

Ensuring Japan's Economic Security

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In light of the recent instability on the international political scene, the second oil crisis and frequent international economic frictions, the Japanese people now are strongly cognizant of the importance of ensuring their economic security. They are also aware that this involves comprehensive measures in diplomacy, economic cooperation and energy in addition to military policy.

In March 1980, the Industrial Structure Council, an advisory body to the Ministry of International Trade and Industry (MITI), cited economic security as an important policy issue facing the nation in the future. The proposal was made in the Council's recommendations titled "MITI's Policies in the 1980s."

The recommendations said solving the problems Japan faces as a country short of natural resources is one of

the nation's most crucial goals. Clearly, one of the factors that has spotlighted the question of economic security has been the oil crisis and its aftermath.

But the threats to the Japanese economy are not confined to unstable resource and energy supplies. As a country dependent on foreign trade to keep its economy going, Japan also finds its economic security threatened in terms of trade. The General Agreement on Tariffs and Trade (GATT), based on the free economic exchanges that have supported Japan's development to date, and other international economic systems have become unstable, raising the fear of a shift toward protectionism.

The Industrial Structure Council established a special subcommittee on economic security in its general division in December 1981, to discuss the

Y. OGATA '82

matter from a broad perspective. The subcommittee, chaired by University of Tokyo Professor Tadao Uchida, released a report on its findings titled "Seeking the Establishment of Economic Security of Japan" on April 28, 1982.

"In considering Japan's economic security," the report declared, "we should take into account not only the question of unstable supplies of resources and energy, which has been often pointed out, but also the mounting instability of international political and economic systems and Japan's rising position in a world community marked by growing interdependence among countries." The report singled out the following areas as falling under the umbrella of economic security: 1) maintaining and strengthening the free trade system and other world systems; 2) ensuring stable supplies of strategic materials; and 3) contributing to the international economy through technology development.

Mutual dependence in economic terms is growing, not only among industrial countries, but between advanced and less developed nations, among the developing countries themselves and between the East and the West. This increasing interdependence is one factor behind trade friction. But it also means that the loss of favorable relations with other countries will deal a hard blow to any nation; it is helping to reinforce the foundations of world peace.

Acknowledging the close mutual ties in the world economy, the council report gives priority to measures for preventing a crisis by preserving and strengthening world systems. The report does not accept the proposition that all Japan need do is boost its self-sufficiency in important resources and reduce its dependence on foreign supplies as much as possible in preparation for bad days ahead.

The report defines economic security as follows: "To protect Japan's economy, mainly by utilizing economic measures, from grave threats originating from international factors." Because of the council's orientation toward industrial policy, the report does not touch on purely military security problems.

On Japan's defense policy it simply observes: "The term 'national security' is generally understood to mean coping with foreign threats by utilizing political, diplomatic, economic and a broad range of other measures coupled with military power. Under this security system, economic security is of particular significance for the following reasons. In the first place, as a peace-loving nation possessing only self-defense capabilities, Japan sees limitations in countering foreign threats through military means. And secondly, economic measures play a particularly important role in today's security program with its stress on preventive measures for

Table 1. Main Economic Security Costs in Key Industrial Countries (% of GNP)

	Economic Coop. Cost(1)		Oil Stock Cost (2)		Technical Dev. Cost (3)	
	Total	ODA Share	Total	Gov't-Aided Portion	Total	Gov't Share
Japan	0.65	0.32	1.48	0.16	1.8	0.5
U.S.	0.53	0.27	1.63	0.23	2.3	1.1
W. Germany	1.28	0.43	1.69	0.93	2.4	1.1
France	1.77	0.62	n.a.	n.a.	1.8*	1.0
Britain	2.43	0.34	1.08	n.a.	2.0	1.0

(Notes) 1. Economic Cooperation Cost: 1980 figures
 2. Oil Stock Cost: crude-oil reserves (as of October 1981) multiplied by officially posted crude prices from 1979 levels.
 3. Technical Development Cost: fiscal 1979 figure for Japan, preliminary 1980 data for U.S., fiscal 1978 data for West Germany and France, 1975 data for Britain
 *French President Mitterrand is seeking to boost this to 2.5% by 1985.

(Source) DAC, IMF-IFS, MEI, White Paper on Science & Technology, others.

Table 2. Change in GNP in Case of 30% Reduction in Nickel or Chrome Supplies for One Year (Calculation by Century Research Center)

Mineral Subject to Supply Cut	Nickel	Chrome
Change in GNP (Percentage Drop from GNP in 1979)	4.4	4.8

(Notes) 1. Supply reductions:
 Nickel: Imports of nickel ore, nickel mat, ferronickel, nickel oxide and nickel ingot are cut 30% from 1979 levels.
 Chrome: Imports of chrome ore, ferrochrome and silicochrome are cut 30% from 1979 levels.
 2. Key assumptions
 (1) Industries using nickel or chrome can reduce their product exports by up to 30%—in consideration of relations with overseas customers—from 1979 levels in times of supply cuts.
 (2) In each industry, final market demand does not drop below its 1975 level and inventory investment does not fall below a level 50% less than 1979 levels.
 (3) Exports and imports in each industry do not top 1979 levels.
 (4) The value of output in each industry neither exceeds 1979 levels nor drops below them by 50% or more.

It is further assumed that each industry tries to achieve its 1979 level of output as much as possible despite supply cuts and that the industries as a whole try to bring their output as close to 1979 levels as possible.

Reference: On the assumption that each industry can reduce exports by a maximum 50% from 1979 at the time of cuts in nickel or chrome supplies, the impact is eased as shown below.

Mineral Subject to Supply Cut	Nickel	Chrome
Change in GNP (Percentage Drop from GNP in 1979)	1.3	1.7

Table 3. Numbers of Foreign Businessmen in Japan and Japanese Businessmen Abroad

Nationality of Foreigners/ Destinations of Japanese Going Abroad	Number of (1) Foreigners with Long-Term Business Visas	Number of (2) Japanese Going Abroad to Work at Overseas Branches	Japanese (3) Businessmen & Their Families on Long Stays Abroad
Total	3,647	36,789	139,368
Asia	323	14,415	52,004
Europe	1,737	6,695	26,115
E.C.	1,358	5,785	23,000
Africa	17	964	5,579
N. America	1,413	11,683	41,940
U.S.	1,334	10,505	35,810
S. America	46	1,756	9,276
Oceania	110	1,276	4,454

(Notes) 1. Number of foreigners in Japan on long-term (3-year) business visas as of Dec. 31, 1981 (Justice Ministry survey)
 2. Justice Ministry's annual report on Immigration Management & Statistics (1980) (published 1981)
 3. Survey of Japanese staying abroad as of Oct. 1, 1981 (Ministry of Foreign Affairs)

Comment: The number of foreigners in Japan on long-term business visas is far less than the number of Japanese going abroad to work at overseas branches, which is believed to be close to the number of Japanese businessmen working abroad. Japan is thus running a "surplus" in the exchange of businessmen with foreign nations.

national security.”

Some of the key points of the report are described in more detail below.

The Cost of Economic Security

It is not easy to say how much should be spent on an economic security program because the possible security measures in such a program are extensive and varied. As shown in Table 1, a comparison of Japan's economic security costs with those of other industrial countries using a set of primary indicators reveals that despite its fragile position in the international economic community, Japan still spends an insufficient amount for this purpose and should work to further increase security spending.

But it would be wrong to unilaterally emphasize that “security is costly.” Rather it is necessary to set a spending optimum level that balances the costs of security measures with the benefits accruing from them.

Such cost accounting is rarely easy. But there is a successful example—a theoretical calculation of the impact on the economy of supply cuts in the supply of rare metals (Table 2). With the growing need for economic security today, it is necessary to push ahead with quantitative analysis as much as possible and not limit arguments to qualitative aspects alone in order to establish a national consensus on the burden of security expenditures.

Maintaining and Strengthening World Systems

As an economic power, Japan is expected to contribute to maintaining and reinforcing the performance of political, economic, cultural and other world systems in keeping with its capabilities. In reality, however, it is impossible for Japan to immediately assume a full role in all these areas. For the time being it is both more appropriate and more realistic to concentrate on such fields as the economy and technology, where Japan can use its capabilities to best effect.

(1) Preserving the Free Trade System

For the purpose of maintaining and reinforcing the free trade system, Japan must positively undertake, in concert with other industrial countries, to rationalize the GATT rules and embark on a new round of talks on trade liberalization and other issues. Japan is also advised to revise its residual import restrictions, improve import procedures and take other sweeping measures to open up its market. It must seize the occasion to make its market more accessible than those of the Western countries, and must be prepared,



Participants gather for the opening session of the North-South Summit in Cancun, Mexico, on Oct. 22, 1981.



The 38th session of General Agreement on Tariffs and Trade (GATT) in Geneva, Switzerland opened on Nov. 24, 1982.

if need be, to break with tradition by eliminating tariffs across the board.

Economic cooperation contributes both directly and indirectly to Japan's economic security. It stabilizes world systems through the economic and political stabilization of developing countries, while, at the same time heightening interdependence between Japan and energy-supplying nations. Japan should further promote economic cooperation, never forgetting that the primary purpose of this is to contribute to the development of less advanced nations.

(2) Revitalizing the World Economy

In order to help revitalize the world economy, Japan should play a leading role in promoting large-scale international projects for developing high technology, along with international joint undertakings that can generate effective demand on a global scale.

(3) Promoting Broad International Exchanges

Deepening mutual understanding with foreign countries is essential if Japan is to overcome its weaknesses as a resource-poor nation and make an effective contribution to international society.

Japan's interchange with foreign countries has thus far centered around goods and money. From now on, Japan must also put its energies into promoting personal and information exchange. To this end, Japan should encourage foreign businessmen to participate in the Japanese market, where there are still far fewer than there are Japanese businessmen abroad (see Table 3)—and see to it that a greater variety of Japanese travel to foreign nations. Moreover, Japan must make more information available to people overseas to help them better understand Japanese culture and society.