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# AMERICAN BUSINESSMEN'S VIEWS ON DOING BUSINESS IN JAPAN



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SIXTEENTH SESSION

## SENIOR SEMINAR IN FOREIGN POLICY

DEPARTMENT OF STATE

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TABLE OF CONTENTS

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## PREFACE

I decided on this case study because of my interest in learning how American business is doing in the burgeoning Japanese economy. Since I had never been to Japan, nor to the Far East for that matter, it was necessary to narrow down the project to manageable proportions. Six weeks is not enough time for a thorough study. I determined that the quickest way would be to interview American business executives who reside in Japan. Embassy Tokyo arranged 22 appointments for me. From the executives, I got a first hand view of the operations of U.S. business in the Japanese market and at the same time a good overview of Japan's economy. None of the executives nor their firms are mentioned in this paper. In cases where there are references to American companies, they have been taken from Japanese official publications or newspapers. The American Chamber of Commerce in Japan was very helpful.

In order to round out my perspective, particularly of the Japanese economy, I met with Japanese Government officials in the Ministry of International Trade and Industry and in the Keidanren, the approximate Japanese equivalent of the U.S. National Association of Manufacturers. I also got excellent information from a top executive of one of Japan's largest trading companies and others on his staff.

Before going to Japan, I had discussed the project with Japanese Embassy officials in Washington, the U.S.-Japan Trade Council, and officials at the U.S. Departments of State and Commerce.

As reference materials, I used a large number of U.S. Government and Japanese Government publications, Japanese newspapers and bank and private company reports.

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## SUMMARY

American business in Japan is prospering. As a result of the removal of most remaining trade restrictions to about the level of western countries, and new investment liberalization measures in 1973, the long-term outlook is promising. However, there is some pessimism about short-term prospects. A galloping inflation, rocketing oil and raw material costs, and big wage boosts are causing some alarm among U.S. businessmen. However, they are confident that the Japanese will get the economy under control and keep it competitive with foreign markets.

Japan now has the world's third largest GNP (about $400 billion) and enjoys a living standard approximating that of western Europe. It is especially concerned about assuring itself a supply of raw materials and oil and a market for its goods. At home, Japan wants to continue its economic growth though realizing that it will slow down to about one half the average 11% annual growth rate of the past decade. Full employment continues and a scarcity of skilled labor has developed. Stringent measures are being taken to check inflation. There is a growing awareness that more investment must be made in infrastructure projects, social welfare, housing and pollution control to satisfy the rising expectations of the Japanese people.

U.S. exports to Japan reached over $9 billion in 1973, more than double the 1969 total. American direct foreign investment in 1972 was $2.2 billion or 63% of all foreign investment in Japan. Most U.S. firms found that the joint venture was the most successful way of doing business there and that Japanese workers are first-rate. The best way to enter the market is to offer new technology and access to the U.S. market. The Ministry of Foreign Affairs' prescription for success in the Japanese market is as follows: 1) study the market carefully; 2) find a reliable Japanese partner; and 3) leave the management responsibilities to him.

The principal problems in doing business are the formidable language barrier, different social customs and the consequent difficulty of forming close personal relationships. The Government works closely with Japanese industry and maintains a strict control over foreign investment although these controls were liberalized last year. Resistance to U.S. business investment comes from associations of manufacturers attempting to protect their market, labor unions wishing to maintain traditional workers' rights such as life-long tenure and environmentalists trying to keep down pollution. U.S. businessmen engaged in joint ventures were impatient with the slow, cumbersome Japanese system of consensus management.

The major complaint of many American businessmen was their being held to a specific, small share of the market. All foreign banks are limited to less than one percent of the deposits and less than 2 percent of the loans in the country. They are also prohibited from opening new branch banks. In January 1974, all brokerage houses were prohibited from selling any more securities

to Japanese citizens. They also are not allowed to open new branches. The inability of obtaining Government procurement contracts was also a recurrent complaint.

Despite their numerous problems and complaints, American businessmen like doing business in Japan. They see some rather serious difficulties in the near future because of Japanese economic problems, but agree that long-term business prospects are good.



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SOME COMMENTS ON THE JAPANESE ECONOMY

The Japanese economy has acted as a magnet attracting over 1,000 American firms to Japan since the end of World War II. Japan's economic growth has been phenomenal. The gross national product in 1973 was around $400 billion, the third largest in the world after the U.S. and the USSR. Per capita income has risen to approximately $2,700, ranking 11th in the Free World even ahead of the United Kingdom. Per capita income in Japan in 1960 was only $394.

Japan exports approximately 10% of its GNP consisting largely of middle-technology items such as automobiles and electronic equipment. Japanese success in the export field has been due largely to its highly intelligent and industrious workers and the fact that it probably has the most highly modernized industry in the world. Full employment has been maintained. There is at present a scarcity of skilled labor.

The Government has actively assisted the private economy to attain its extraordinary growth with policies generally favorable to business. Special help was given in the early 1960's to the heavy manufacturing and chemical industries and more recently to high-technology growth industries, of which the computer industry is the most notable example. The agricultural sector has been heavily subsidized.

Japan is now at a crossroads. Its main problem is to assure itself a steady supply of food (50% dependent on imports), and raw materials, including oil for which Japan is 99% dependent on imports. In order to do this, Japan realizes that it must rely on a high degree of international cooperation. Thus, it favors a new world trading system that will assure it the raw materials it needs as well as access to markets for its manufactures. The Japanese want more stability in exchange rates than exists under the current system of floating rates.

On the domestic side, the Japanese find themselves faced with the typical problems of an advanced industrial society -- inflation, pollution, and mounting social needs. It is likely that the role of government -- always a prominent one in Japan -- will be enlarged in order to cope with these massive problems. Prime Minister Tanaka himself has written a book on how to improve the quality of life.

In the international field, Japan sees itself in an expanding role with the developing nations of Asia and the southern hemisphere. It needs their raw materials and oil and, in return, has the ability to help them modernize.

## Inflation, the Major Problem

American and Japanese businessmen agree that inflation is the overriding problem of Japan today. Wholesale prices were up 34% during the past year compared to relative stability during the previous decade. Consumer prices are up approximately 24% compared to a year ago. Prices are expected to rise even higher. The price of imported oil has quadrupled during the past 2 years. Wheat prices have increased 350%. Prices of meat, feed grain, and cotton are up 250%. The price of logs, lumber, and soy beans have doubled. In addition, wage boosts of 25 to 30% are expected in Japanese industry this spring. The shipbuilding and heavy machinery industries are considering a 29% wage increase and the steel industry 26%. One American petroleum executive said that the union was demanding a 45% increase for his employees. Recently petroleum prices have risen an average of 64%. A gallon of gasoline in Japan now costs $1.65.

The Japanese Government has already taken several measures to decelerate the inflationary trend. The Bank of Japan's official discount rate has been raised to 9%. A large increase in corporate income taxes is presently being considered by the Japanese Diet. The Government has frozen prices on 54 commodities consisting mainly of key raw materials and some basic necessities. Spending for public works projects during the current quarter has been limited to 35% of the cost for similar projects during the same period last year. The Government has taken measures to discontinue the encouragement of imports by increasing its Export-Import Bank interest rates on import financing facilities from the 4.25 - 7.25% to 5.5 - 8.5% range. Deposits of large city banks dropped considerably during the last few months ostensibly because of the Government's tight money policy. Bank loans are down 35% from last year. The Government has been concerned about losing its competitive edge due to rising oil and raw material prices and higher labor costs. One American executive mentioned that it is already cheaper to manufacture and ship some electronic motors and turbines to Japan from the United States rather than to make them in Japan. Japan has already priced itself out of the market of some electronic equipment which is now being made in Korea and Taiwan.

## Energy

There is much concern among American and Japanese businessmen about the quadrupled price of oil. However, the panic about this issue last fall has died down. There is not much fear that the high cost of energy itself could cut back Japan's competitiveness since all industrial nations will have to pay higher oil prices. However, this problem together with a high rate of inflation and

increasing raw material and wage costs is causing some alarm. As one American executive put it, the Japanese will be able to pay for the extra oil bill, amounting to about $10 billion annually, by increasing its exports and export prices. He said, "Japan, Inc." will get back into action in order to take measures to cover the additional cost.

## The Yen

Most American businessmen believe that the yen will stabilize at about 300 to the dollar. At the present time, the yen is selling at about 285 to the dollar and the Bank of Japan is preparing to intervene to keep it firm. Some U.S. businessmen believe that the current inflation will not seriously hurt Japanese export growth because of the floating yen which is carefully managed. In other words, when the yen dropped from 260 to 285, the net depreciation of 10% made up for any inflationary rises in Japan's export prices. Another factor is, of course, that competing nations are also hit by inflation.

## Policy Changes Being Considered

A high Japanese official indicated several measures that are being considered to maintain Japan's competitiveness in the international market; namely, 1) to increase exports and export prices combined by a total of 30% in fiscal year 1974 (April 1, 1974 to March 31, 1975); 2) to obtain more long-term commercial credits from abroad; 3) to continue exports of capital for developing raw materials abroad for use in Japan (However, where possible, capital for such projects will be borrowed abroad. The outflow of capital for purchases of real estate, hotels, and other non-essential activities will be discouraged); 4) there will be no cut back in essential imports such as food, raw materials and oil; 5) to continue to encourage investment by foreign firms in Japan on a selective basis; 6) to cut back on tourist allowances for travel abroad from $3,000 to $1,500 per person; 7) to discontinue the encouragement of imports into Japan, but hopefully not to reimpose import controls.

## Business Conditions

The conditions of doing business in Japan are largely determined by an Establishment which shares a common educational background and patriotic outlook. The Establishment consists of

about 1,500 men and gives its primary support to the Liberal Democratic Party (LDP) which has a majority in the Lower House of the Diet (280 out of 491 members). The Government is served by an excellent corps of civil servants who are usually drawn from among the best students at the most prestigious universities. The top graduates usually, in order of preference, go to the Ministry of Finance, the Bank of Japan, the Foreign Ministry, the Ministry of International Trade and Industry and the largest companies. For the most part, they move ahead in the bureaucracy according to their rank in class and their seniority. Apparently there is sufficient mobility so that a poor boy from the provinces who is a good student can reach a top position in the civil service or industry.

The Japanese are sometimes compared to the Dutch since they have a large population, live in a small area, and have no raw materials. Thus, they must live by their wits. One half of the Japanese population live or work on one percent of the land.

There are two aspects of doing business in Japan which are peculiar to the country. Large, commercial banks are the principal method of financing business ventures and have a loan to deposit ratio of 1:1. Secondly, large companies have a debt/equity ratio of approximately 4:1, a reflection of the key role of the banks in supplying capital to business. Participation by the bank in operations of an enterprise are just as though the loans were equity. There is also a very large concentration of economic power in the hands of a relatively few firms. For example, Japan's ten main trading companies handle 51% of Japan's exports and 60% of its imports. Foreign enterprises in Japan generate only 3.5% of total sales. These are companies in which the foreign equity is 20% or more.

Of major importance in Japan's economic growth has been a carefully controlled -- though basically expansionary -- monetary policy. Monetary measures have been heavily relied upon to alter the pace of the economy in order to overcome inflation (or recession) and balance of payments deficits (or, as in 1972, surpluses). Another important factor in economic growth is the method whereby major business corporations continuously consult the Japanese Government with regard to major business plans and objectives. The Government in turn gives "administrative guidance" which has proved to be extremely effective as a means of control. The Bank of Japan, acting as an agent for the Ministry of Finance, exerts one of the principal influences on the economy by controlling the amount of loans to commercial banks and the terms and conditions of the loans.

Another very important factor in doing business in Japan is the Japanese work style which emphasizes group effort and team work rather than individual contributions. This results in a cohesiveness and solidarity among the Japanese, thereby contributing to efficiency of operation. There is, for example, very close union-management cooperation and the union is usually confined to one company only. Usually it is known in advance when and for

how long a strike will last. Some companies actually close down during the period that they know that some or all of their employees will be on strike. One American businessman has said that in the West, the employer buys a skill; but in Japan, the employer buys a man.

As a result of the inflation, the housing shortage and pollution, there is a certain amount of disenchantment on the part of many Japanese concerning the way the country is being run. There are signs of some deep political and social unrest. Some sentiment is growing in favor of Finance Minister Fukuda for Prime Minister who is an advocate of restrictive fiscal and monetary policies as the way to overcome the present inflation. Prime Minister Tanaka appears to be more concerned with avoiding a recession.

With regard to the developing labor scarcity, there was unanimous opinion among both American and Japanese businessmen that the Japanese Government would never import foreign labor. They have seen the problem that foreign labor brings with it in other industrial countries and are not even prepared to consider such an alternative. One high trading company executive indicated that no real labor shortage is likely for the next ten years. Japanese industry's labor demand would be met by: 1) new, young people entering the labor market; 2) making more efficient use of present labor force; 3) resorting to more technical innovations; and, finally, 4) having some products manufactured in near-by countries.

## U.S. BUSINESS IS SUCCESSFUL

The enormous volume of U.S. trade with Japan is the best indication of how well the U.S. has prospered. U.S. exports to Japan in 1973 amounted to $8.3 billion, or about 12 % of total exports. This is more than double the 1969 figure. The main items were food, grain, lumber and logs, machinery, aircraft, cotton and scrap. Japan is by far our largest market for agricultural products.

U.S. imports from Japan in 1973 amounted to $9.3 billion or 13% of global imports. These consisted mainly of automobiles, television and radio sets, scientific and optical instruments, business machines, iron and steel products, and textiles and fishery products.

Japan was more dependent on its trade with the U.S. Of its global trade, 26% of its exports and 24% of its imports were with the U.S. The percentage of total Japanese exports to the U.S. was down from the average of 30% annually during the past decade.

The U.S. trade deficit with Japan amounted to $1.3 billion in 1973 down from $4.1 billion in 1972. The large decline in the deficit is due to an increase of 58% in U.S. exports to Japan in 1973 while Japanese exports to the U.S. increased by only 7%. The reason for the drastic change is the devaluation of the dollar, the revaluation of the yen, and Japanese efforts to import from the U.S. during 1973. American businessmen estimate that the trade deficit with Japan in 1973 will amount to about $2 billion.

American direct foreign investment in Japan in 1972 (latest available figures) amounted to $2.2 billion. This consisted of manufacturing plants ($1.2 billion), petroleum installations ($800 million), and other industries ($200 million). U.S. investment comprised 62.5% of all foreign investment in Japan. U.S. investment would probably have been higher if Japanese policy on foreign investment had been liberalized sooner.

## The Joint Venture

American businessmen tend to agree that they probably accomplished more by going the joint venture route in Japan than they would have achieved if they had tried it alone. Indeed, many U.S. firms would never have gotten into the market without joining with a Japanese firm. Once established, American firms have found that they have been able to increase imports into Japan from their home plants in the United States. Usually licensing arrangements are made along with joint ventures. This has the advantage of earning royalties for U.S. firms, and at the same time it is a cheap way for the Japanese to get research and development. There are cases in Japan of know-how gained through licensing which was used successfully by Japanese firms to outbid U.S. firms in third countries.

American companies, dealing with food and grain in particular, have found it necessary to join up with a Japanese firm. This is because of the complicated Japanese distribution system where there are sometimes several layers of wholesalers and distributors before the product reaches the retail outlets. Wholesalers often are involved with financing of products and often have a protected market, which is arranged on an interpersonal basis. One U.S. food processor and canner, for example, after trying to set up a wholly-owned subsidiary without success, now has a very good joint venture with a local company.

American companies which originally performed services in Japan almost exclusively for U.S. companies have gradually developed a clientele that consists mostly of Japanese firms. Most of the employees are Japanese, however, with only a few American supervisors. Such firms have been successful because of their ability to adapt to Japanese needs.

U.S. firms seem to be quite pleased with franchising arrangements which they have made with the Japanese. This manner of doing business in Japan gives American firms the minimum amount of involvement with distribution problems. Though it is not yet clear if franchising will be successful, it seems very promising. Various types of franchising arrangements have been made by such companies as McDonald's, Shakey's Pizza, Dr. Pepper, Seven and Eleven, and KentuckyFried Chicken.

## The Japanese Worker

There was almost unanimous praise for Japanese workers among American businessmen. They are considered loyal, hardworking and intelligent. Furthermore, there is very little job turnover and almost no absenteeism. These advantages seem to outweigh the disadvantages such as: 1) Japanese workers may not be fired; 2) they remain on the payroll even during slack periods; and 3) they tend to be inflexible in their work habits preferring to do one job only.

Beginning monthly salaries for new employees are approximately 70,000 yen (about $240) which include the standard two annual bonuses. Such workers can reach a maximum of 130,000 yen (about $475) per month. Graduate engineers, on the other hand, begin at 90,000 yen (about $327) per month to a maximum of 275,000 yen (about $1,000). Fringe benefits cost firms 15% to 19% over the salary plus bonuses. Such benefits include the company's social security contribution, free medical care, subsidized housing, and sometimes a transportation allowance and the use of vacation resorts. Needless to say, managers receive much higher salaries ranging from $15,000 to $30,000 annually and up. They often have free housing, a car and driver, and very liberal expense accounts.

Japanese wages have been rising fast in the last few years (approximately 15% annually since 1969). They are about at the level of wages in western Europe, but well below those in the U.S. Several American firms mentioned that the productivity of Japanese workers has almost reached U.S. standards.

## How to Achieve Success

Among the top 50 corporations in Japan, IBM ranks 10th and Coca Cola ranks 29th. The Ministry of Foreign Affairs in a recent publication singled out IBM's experience in Japan as a success story. It is wholly-owned, capitalized at $162 million, and had sales of $398 million in 1970. The Ministry mentioned that of the 12,800 computers in Japan, one third have been supplied by IBM. The publication indicated that Coca Cola dominates the soft drink industry in Japan.

U.S. petroleum companies in Japan have reported good profits in past years, and have had good relations with the Japanese Government. Of the 38 corporations in the petroleum industry in Japan, 21 of them have foreign capital in them. Esso's and Mobil's Japanese operations, for example, are 100% American owned. Caltex and Getty have joint venture arrangements with Japanese companies.

The Ministry of Foreign Affairs indicated that for a foreign enterprise to be successful in Japan, it must do three things; namely, 1) make a careful study of the market; 2) seek a reliable Japanese partner; and 3) leave the management to the Japanese partner.

## PROBLEMS OF AMERICAN BUSINESS

American businessmen encounter a large number of problems and frustrations while doing business in Japan. Two of the most formidable barriers are the Japanese language and different social customs. Very few American businessmen have been able to master the Japanese language with any degree of fluency which often leads to misunderstanding. As a result of these barriers, it is difficult for Americans and other foreigners to establish close personal relationships with the Japanese. Social life of Americans is mostly among themselves with the exception of an occasional official reception or a golf game with the Japanese. Since Japanese wives seldom appear at social functions, it is very difficult for American women to meet and have social contact with them. This, of course, increases the problems of the Americans doing business in Japan.

### Life-long Tenure

One of the main problems encountered by American firms hiring Japanese employees in Japan is the practice of life-long tenure. The employee's commitment to his company is total, and he expects his employer to accept responsibility for him. This creates a special problem for U.S. firms because they are not used to this type of commitment and Japanese employees at all levels know this and are reluctant to work for foreign firms. Thus, in order to get workers and managers, it is often necessary for foreign firms including American to pay wages 15% to 20% higher than that for equivalent work in Japanese companies.

There is practically no upward mobility for management or other employees from one large Japanese firm to another. Normally, a Japanese employee can only move from a large firm to a small firm or to a foreign company. This is often a source of employees for American companies.

## Pressure Groups

Associations of manufacturers have considerable weight in influencing the Government to keep out foreign firms. A recent case which has been reported extensively in the Japanese press has been the attempt of Dow Chemical to obtain permission to construct a caustic soda plant on the northernmost Japanese island of Hokkaido. The Dow plant actually has all of the advantages which appeal to the best interests of Japan. The process pollutes less than other similar plants in Japan, it can produce caustic soda at a lower price and it would contribute to the economic development of Hokkaido which is Japanese Government policy. However, the association representing caustic soda producers is raising objections to Dow Chemical's entry with the Ministry of International Trade and Industry. Dow Chemical is insisting on a 100% wholly-owned subsidiary since it wishes to prevent its new process from falling into the hands of any outside company.

Environmentalists are also interfering with U.S. investment opportunities in Japan. They are raising objections to the construction of nuclear power plants in Japan which are sorely needed because of Japan's lack of energy resources. Working through associations, they have been able to block the construction not only of nuclear power plants, but also some chemical plants and refineries.

Another barrier to American business is the application of strict restrictions concerning the additives and preservatives contained in drugs and cosmetics. However, the presence in Japan of an increasing amount of U.S. drugs and cosmetics suggests that American firms have found ways to accommodate to the Japanese controls.

Labor unions often resist joint ventures between American and Japanese firms particularly if the percentage of American equity participation is very high. Since employees join a company for life, labor unions feel they are protecting their union membership by resisting American ownership in their company management. They are usually dubious about the willingness of a U.S. firm to undertake the long range commitment. Furthermore, labor unions want to see to it that the customary practice of not firing employees is maintained and that inefficient employees are transferred to another job within the organization. The unions insist that employees are kept on the payroll during slack periods. One American employer mentioned that it took him 10 months to get permission to fire a thoroughly incompetent employee. He added that grievance procedures are long and complicated and favor the employee.

## Investment Controls

The liberalization of investment laws last year made it possible for American firms to invest more easily in Japanese enterprises. However, it is likely that U.S. firms wishing to establish operations in Japan will for the most part opt for a joint venture arrangement with up to 50% ownership. The likelihood of an American firm acquiring up to 100% of the equity of an existing Japanese company, while somewhat improved by last year's liberalization, is still remote in view of the veto power which the Japanese company's board of directors can wield to block the deal. Normally, in order for an American company to acquire a sizeable interest in a Japanese company, it must be prepared to offer a high level of technology and access to a mass market in the United States.

The Japanese Government takes the position that it must carefully guard its production assets from foreign control. It is apparently concerned that under-capitalized Japanese firms would be vulnerable to foreign takeovers. The Japanese Government rationalizes that the limitation of U.S. investment is actually in the long term U.S. interest since it will eliminate the possibility of political problems arising from large foreign investments such as is the case of the U.S. in Canada.

Nevertheless, there are now over 1,100 foreign companies in Japan with over 20% foreign participation. The Japanese Government has excepted only five types of companies indefinitely from 100% liberalization, as follows: 1) industries related to agriculture, forestry, and fisheries; 2) mining; 3) oil industry; 4) leather or leather products; 5) retail trade. The reason given for the five exceptions by the Ministry of Foreign Affairs is that foreign ownership in these industries could have a serious adverse socio-political impact. An example of such a problem is in the field of leather workers. Traditionally in Japan, a caste-like group of Japanese called the Eta's have been the leather workers and have depended on this field for their livelihood. Since there are about 500,000 Eta's, any threat to their traditional occupation could immediately create a political problem. One major American shoe manufacturer which attempted to make an investment in shoe manufacturing was successfully blocked from doing so last year. The annual Shoe Association publication indicated that the blocking of the American attempt to invest in the shoe industry was one of the major events of the year. The American firm is presently attempting to form a joint venture with two large Japanese firms in order to gain access to the Japanese market.

## Consensus Management

U.S. firms find that the Japanese type of consensus management is a slow and frustrating process. Under this system, the



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Japanese management from top to bottom thoroughly studies and approves a new company policy before it is adopted. This tends to spread the responsibility for the decision throughout management rather than fixing it on top management. One large American firm in Japan, however, is convinced that consensus management in the long run may be as good, or even better, than the American approach to decision-making. The reason being that once a decision is made, the entire management of the company knows what it has to do and acts promptly and efficiently. Apparently, this is not always the case in American companies.

## U.S. Business Complaints

One frequent complaint among American companies is the impossibility of gaining Government procurement contracts. Such contracts invariably go to Japanese companies based on close interpersonal relationships. Foreign firms do not even have the opportunity to submit a bid. There is not much hope for changing this situation.

A criticism of a few American businessmen is that the Japanese are ideally suited to take advantage of our modern technological society. Foreign enterprises coming to Japan must change to suit the Japanese. According to this argument the capacity of the Japanese to adapt everything to their best interest has been a continuous one since the Meiji Restoration (1868). An example of their capacity to get the better of the West is their steel industry which is newer and more computerized than any in the developed world. Though most American businessmen agree that the Japanese are shrewd, they do not agree to this very extreme view of their ability to get the best of everyone with whom they come in contact.

Many U.S. businessmen in Japan complained about specific acts of the Japanese Government which had the effect of limiting their possibility to expand. One example is that all foreign banks in Japan are limited to 1.7% of the loans and 0.8% of the deposits in the country. Along with this restriction is a prohibition on opening more branch banks. Another example is the Japanese limitation of a small share of the market such as 10 percent to some U.S. firms. These agreements were made 10 or 20 years ago as a condition to entering Japan. Now that American firms would like to expand their market, they are unable to get the Japanese Government to agree. Other firms have been told that they would not be allowed to advertise, or in some cases they were limited in their advertising if their product was too successful.

There was also some discontent about not being allowed to sit on one of the workers councils or on the consultative councils of the Ministry of International Trade and Industry or the Ministry of Finance. This, of course, denied them a voice in shaping the policies for their workers.

Another more recent problem is the Japanese prohibition in January 1974 on the sale of securities by foreign, including American, brokerage firms to Japanese citizens. Sales are limited to the global amount of foreign securities in Japanese hands at that time. This action was obviously taken in order to stop the heavy outflow of foreign exchange during the past 6 months and the anticipated huge outlays for oil. Brokerage houses are also complaining about not being allowed to retain more than 25% of the commission on the sale of Japanese securities which they are allowed to sell. Finally, there is some discontent about their inability to obtain permission to open brokerage offices in other Japanese cities.

One of the largest American firms in Japan is very much concerned about the new round of wage increases that is imminent. It believes the time is not far off when it may be cheaper to export its equipment from the United States directly to southeast Asia rather than from its plant in Japan. It was obvious from talking with most American businessmen that production costs for most goods are still lower in Japan than in the United States, but that the gap between the two is narrowing fast because of increasing Japanese labor costs and the increasing cost of raw materials and oil.

There were two general complaints that were really leveled at the U.S. Government, namely, that the U.S. (and the other developed countries) 1) accepted the undervalued yen too long; and 2) should have insisted on investment liberalization sooner.

## OUTLOOK

### Long Term

It was almost the unanimous opinion among American businessmen that despite the present inflation and big wage boots and price increases of oil, raw materials and food, Japan will continue its economic growth, but at a slower pace. The growth estimates were at about a 5% annual rate as compared with the recent Brookings' study which estimated an annual growth rate of 6 - 6 1/2%. The average real growth rate in Japan during the past decade has been 11%. There seems to be almost a mystique that has grown up about how well the Japanese can perform. Businessmen with long years of experience in Japan spoke of an enormous resilience in the economy. U.S. bankers claim they were bullish on the Japanese ability to react to difficult circumstances. One business executive with 13 years experience in Japan thinks that the Japanese discipline, patriotism, solidarity, and homogenity are the big plus factors in determining their future.

Auguring well for the future are the following observations about Japanese managers and workers: 1) the Japanese really care about their work; 2) they try to do a good job for the sake of the job; 3) they are willing to do the dirty jobs; 4) they are willing to work harder than Europeans or Americans; 5) they are technically very competent; 6) they have respect for their superiors and their jobs. In addition to all these factors is the interface between the Japanese Government and industry and the cooperation between industry and the unions. As one American journalist put it, "If conditions continue as at present, there could be economic disaster for Japan. However, I feel in the pit of my stomach that the Japanese will pull it off." One brokerage firm executive said that he would invest in Japanese industry in the long term, though he had some misgivings about the short term. In private conversations Japanese businessmen also are optimistic about Japan's long-term economic outlook. However, recently they have publicly expressed a great deal of pessimism about economic conditions, apparently in the hope of keeping demands for increased wages down as much as possible.

The Japanese realize that they cannot put off much needed investment in infrastructure projects such as roads and housing, social welfare, and pollution control much longer. Attention to these matters would require a re-allocation of resources away from favoring industry and may, thereby, weaken them competitively in foreign markets. An appeal for more foreign capital may help to alleviate this problem.

During a recent meeting of American businessmen in Tokyo, there was a discussion indicating that several possible changes in the Japanese economy may result in better future business opportunities. Four points were mentioned; namely, 1) the Japanese are increasingly becoming aware of the need to internationalize their highly isolated economy; 2) they must be more cooperative in order to gain access to the greater markets offered by U.S. firms; 3) some new Japanese companies without long traditions may be willing to merge with American companies; and 4) many small firms with old or tired managers may be amenable to a merger.

Japanese businessmen are interested in forming joint ventures with U.S. companies in order to take on projects in third countries. Such joint ventures would be primarily in east and south Asia. For example, at the present time, Japan appears to be reluctant to go ahead on the oil and gas project in Siberia without the U.S. as a partner. For this reason they are concerned about the passage of the U.S. Trade Bill, and in particular, the Jackson-Vanik Amendment. The Japanese Government estimates it would have to guarantee about $4.8 billion in loans by 1979 if it were to take on the project itself. This amount would be 15% to 18% of estimated guaranteed loans for that year.

U.S. businessmen agree that the three so-called Nixon "shocks" have had an unfavorable impact on U.S. business in Japan and hope that there will be no others. The "shocks" were the 1971 dollar devaluation and import surcharge; 2) the 1971 announcement of President Nixon's visit to China; and 3) the 1973 temporary halt

in soy bean exports to Japan. The third shock, for example, has set the Japanese looking for alternative sources of soy beans. Currently they are negotiating to obtain soy beans from Brazil. There is also some unease among the American business community in Japan over U.S. limitations on exports of logs and steel scrap to Japan and demands in the U.S. to place export controls on cotton, wheat and coking coal to Japan. However, Secretary Butz during a recent trip to Japan gave assurances to the Japanese concerning the continuing availability of agricultural supplies.

In sum, U.S. businessmen generally are optimistic about both trade and investment prospects in Japan in the long run principally because of the intelligent, hardworking and well-disciplined Japanese people.

## Short Term

There is a good deal of pessimism in the short term. Money is tight, interest rates are high, the stock market is depressed. In addition, inflation is unchecked and there is uncertainty about the exchange rate of the yen and future oil and raw material prices. The Japanese Government is forecasting a 2.6% real GNP growth during the current fiscal year. On the other hand, an executive in one of Japan's leading trading firms said that real GNP would increase by 3% to 4% this year. But, one of Japan's best known economists, Dr. Shamamuda, of the Japanese Development Bank, is predicting either a zero or a minus GNP growth this year.

With regard to international trade, an economist in one of Japan's leading trading firms estimates that exports for the current fiscal year, on a volume basis, will be up 11.3%. The same exports on a dollar basis will be up 28.2%. Strong demand abroad for steel, machinery, transportation equipment, including automobiles, and electronic equipment are mostly responsible for the anticipated increase in exports. One of the top executives of a major trading firm mentioned that Japan's strong position in the export market can only be maintained three more years if salary increases and inflation continue at the present rate.

Imports by volume during fiscal year 1974, on the other hand, are expected by the Japanese to be at the 1973 level or lower. On a dollar basis they are expected to increase 24%. The largest increase, of course, will be in the value of oil imports, which are expected to reach $16 to $18 billion or $8 to $10 billion above 1973.

Japan at the present time has about $22 billion in gold and foreign exchange reserves. About $10 billion of this amount the Japanese themselves say is "hidden." This cushion they believe will help them to get over the extraordinary outlays for oil and raw materials in the near future until they can increase their export market and reduce capital outflows to cover the additional cost.

American companies are prepared to wait for the Japanese to find a solution to their current problems which may take 2 or 3 years. Afterwards, they foresee a good climate for U.S. business.



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