
Part II: Report from Japan

Business leaders talk about Volcker, protectionism, and Japan's future

by Daniel Sneider, Asia Editor

This is the second of a three-part series based on Asia Editor Daniel Sneider's recent visit to Japan.

As we publish it, the American public is being subjected to a new round of anti-Japanese trade propaganda by the allies of Federal Reserve Chairman Paul Volcker. When visiting Japanese Foreign Minister Yoshio Sakarauchi met President Ronald Reagan, cabinet secretaries, and Congressmen, he repeated to them the theme of his March 23 public speech in Washington: economic instability is the greatest threat to world peace. "Our [U.S.-Japan] close ties must be even further strengthened today. . . . We must overcome direct threats to world peace and stability; we must revitalize the global economy; and we must secure stable development in the Third World."

Hours prior to Sakarauchi's speech, however, the Reagan cabinet met and decided to support modified versions of the "trade reciprocity" bills now before Congress. Directed mainly at Japan, such bills allow Washington to unilaterally restrict imports from countries that it decides do not grant U.S. firms "equal access." Far from aiding U.S. industry, Commerce Undersecretary Lionel Olmer made it clear to a New York Japan Society audience March 25 that he interprets getting Japan to "open its market" as "encouraging foreign acquisition of Japanese companies." Washington's Volcker-led post-industrial faction regards the multinationals' takeover of Japan and the dilution of Japan's commitment to industry and technology as vital to their own anti-industry program in the United States and elsewhere. Mr. Sneider shows below why this is the case.

"The development of an economy is like riding a bicycle. If you try to stop in one place, you will fall down. You can only stay up by always going forward." This analogy, made by a senior official of the Japanese Ministry of International Trade and Industry (MITI), sum-

marizes the Japanese commitment to continuous growth and technological innovation.

Japan's economic strength is best reflected in the response to the oil shocks of the 1970s. The Industrial Structure Council (ISC)—an advisory body to MITI consisting of representatives of academic, business, consumer, labor, and government officials—created a plan to secure stable supplies of energy, develop new energies like nuclear power, and save energy based on new materials and technologies.

Japan's approach contrasts with the stress on austerity-linked "energy conservation" in the United States. In America, only a third of energy consumption is in industry; almost 60 percent of Japan's energy demand is from this sector. The ISC and MITI analyzed the energy flow of the industrial sector, tracing energy from its production sources through the various generation technologies, and finally charting the conversion to heat, motive power, and the amount of energy loss.

The ISC's *Vision* plan for the 1980s outlined a variety of high-technology innovations to raise overall energy-conversion efficiency all along the industrial process in almost every sector. A much-cited example is the replacement of conventional processes in steel with continuous casting. A great deal of work is also going into developing new materials such as ceramics and high-temperature alloys.

The major response to the economic crisis has not been cutbacks in investment, but increased R&D in new technologies that create continuous increases in labor productivity. "The engine that will propel the industrial structure of Japan to a higher level of creative knowledge-intensiveness in the 1980s," declares the ISC 1980s *Vision*, "will be technological innovation. . . . In the present decade, Japan aspires to build a *technology-based nation* through self-inspired and imaginative technolog-

ical innovations [emphasis in original].”

The virtue of Japanese planning, which integrates the broad views of the government and private industry at every level, is an insistence on looking 10 and 20 years ahead, anticipating problems and defining next generations of technologies—and then taking steps now to ensure that desired future. It is from this standpoint that emphasis is placed on areas like micro-electronics and industrial robots. According to the Japan Industrial Robot Association, some 85 laboratories, in universities and research organizations, are researching robotics, a field in which Japan is the recognized world leader. More than 20,000 robots are at work today in Japanese factories. One motivation for the development of robotics is growing concern over the shift in the age structure of the population, due to slowing birth rates. By current estimates, more than 20 percent of the population will be over 65 by early in the next century.

As one of the directors of the giant Mitsubishi Corporation stressed to me, “The big change in Japan during the past years is going on inside the factory.”

Depression and trade war

Despite Japan’s obvious successes, there is a great deal of apprehension concerning the future. The trade effects of high American interest rates and protectionism are two of the main concerns. Businessmen and bankers think in 1982 Japan will at best show a 3 percent real GNP growth rate, far below previous expectations. Exports will not maintain 1981 growth rates, and the domestic market, even with stimulation, will be unable to take up the slack. While acknowledging Japan’s health relative to American and West European economies, Japanese stress the difficulties they are having.

A Mitsubishi Electric executive laid out a three-point approach to deal with the problem. First, he said, Japan is developing entirely new products, such as robotics, to replace present export items. Unlike auto and steel, such items would presumably not be subject to protectionist attacks. Second, Japan is trying to establish joint ventures for production in importing countries themselves, particularly the United States. Third, he stressed the importance of the underdeveloped countries, which, he said, offer the greatest opportunity for real expansion of markets for industrial goods.

This, he explained, is why Mitsubishi Electric, for example, is making a major investment of its technology and skilled manpower in Mexico, which is viewed as a rapidly industrializing country. “We are not like you Americans,” he told me. “We look at a country like Mexico from a 5-10-20-year perspective. We plan our involvement in that country without expecting to get an immediate return on our investment.” The Japanese believe the most important factor for countries like

Mexico, as for Japan itself, is the development of skilled manpower. Therefore, Japan is sending 50 to 60 of its own engineers and technicians to Mexico, both to carry out projects and to train Mexicans.

No one I spoke to, however, believes such measures are sufficient; the key remains the international economy, which is affected by policies outside Japan’s control. For example, the size of Japan’s trade surplus with the United States, Japanese leaders point out, is in large part a product of the artificial up-valuation of the dollar caused by high interest rates. Furthermore, the Japanese are perfectly aware that their international competitiveness is the result of their investment and technology, not “non-tariff barriers,” and that America suffers precisely because it fails to carry out similar policies.

Volcker’s regimen is frankly viewed as insane in Japan, where the average interest rate is around 7 percent. I asked numerous business and government officials what they thought would have happened to Japan had they had the same policy over the past two years. Several just looked at me incredulously, obviously unable even to contemplate such a question. One responded, “Well, we would never do such a thing.” I persisted in asking “What if?” Finally he said, “We would be destroyed by now.”

Hideaki Kumano, MITI’s Industrial Structure division director, thought Japan’s economy “worked” and America’s didn’t because “the problem in the U.S. is that you let your economics professors actually make economic policy for the government.”

An executive of a large electronics firm told me he had interviewed scores of American chief executive officers over the recent period to search for possible partners for joint ventures in the United States. He found hardly any of them capable of thinking about business and economics the way the Japanese do. “We don’t worry about showing a profit on a quarterly balance sheet the way your executives do. We are perfectly prepared to go for five years or more without earning a profit from sections of the company if it is part of developing a new market or a new technology. We think and plan in 5- to 10-year terms; I could hardly find anyone in America who thinks beyond a quarter or two.”

One aspect of the difference is the nature of the Japanese corporation itself. Although it has the form of a public stock corporation, shareholders do not exert strong control over the company. Short-term dividends are less important to stockholders than long-term rising share values. Moreover, even large outside institutional shareholders do not dominate the board of directors; instead, boards come entirely from within the company.

Although I was constantly struck by the rationality of the Japanese economic system, the emphasis on criteria of real economic growth, rather than the mone-

tary fixations of accountants, bankers, and lawyers, I noticed an erosion of this system. The erosion comes from *outside* Japan in the form of the anti-growth ideology of the Club of Rome stripe. This ideology gained ground in the early 1970s due to the panic over the oil shock in an economy previously fueled by plentiful, low-cost imported resources. The argument that resources, and thus growth, are limited gained acceptance among many fearful Japanese.

The anti-growth problem

These arguments have somewhat faded in recent years due to Japan's successful handling of the oil shock. A senior planner at the Economic Planning Agency pointed to the improvement of the energy-supply picture and Japan's relative ease in handling the post-Khomeini oil shock as important factors in rolling back "limits to growth" ideas.

MITI Industrial Structure director Kumano, however, expressed concern that such ideas are increasing. He said that the present head of the powerful Keidanren business federation, Yoshihiro Inayama, is an advocate of a "low stable growth" perspective for Japan. "We found ourselves encountering these arguments when we went to international conferences, like the OECD," Kumano explained, "At first we were very surprised by them." Kumano suggested that trade-war attacks on Japan are in fact the product of the Malthusian ideas now prevalent in America and elsewhere—that Japan is being attacked precisely because of its growth and technological orientation. Asked if the Club of Rome ideas could be also found inside MITI, Kumano, looking shocked, replied, "Of course not."

Sadao Ueshima, managing director of the Overseas Electric Industry Survey Institute, a think tank for the electric utilities, pointed to the growing environmentalist movement in Japan. It now takes 12 years to construct a nuclear power plant in Japan, he told me, due to opposition from local residents to plant siting. Much of the anti-nuclear fear is stirred up by the media and by the Japan Socialist Party, the largest opposition party, which is strongly anti-nuclear. Government and industry have countered the environmentalists with a public education campaign on the safety of nuclear energy.

Education and the future

Japan's ability to surmount external and internal problems may be determined by the current debate over Japanese education and culture. Japan is second only to the United States in the percent of high school graduates going on to college. Yet there is a widespread belief that the quality of higher education in Japan is on the decline and must be drastically reformed. The crucial debate centers on the need for Japan to internally

generate scientific and technological innovation, particularly because of the decline of U.S. science and technology, the previous fount of such ideas for Japan.

One Japanese think tanker declared, "We must change our educational system to place emphasis on teaching people how to think, how to be creative, not on accumulating facts through memorization." This is not a new problem, but now it is vital. In some respects, Japan has had two higher education systems—one in the schools and one in the corporations, particularly the large *zaibatsu* firms which maintain huge in-house training programs ranging from technical education for engineers to specialized training in languages for executives. Firms prefer new employees not to have too much specialized university training before coming to the firm. Contrary to popular American belief, the vast majority of Japan's research and development, almost 75 percent, is carried out at the private level, a much higher percentage than in the United States.

Corporate activity, however, is not a substitute for an effective national educational system. The Japanese system stresses the ability of citizens and employees to work cooperatively, not as individuals. While such "consensus" modes of operation are manifestly successful at one level, there is some concern that this stifles individual creativity.

These educational concerns intersect with "the problem of the youth generation." Nagahido Shioda, president of the Japan Research Institute, who has been studying changing attitudes toward the family, told me that in government circles one can find two views on the effect of Westernization. One is a great concern that the erosion of traditional values and culture weakens Japan; there are demands for efforts to counter it. The other view is that Japanese culture and society are so unique as to be impermeable to Westernization. Shioda, however, sees these views as opposite sides of the same coin. Instead, he said, one should separate out the good and bad aspects of the changes, e.g., the individuality issue.

For 150 years the Japanese have been trying to evolve a culture that combines their own with that of the West. Today this is made more difficult by the fear of importing current Western decay into Japan. Japan is still a fundamentally different culture. At times the Japanese defense of traditional culture seems the only means of defense they have against Western decadence.

What it means to be "Japanese," how to absorb the "good" but not the "bad" aspects of the West, and the new found national pride of recent years will determine whether the Japanese can mobilize their population to surmount their current difficulties, and whether they will be willing to fulfill their responsibilities in helping the world as a whole deal with the current political and economic crisis.