six years of this plan will average 10.6% per year, at 1965 prices. This compares to 13.8% and 13.2% during the preceeding two years.*
3. As is shown graphically on the preceeding page, such a growth rate would result in the GNP almost doubling again during the six years of this plan. Though the plan does not go beyond 1975, all indications are that a high rate of growth will continue throughout the decade. Most economists interviewed suggest, however, that the rate will be somewhat less than 10.6% in the later years of the decade.

As a check on these projections, economists and business leaders in private organizations and banks were interviewed, both in Tokyo and Osaka. They are listed on page 15 herein. A surprisingly high degree of agreement was found to have developed around these figures. Estimates of growth rate for the next six years varied from 10% to 11%, compared to the Planning Agency's 10.6%. It was clear that many of the men interviewed had participated, in one way or another, in the planning process and that a consensus had developed. It was interesting to note that in Osaka, where industry, led by textiles, is growing a bit more slowly than in the Tokyo area, leaders tended to estimate on the low side of the range.

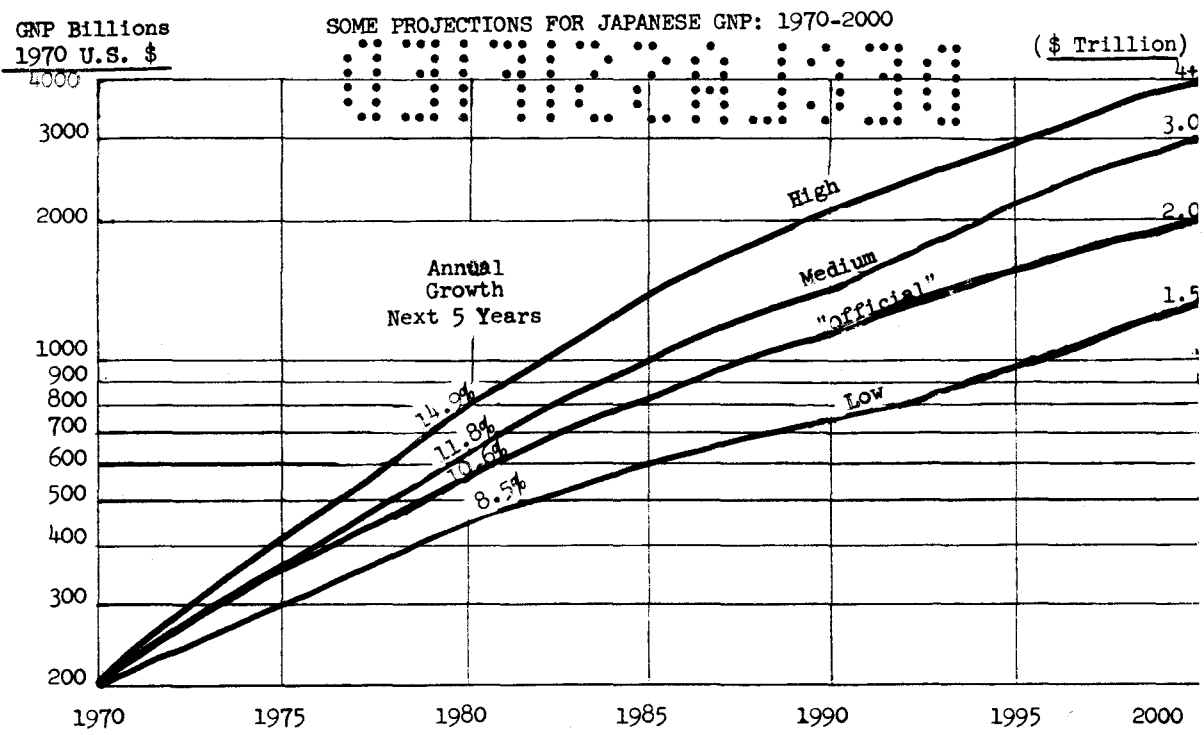
Herman Kahn, on the other hand, in his recently published book The Emerging Japanese Superstate found a wider range of opinion. But from the 1970 publication date of his book it would appear that he did his research as much as a year and a half ago, and perhaps earlier.

Kahn's predictions deserve a look. He is the founder and director of the prestigious Hudson Institute, and before that a staff member of the Rand Corporation. Mr. Kahn and his institute have devoted a great deal of time to the study of the Japanese economy. His book on Japan takes up the questions raised in this paper. But he takes his predictions much further than six years. He covers the rest of the century.

Kahn's predictions have surprised many Western readers and disturbed many Japanese. His predictions are shown in the chart on the next page.

*Throughout this report consistent 1965 prices will be used in all cases where such figures are available.

0 1 2 3 4 5 6 7 8 9



Based on Herman Kahn: The Emerging Japanese Superstate, pp 127-29

The line marked "Official" is the Economic Planning Agency's 10.6% estimate for the first six years. For the remaining 24 years Mr. Kahn apparently uses his own estimate of what might follow thereafter, based on EPA's assumption. Mr. Kahn, himself, prefers the line marked "Medium" which includes a 11.8% growth rate for the first five years. In all of these estimates he assumes a considerable deceleration in subsequent years.

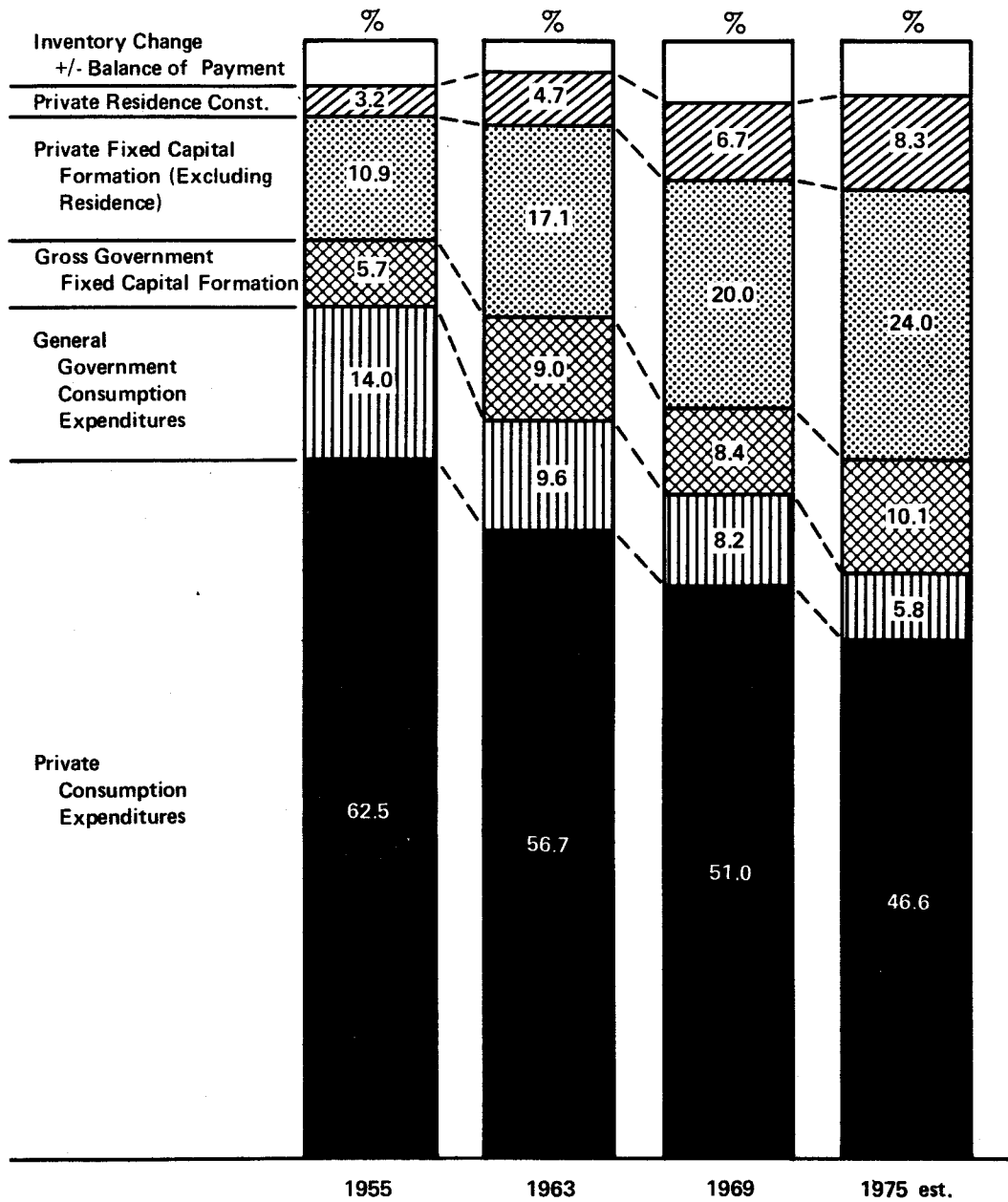
Based on these scenarios, Mr. Kahn comes to the following conclusion: "... It seems almost certain that Japan's rate of growth will maintain itself throughout the early 70's, which should result - in 1975 or soon after - in a \$400 billion GNP (1970 prices). And ... by the end of the century the GNP will almost inevitably reach something between \$1.5 and \$4.5 trillion. Even the low figure - or perhaps just the attainment of the \$400 billion and the promise of more of the same - will entitle Japan to the coveted adjectives [of 'giant' or 'super' status]. And I myself will be surprised if by the end of the century they do not become ... number one." Later he indicates that this would involve Japan probably passing the United States in per capita income around 1990 and equaling it in GNP about the year 2000.

Note that Mr. Kahn's assumed rate of growth for the next five years is only 1.2% per year higher than that used by the Economic Planning Agency. That is significantly higher but not enough so to change the general picture. On the other hand, his conclusions as to Japan's role in the 21st century as the number one nation of the world evoked widespread interest and debate, along with some concern.

It is interesting to see that a distinguished Japanese Economist who is quite close to the government, Mr. Nobutane Kiuchi, argues with Mr. Kahn in the February 1971 Fortune and apparently attempts to diminish the worry which Mr. Kahn may have aroused in the West. But he argues primarily that Japan's foreign trade will not grow as fast as Mr. Kahn has predicted. As to the GNP, he predicts "a manageable growth rate of about 10% a year ...", which again is little different than EPA's 10.6%.

So ... as regards the next six years, we have a near consensus on the rate of growth. Now, where will the growth take place? Where will the new capital be invested? Here is where the debate is taking place.

JAPAN: DISTRIBUTION OF G.N.P. AT CONSTANT (1965) PRICES



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III. What Changes in Allocation of GNP are Expected?

The chart on the preceding page shows the broad changes in emphasis anticipated in the 1970-75 period, along with comparisons of earlier years. In viewing this chart, keep in mind that these are percentages of a growing GNP; percentages can go down significantly while the actual value continues to climb. The basic shifts are:

Private consumption expenditures will continue down.

Government general consumption expenditures will continue down.
(This includes such things as education, police, sanitation and health care, but does not include capital expenditures.)

Government fixed capital expenditures shift direction and go up.
(This reflects some of the new emphasis on railroads, ports, housing, etc. though most of the capital for those things will come from the private sector.)

Private capital investment (excluding housing, which is shown separately) continues up.

Housing continues up.

Note that the top four shaded areas all constitute savings, voluntary or otherwise and total 48.2%. No other mature capitalistic society saves anything like that high a percentage of its income.

IV. A Look at Some Specific Aspects.

Let's look further at some of the areas consumers have been complaining about.

A. Transportation.

If the economy is to double, land must be found on which to locate the new factories, to build the new homes for the workers who are moved and for those who stay but want better homes, and for the warehouses to house the expanded production, imports and inventories. To do this building without further adding to the congestion in the Tokaido area (the Tokyo-Osaka corridor and environs) which constitutes only one percent of Japan's land area, but where 48% of Japan's population now lives, is a subject long under study. The key concept in the government's plan is dispersal of new plants and homes.

The Ministry of Transportation has a plan and a budget for its part of the job. The budget, to be spent over the six years, is as follows (in millions of dollars):

Harbors	\$ 5,278
Railroads	15,278
Airports	1,639
Roads	32,500
Total	\$54,695

These figures are difficult to interpret since previous expenditures are not available. But they break down into miles of railroads and numbers of harbors which are significant. Following are examples of what it includes:

Ports. Point one in the solution is the building of six new harbors - harbors which will be dispersed over each of the islands and removed from existing cities. These will be created by digging out huge quantities of earth or creating man-made islands or a combination of the two. Around each of these harbors new cities will be built. Additional resources are planned for investment in smaller ports. (It is interesting to note that the growth plan still builds on water transportation, a Japanese characteristic which enables it to draw from, and ship to, the rest of the world without much inland freight costs. Japan is said to be able to get steel to California at less cost than Pittsburg can.)

Railroads. The express railroad with its "bullet" trains which now run from Tokyo to Osaka and to a few other points is, as was mentioned earlier, one of the best railroads in the world. New tracks were laid for it and new locomotives and cars designed. But it serves only a fraction of the need. As a start toward improving this situation, the Ministry's Plan calls for doubling the track-mileage of these "bullet" trains within the next six years.

Airports. Two new international airports are included. The first, for Tokyo is already under construction, while the second, for Osaka, is planned and a location is being sought.

Express Motorways. As indicated, Japan's road system has scarcely begun to adjust to the automobile age. And this is where the biggest expenditure in the transportation budget is planned, i.e. \$32 billion over the six years. To get land for limited access highways - particularly in the metropolitan areas - constitutes an even tougher problem than that faced in Washington, D.C. Much of the new roads will be elevated in the cities, traveling over existing roads as much as possible. Nevertheless much housing will doubtlessly be destroyed. An indication of Japan's plans for road construction and improvement is shown in these figures for the country's "express motorways" now and estimates for 1975 and 1985:

1969 - 650 kilometers
1975 - 1900 kilometers (a three-fold increase)
1985 - 7600 kilometers (but this is still a dream)

B. Housing.

As indicated, the Japanese consumers see this as one of their most serious problems. And the government and industry planners seem to agree.

The percent of GNP going into housing from the private sector goes up by 1.6% in the six year plan - from 6.7% to 8.3%. The government's role will increase too, but will remain small. The Ministry of Construction has just issued a five year plan covering 1971-75. In it the rate at which new housing units are expected to be built - and this is perhaps the most significant figure - is expected to increase 50% over the previous five year period. The plan calls for 1.9 million new housing units per year. This is about the same number of new units (including mobile homes) as were started last year in the United States.

The estimated need in the United States, however, is for 2.6 million new starts a year. The nature of the new housing is also interesting. In the past, the ever-present earthquake threat has kept Japanese houses - both single-family and apartments - limited to two or three stories. Tradition and available materials have resulted in most being built of wood.

In recent years the earthquake threat has been licked - or so the architects think - and now tall modern apartments and office buildings, built of steel, concrete and other modern materials are springing up over the large cities. So whereas the housing units now occupied are only one percent high rise and 90% are made of wood, here is the prediction as of 1985 - 15 years from now:

30% will be high rise and made of steel, concrete, etc.
50% will be made of wood
20% will be prefabricated and made of various materials.

The expected growth in prefabricated housing is particularly interesting. A number of Japan's giant firms are moving into this field. And some U.S. firms are interested too. Japanese builders do not experience as much limitation from building codes and labor unions as do their counterparts in the U.S. Furthermore, its water-based transportation is cheaper. As a result, Japan is likely to be exporting prefabricated houses to the United States within the decade.

0 1 2 3 4 5 6 7 8 9

Thus housing, with all it entails - land, materials, skilled labor, household appliances, and household furnishings - is expected to be one of the glamor industries of the 70's.

C. Pollution Prevention and Control.

Japan's pollution problem is so acute that no one seriously questions whether its people are going to do anything about it. In fact, they are already doing considerable. The real question is: "How fast will they move?" and "What happens when the pollution control campaign runs head on into the industrial expansion campaign?"

Only within the last year or so has the pollution issue become a major concern in Japanese life. Prime Minister Eisaku Sato and his government see this as a growing political question. In what many observers felt was a move to maintain control of the issue, which opposition parties were beginning to play up, the Prime Minister called a special session of the Diet last December to take up this problem. The result was the passage of 14 bills, each dealing with an aspect of environmental protection. These laws were considerably milder than those drafted by the ministries concerned, so here again observers read this as a bid for time while the intricate process of consensus-forming in Japan takes place.

Meanwhile, many groups are getting into the act. One of the most pleasant aspects of this study was to meet with some of these groups and try to sort out some of the major forces playing on this consensus-forming process. Here, in outline form, are some of these observations.

1. Pollution control as viewed from the consumer's angle.

- (a) Local communities have been the focus of major action. When factory pollution is injuring the health of local people and the factory won't take action, the people go to their local government. Hundreds of citizen groups have been organized around specific problems. Only when the pressure became heavy on the local government did the pressures transfer to Tokyo.
- (b) Metropolitan newspapers have been a significant force. Tokyo's very large Asahi paper, for example, selected a reporter to head this campaign four years ago, and sent him to the U.S. and Europe to study what was being done on pollution control. Last year, three years after the planning started, it launched its anti-pollution campaign. It is a major campaign which includes such techniques, in addition to daily news stories, as special supplements of the paper devoted to specific aspects of pollution, financing visits of newsworthy foreigners, such as Ralph Nadar, and sponsoring seminars with speakers brought from various foreign countries. Asahi plans to continue the campaign indefinitely and to expand it into "Preservation of Natural Environment" and "Preservation of Historical Environment".
- (c) Labor unions are getting increasingly vocal. DOMEI, for example, a large union which is close to the government, has long pushed for in-plant pollution eradication. Now it is pushing on the broader, total environment level. Its major pressure is aimed at governmental action rather than action by individual plants. Japan's labor relations are unique in that employment is normally for life (a firm will lose money for years rather than fire anyone) and employees normally get two bonuses a year which vary with the firm's profits and which constitute a significant part of the employees' earnings. Hence there is not as much pressure for pollution control expenditures by plant owners as might be expected in the United States. Nevertheless the pressure is heavier than many observers had expected.
- (d) Housewives organizations are one of the newest forces to become effective. Though housewives were encouraged to organize in the American occupation days,

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only modest growth took place in this movement until recently. The Housewives Federation, for example, which is one of the most active, includes a million members. Other consumer organizations are larger. The Housewives Federation was one of the groups which led the boycott of Japanese television sets after the U.S. Government disclosed that similar sets were being sold to Japanese consumers at a higher price than they were sold in the U.S. That boycott cut sales some 30% and led to quick corrective action. In general, the housewives groups seem to be enthusiastic but relatively inexperienced.

2. Pollution Control as Viewed from the Business/Government Angle.

- (a) At the national governmental level, a small staff has been set up in the Prime Minister's office to launch work on environmental improvement. It is busy coordinating the writing of pollution standards for a wide range of subjects from automobile emission to the dumping of waste on the high seas. It is also helping develop administrative mechanisms for the enforcement of these standards and is making plans for a new environmental protection agency which will be launched in July. Critics of this action note that the present staff resources are small and that even after the new agency is created, major responsibility in most pollution control fields will remain with old ministries. More important, perhaps, was the observation that when standards have been written, and individual factories informed as to what they would have to do to conform, no time limit for their conformation was set.

On the other hand, there are numerous indications that governmental action is being taken. Within recent days, for example, the use of both DDT and BHC has been banned. The latter is quite important to rice farmers, the former of some importance to fruit growers.

- (b) Prefectural (State) governments are also taking action. Though not typical, the Osaka Prefectural Government has established an "Environmental Pollution Control Center" which is the envy of visiting U.S. specialists in this field. For example, it has over 20 monitoring centers throughout the prefecture which report every ten minutes on local air pollution conditions. These reports go into a control headquarters where they are reflected on a large control board with varying colored lights which reflect the pollution at each point. When pollution reaches a danger level, messages can be immediately transmitted to 200 firms which are major polluters, advising them to reduce operations or shift to a different fuel. Cooperation by these firms is high.
- (c) Examples of individual firms which are moving to cut down pollution or meet other consumer requests are numerous. The T.V. boycott has been mentioned. The manufacturer of Japan's most prestigious whiskey, Suntory, recently put in a very expensive water recycling facility. A major U.S. manufacturer of tetra-ethyl lead, a no-knock additive for gasoline, formed a partnership with a large Japanese firm three years ago to manufacture their product in Japan. An expensive factory was recently completed, but it will never open. The managers decided that Japanese Government prohibitions against lead additives were too imminent.
- (d) Local elections are being held this month (April) in all cities and a number of prefectures. In many of them pollution control is a big issue. Though political observers note that pollution has not yet been the issue which swung a local election, candidates are campaigning as though this election might well be different.

3. Planned Expenditures for Pollution Prevention and Control.

Japan's Fuji Bank analyzed the Government's New Economic and Social Development Plan, added some estimates of its own, and came out with the following table which

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compares actual 1969 expenditures for pollution prevention and control with those which the bank estimates will be made in 1975. These include expenditures by both government and industry for the installation of pollution control equipment and for its operation.

JAPAN: EXPENDITURES FOR POLLUTION PREVENTION AND CONTROL
(in millions of dollars)

	Fiscal 1969	Fiscal 1975 (estimate)
<u>Government Sector</u>		
National Government	(155)	(748)
Local Government	(146)	(1,103)
Total Government	301	1,851
<u>Private Sector</u>		
Investment	(404)	(1,951)
Operating expenses	(104)	(558)
Shared expenses	-	(318)
Total Private	508	2,827
Grand Total - Government and Private	809	4,678

Assuming this is a good estimate, how adequate is it in terms of the job which needs to be done? Such evaluation is hard to come by. This represents a five-fold increase by 1975, but from a low base. It represents 1.1% of Japan's expected GNP in 1975. An effort was made to find comparable U.S. estimates but U.S. government environmental control agencies are too new to have worked out such long range estimates. One comparison is available. Japan's national government spent \$155 million in this area in 1969. The U.S. government spent \$800 million in 1970. The Fuji Bank article quoted a comprehensive review by U.S. News and World Report from which the bank estimated that the U.S. in 1975 would be spending about 1.2% of its GNP in this field. This corresponds to the estimated 1.1% in Japan. If the definitions are comparable, then the figures allow us to compare Japan's planned effort with that of our own country.

Figures are available from the Ministry of Construction on Japanese plans for constructing sewer lines and sewer disposal facilities in the urban areas of the country. This is one of the major objects of expenditure.

	1970	Planned for 1975
Area served	22.8%	38.0%
Population served	34.7%	55.0%

That represents considerable progress in percentage terms, but by Western standards Japan's apparent small concern about sewage in the past and the fact that no greater issue is being made of it in the plan are hard to understand.

Nevertheless, this plan represents progress, and this is as much as can be said with confidence about Japan's entire pollution control program. The debate has probably not yet reached its full momentum. The forces described which are pushing this program are not as powerful as the business establishment. Much rests with that establishment and with the extent to which individual firms are willing to forego a small part of the expected growth in order to improve the quality of living for the Japanese people. "If they don't," one businessman commented, "the pollution image might hurt the sale of Japanese products abroad." Such external forces should not be ignored.

D. New Industries of the 70's.

Over the past half-century Japan's industrial development has gone through several stages. As Herman Kahn comments, "the Japanese are willing to be 'astonishingly ruthless in getting rid of inefficient industries.'" Some of this may have been seen in the disappearance of the cheap, low-quality Japanese consumer items present in the U.S. market before World War II. Since before 1960 Japan has concentrated much of its new capital in heavy industry: steel, shipbuilding, automobiles (including trucks), heavy electronic equipment, and chemicals, particularly petro-chemicals. Over 50% of new capital investment went into this heavy industry area.

Important changes are planned for the 70's. Interesting insights into this are found in a research paper prepared by a Policy Research Group in the Ministry of International Trade and Industry (MITI) entitled "International Trade and Industry Policy for 1970's".

Four expansion areas are outlined:

- "1. Industries of a type requiring concentration of research and development: computers, aircraft, atomic energy, synthetic chemistry, etc.
- "2. Highly advanced assembly-type industries: various kinds of machines, plants, industrially-produced houses, etc.
- "3. Fashion-type industries: high-quality clothing, high-quality accessories and sundry goods for personal use, high-quality furniture, displays, etc.
- "4. Intellectual industries: research and development, information disposal, software, consulting services, education, etc."

E. Overseas Investment in Raw Material Production.

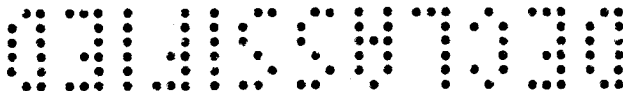
1. Foreign Trade as a Percent of GNP

Japan never has been as foreign-trade oriented as many people in the U.S. think. It exports what it has to, to pay for needed imports. Less than 10% of its GNP goes into export as compared with some 4% in the U.S., 15% in the U.K. and 32% in the Netherlands (1968 data for the latter two). In the next six years the new plan envisions an increasing percentage of the GNP going into service industries - in contrast with the production of goods - and the percentage of GNP going into exports being reduced fractionally.

2. Raw Materials for the Expected Economic Growth

Japanese leaders in both government and business, on the other hand, are quite worried about where they will get the raw materials needed to double the GNP. They are thinking, for example, of oil for the growing number of automobiles, of coal and iron for the expanding steel output, of food for people who want better diets, of logs for lumber to use in the new houses, and on through hundreds of essential imports.

The Japanese are shifting their import policy under the new plans from purchase contracts to reliance on heavy overseas investment of capital, technology and management in the production of needed raw materials. Japanese businessmen are working, literally, in every part of the world. For example the foreign business community in Moscow contains more Japanese than all other nationalities combined. But the Japanese are concentrating most in southeast Asia. The influence which they sought and failed to get through armed invasion, they are expected to get through economic penetration. The yen is mightier than the sword.



Japanese cumulative capital investment overseas, which is now between \$2.5 and \$3 billion, is expected to increase to \$10 billion by 1975 and to between \$20 and \$30 billion by 1980.

3. Exporting jobs

An acute labor shortage will characterize Japan throughout the foreseeable future. Yearly population growth and unemployment are both down to about one percent. Wages are going up about 18% per year and though inflation has been held down (recently to about 6% per year) the prospect of runaway inflation is a real worry in view of the expanding economy. About 5% of the farm population is expected to move to the cities each year, and there will be some decrease in small shopkeepers, but this will meet only a part of the need. Increased efficiency of workers will also meet part. One other way in which Japan plans to combat this labor shortage is by exporting work. Industries which require much low quality hand labor will be exported to countries, particularly in southeast Asia, where there is an abundance of cheap and relatively efficient labor. Certain parts of the textile industry are expected to be included in this exodus, as are the production of certain machine parts and the assembly of some machinery. Some industries which are chronic polluters may also be sent abroad.

When one couples the talk of exporting part of the cotton industry with MITI's mention of shifting to high-fashion, high-quality clothing, one wonders if Japan's textile products, of the kinds now being exported, are not likely to be de-emphasized in the long-run. In exchange, high-fashion clothing may be heading for western market. Surprisingly, the labor leaders who were interviewed supported the export-of-jobs idea as did business and government leaders.

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What do all these developments in the Japanese economy mean to the West, and particularly the U.S.? Much of the answer can be put only in the form of more definitive questions.

First, this growth in the Japanese home market amounts to an increase of more than \$200* billion dollars within the next six years. That is just an addition to what is already the third largest economy in the world. This represents an opportunity for U.S. export growth which other countries will be hard pressed to equal.

Second, Japan's economic invasion of southeast Asia will probably result in much more rapid growth in that area than most U.S. observers expect. Herman Kahn runs a scenario on the 11 countries of the area (excluding Australia, New Zealand and the Communist countries) which shows a 2-1/2 fold increase in GNP during the 1970's. This will result in increased competition from these 11 countries for U.S. products in the Japanese market and elsewhere. But, the traditional high correlation between growth in a nation's per capita income and its foreign trade will probably operate to expand U.S. trade opportunities.

Third, competition for some scarce raw materials is liable to get more intense, in spite of Japan's efforts to increase their production.

Finally, there is an unavoidable military question. Serious observers, particularly those outside the country, are asking whether Japan is likely to remain a military pigmy while becoming an economic giant. For example, when Japan's overseas industries are subjected in the future to abuse, including nationalization, will Japan take it quietly, or will there be an uncontrollable drive to resort to gunboat diplomacy?

One thing is certain: just as the European Economic Community provides a strong third force in Europe, so Japan will provide a third economic force in the Pacific, and potentially a third military force.

* current prices

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D O R S I L E O

INTERVIEWS

Informal discussions were held with several persons in Washington who have worked in Japan, and with a wide range of persons in the U.S. Embassy in Tokyo and the U.S. Consulate in Osaka. Informal discussions were also held with numerous Japanese leaders. Lengthy interviews were conducted with the following Japanese in Tokyo and Osaka:

Aihara, Masuo, Director, International Affairs Bureau, Japanese Confederation of Labor (Domei), Tokyo.

Enzo, Kenji, Head, Environmental Pollution Office, Office of the Prime Minister, Tokyo.

Fudeuchi, Kazuo, Assistant Manager, International Division, The Fuji Bank, Tokyo.

Itoh, Miss Nanko, Japan Housewives Association, Tokyo.

Kato, Toshiro, Director, Research Department, Japanese Confederation of Labor, Tokyo.

Kida, Kasuo, Pro-Manager, Economic Research Department, The Sumitomo Bank, Osaka.

Kihara, Keikichi, Special Staff Writer, Asahi Shimbun Newspaper, Tokyo.

Kubo, Takeshi, Director, Sewage Works Section, Ministry of Construction, Tokyo.

Mizoguchi, T., Engineer, Environmental Pollution Control Center, Osaka.

Muneoka, M., Executive Director, The Kansai Economics Federation, Osaka.

Noda, Kazuo, President, Japan Research Institute, Tokyo.

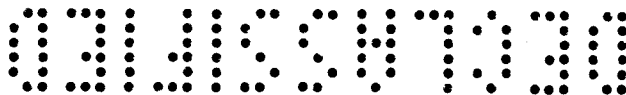
Oka, Takashi, Japanese Correspondent for the New York Times, Tokyo.

Otsuka, Tomonori, Senior Planning Officer, Economic Planning Agency, Tokyo.

Shin, Kiyoshi, Director, Osaka Bureau, Ministry of International Trade and Industries, Osaka.

Suzuki, Takeshi, Assistant Manager, Domestic Economic Research Division, Fuji Bank, Tokyo.

Tabuchi, Minoru, Vice President, International Christian University, Tokyo.



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