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# Economic

# Organizations:

# The *Zaikai*

By Tsunehiro Kunimasa

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There are many economic organizations in Japan formed by executives of business corporations. These bodies wield tremendous influence, and their proposals and requests greatly affect government policy making.

The economic organizations make their voices felt in politics by donating huge sums of money to the ruling Liberal-Democratic Party (LDP).

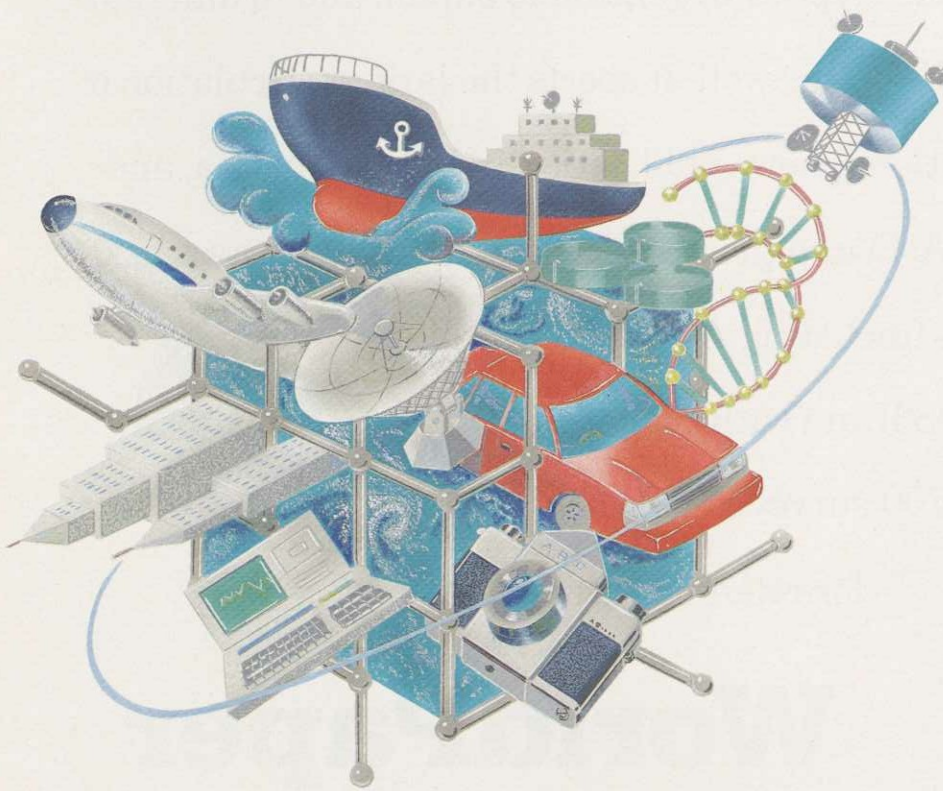
In international relations, they act as private-level diplomats through their contacts with the economic organizations and governments of many countries, principally the United States. At times, Japanese businessmen even visit other countries as members of government-sponsored missions, laying the groundwork for Japan's official diplomacy.

This, however, does not mean that the Japanese business community, the government and the ruling LDP are always in agreement. At times, there are sharp divisions. A recent example was the head-on clash between the Federation of Economic Organizations (Keidanren) and the Ministry of Finance over the latter's plan to raise the corporate tax.

At the strong request of the prime minister, former Keidanren Chairman Toshiwo Doko became chairman of the Ad Hoc Commission on Administrative Reform, an advisory organ to the prime minister. Many times it seemed that reform was in danger of being thwarted by vested interests, but Doko vigorously kept the effort going. This merits special mention.

The business community, known vernacularly as the "*zaikai*," must be counted one of the powers which move Japan. Behind this power is a system structured on ample funds, a web of personal connections, and organizational muscle. This system is virtually unique to Japan.

There is no exact English equivalent for



"*zaikai*," a word composed of the Chinese characters "*zai*," meaning money, assets or goods, and "*kai*," meaning world, circle, or group. The word has no clearly defined meaning as it refers to a nebulous institution. Most often it is used to refer collectively and in a general way to the top management of the big industrial and financial corporations that are considered to represent Japanese industry as a whole.

Before World War II, "*zaikai*" referred mainly to the managers of a handful of powerful financial combines known as "*zaibatsu*," such as Mitsubishi, Mitsui and Sumitomo. However, the "*zaibatsu*" were disbanded after the war, and "*zaikai*" has since come to be applied to the new leaders of big corporations which do not necessarily have roots in the old "*zaibatsu*."

The "*zaikai*" leaders of today belong to one or more of four economic organizations which serve as their base of activities. These are Keidanren, the Japan Chamber of Commerce and Industry (Nissho), the Japan Federation of Employers' Associations (Nikkeiren) and the Japan Committee for Economic Development (Keizai Doyukai).

The common characteristic of these four

bodies is that they are not organized along industrial lines but include all industries and thus represent the viewpoint of the business community as a whole. This is the decisive difference between the economic organizations and more narrowly focused industrial organizations, which only represent the interests of a particular industry.

Whereas industrial organizations safeguard the interests of the industries which they represent, the four economic organizations concern themselves with matters on a higher plane relating not only to the welfare of industry as a whole but also to the desirable form and operation of government and society in general.

These characteristics of the four economic organizations and their position in Japanese society are so unique that their likes cannot be found anywhere else in the world.

## **Zaikai sees a political duty for itself**

One of the most striking features of the economic organizations is the tremendous

influence they exert on the policy decisions of the government and the ruling LDP.

In making decisions on measures to stimulate the economy, macroeconomic policy, fiscal policy, public welfare taxation and so forth, the government and the LDP never fail to take into account the "*zaikai*'s" opinions.

Sometimes, the "*zaikai*" demands that the government and LDP adopt measures to stimulate business, while both always sound out the "*zaikai*'s" opinions before policy making and ask for its cooperation.

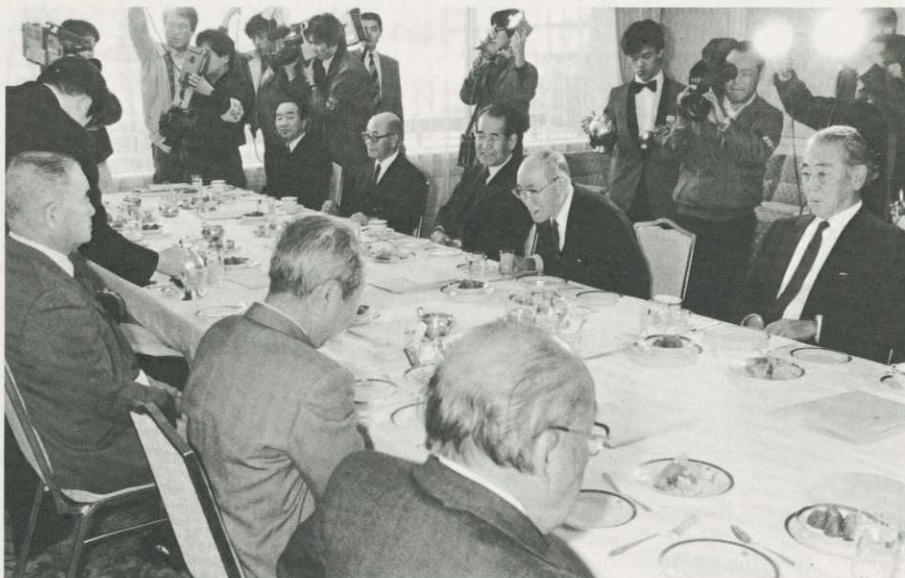
Before adopting policies that might increase corporate financial burdens, the government and the LDP always conduct "*nemawashi*," a process of informal negotiations to win over all parties in advance. If the "*nemawashi*" is neglected, the implementation of policies becomes much more difficult. All government ministries and agencies as well as the prime minister and other state ministers have "deliberative councils" or "study councils" to advise them on policy. Invariably, the members of such councils include "*zaikai*" leaders who speak on behalf of the business community.

Because labor union representatives, scholars and other experienced representatives also sit on these councils, the views of the "*zaikai*" are not always adopted. However, the "*zaikai*" is nonetheless assured of an opportunity to state its case, and its voice carries considerable weight.

A recent good example was the appointment of former Keidanren Chairman Doko to the post of chairman of the Ad Hoc Commission on Administrative Reform. The commission was established by the cabinet in order to push administrative reform, and an influential "*zaikai*" leader was chosen in order to obtain the people's support. It also hoped to feed the private sector's spirit of rational management into national administration.

The cabinet's strategy worked, and the ad hoc commission managed, despite monumental obstacles, to draw up recommendations for administrative reform.

Subsequently, an Ad Hoc Council for Promoting Administrative Reform has been established as a watch dog organ to ensure that the ad hoc commission's recom-



The top leaders of the four economic organizations meet with ruling LDP leaders at regularly-held breakfast meetings.

mentations are implemented. Doko was appointed chairman of this council also, and Bunpei Otsuki, president of Nikkeiren, was appointed acting chairman.

"*Zaikai*" leaders also chair other important deliberative councils, such as the Economic Council and the Industrial Structure Council.

The ruling LDP has a very strong voice in the government's policy decisions. The men holding the top posts in the LDP (secretary-general, Executive Council chairman and Policy Affairs Research Council chairman) regularly meet with the top leaders of the four economic organizations. Usually, they hold breakfast meetings, and the contents of their talks are explained to the press afterwards.

The second feature of the economic organizations is that they perceive one of their missions to be to induce the political world to guard the capitalist system.

The National Political Association, an affiliate of Keidanren, annually collects cash contributions from the "*zaikai*" and makes donations to political parties. Most of the donations, amounting to tens of billions of yen annually, go to the LDP. Additional donations are made to finance election campaigns.

Each industry is assigned a sum to contribute. Industry leaders then determine how much each corporation in the industry is expected to pay. Influential "*zaikai*" leaders request corporations to cooperate in the fund-raising, but the actual allocation of contributions is a closely held secret.

The "*zaikai*" considers these contributions to be part of the cost of guarding the free enterprise system. The LDP, whose revenue from party membership fees is quite small, is only able to operate because of the financial support of the "*zaikai*." It is not too far-fetched to say that the "*zaikai*" is the LDP's sponsor.

## "*Zaikai* gods"

The third feature of the "*zaikai*" is that powerful business leaders have emerged since World War II to enhance its power.

When Hayato Ikeda was prime minister (1960-1964), the group known as the "four *zaikai* gods," including Ataru Kobayashi, one-time president of the Japan Development Bank, exerted tremendous influence on the political world. This was because the four were close personal friends of Ikeda, and the prime minister placed great weight on their views.

The "four *zaikai* gods" were followed in later years by other businessmen with powerful political influence. They included the late Taizo Ishizaka (chairman of Keidanren and chairman of Toshiba Corp.), Toshiwo Doko (ex-chairman of Keidanren and ex-chairman of Toshiba Corp. succeeding Ishizaka) and the late Shigeo Nagano (former chairman of Nippon Steel Corp.) who served for 13 years as president of the Japan Chamber of Commerce and Industry.

These leaders were active in "*zaikai*" affairs for many years. When prewar corporate executives were purged from public posts after World War II, a generation of younger men was suddenly pushed to the top. There were no "old guards" pressing down on the new corporate managers, and everything had been destroyed in the war. The new top executives were able to display their abilities without any constraints in reconstructing corporations and industries.

The Japanese economy was soon enjoying a period of high growth. Corporate foundations were consolidated and earnings rose. Because they had become top executives while still relatively young, these men remained in their posts for years, and gained unquestioned control over their own corporations. It is only recently that a generational change in the leadership of the "*zaikai*" has begun to take place.

The fourth feature is that "*zaikai*" people enjoy a high position in society.

Traditionally, government officials enjoy the dominant position in Japanese society. However, with the growth of the economy led by industry, the position of businessmen has risen and their importance in Japanese society has increased.

With the liberalization of trade and capital, and deregulation which has made it easier to obtain licenses and authoriza-

tions, the authority of government departments responsible for economic affairs has diminished compared with the wartime and immediate postwar years.

On the other hand, the voice of the "*zaikai*" leaders who represent industry has strengthened. The social soil for accepting the leadership has become fertile indeed.

Evidence of this are the "*zaikai*" representatives sitting on government deliberative councils. "*Zaikai*" leaders are also invited without fail to the government's welcoming receptions for visiting foreign presidents and prime ministers. They are even invited to formal dinners at the Imperial Palace for visiting dignitaries. The "*zaikai*" today has become a firmly entrenched part of the establishment.

## Business to business diplomacy

Fifthly, the "*zaikai*" plays an important role in private-level diplomacy.

Since its early days, the "*zaikai*" has held regular meetings with American business leaders who have deep ties with Japan through such arrangements as the Japan-U.S. Businessmen's Conference and the Japan-U.S. Economic Consultation Committee. These gatherings, held alternately in Japan and the U.S., provide opportunities for discussing the economic issues of the day and promoting friendly relations.

These contacts enabled the "*zaikai*" to catch the mood in America regarding Japan-U.S. economic friction, and led it to urge the Japanese government to speed up the opening of the Japanese market.

At times, a "*zaikai*" leader or a "*zaikai*" mission is entrusted by the government to visit another country to carry out a specific task.

Among the earliest of such cases was the dispatch of Kogoro Uemura, chairman of Keidanren, to the U.S. at the time of the Japan-U.S. textile negotiations. At the government's request, Uemura sounded out the views of American businessmen and government officials. Similarly, when economic friction threatened to harm relations

with Europe, the government sent a mission headed by Keidanren Chairman Yoshihiro Inayama. In every country the mission visited, it was bombarded with complaints.

The "zaikai's" private diplomacy covers many other parts of the world. The Joint Japan-Soviet Economic Committee has been cooperating in the development of Siberia. This is in marked contrast to the constrained relations between the two countries at the government level. Recently, however, even economic exchange with the Soviet Union is at a low ebb because of Japan's participation in economic sanctions against that country.

Recently, the "zaikai" has begun to place greater emphasis on Asia. Until now, economic cooperation in this area was primarily advocated by Noboru Gotoh during his term as vice-president of the Japan Chamber of Commerce and Industry, through the Pacific Basin Economic Council composed of businessmen of Japan, the U.S., Canada, Australia and New Zealand. (Gotoh is now Chamber president.)

In January-February this year, Keidanren sent its first mission to the ASEAN countries. The organization has begun to turn its attention to the so-called Pacific Era.

As for China, until now it was Keidanren which was promoting economic cooperation with that country. But in March this year, the Japan Chamber of Commerce and Industry also sent a large-scale mission to China.

In addition, periodic meetings are being held with most European countries, including those in Eastern Europe.

## Changing with the economy

As the above survey shows, Japan's "zaikai" has features not found in the industrial organizations of other countries. It is also a fact that a perceptible change is now coming over it.

First of all, there are fewer leaders today with forceful personalities. This is related to the fact that the industrial world has now

passed its period of hard-driving growth under the leadership of men of vision and entrepreneurial fire. Today top management in an increasing number of corporations are men who are administratively inclined.

This change is critical, as the influence exerted by the "zaikai" depends greatly on the personal attributes of its leaders. It follows that when the number of strong leaders decreases, the "zaikai" influence, too, diminishes.

A case in point is Keizai Doyukai. The feature which most distinguishes Keizai Doyukai from other economic organizations is its concern with long-term policy matters. Traditionally it has posed questions about corporate ethics and has pondered Japan's national future.

In the years when the late Kazutaka Kikawada (chairman of Tokyo Electric Power Co.) presided over Keizai Doyukai, the organization reflected his theoretical thinking and made many sophisticated and noteworthy suggestions. The chairman's traditional New Year's message always attracted wide public attention, and Keizai Doyukai's *raison d'être* was greatly enhanced.

But since Kikawada passed from the scene, it is generally agreed that Keizai Doyukai has lacked luster.

The distinguishing feature of Keidanren, meanwhile, is that it is a union of industrial organizations that acts as the headquarters of the "zaikai." It is closely involved in making political donations.

The Japan Chamber of Commerce and Industry is the representative of local chambers of commerce and industry, which mainly represent small and medium enterprises. It is, moreover, a special juridical body whose establishment is based on law.

In comparison, Keizai Doyukai is a policy-oriented organization. Therefore, if its policy suggestions lack sparkle, its influence cannot but suffer.

Nikkeiren is an organization with a single function. It handles management-labor problems, particularly wage issues. It is almost like the labor relations department of Keidanren. In Japan it is customary for many companies to negotiate wages with

unions every spring. This is known as labor's "spring offensive." At this time, Nikkeiren acts as management's general staff headquarters during the campaigns.

The problem with Keidanren is that the main stream of its leadership consists of executives from the heavy and chemical industries which sustained Japan's high growth in the past. Some critics charge that the organization is cool toward the distribution and service industries which have been threatening in recent years to unseat the heavy and chemical industries. They say that with Japan's economy becoming increasingly software-oriented, future economic policy should be based on structural change in Japan's industry. There is a limit, they maintain, to what can be expected from Keidanren's current leadership in this regard.

The Japan Chamber of Commerce and Industry is a mixed group of big, medium and small enterprises. Should the interests of big business and those of smaller enterprises conflict, it becomes difficult for the Chamber to act as a unified organization. It was for this reason that the Chamber was long regarded after World War II as being slightly farther down the ladder than other "zaikai" organizations.

But today, the Chamber ranks alongside Keidanren. It was the political aptitude of former president Shigeo Nagano which pulled the organization up to this level. All eyes are on how the new president, Noboru Gotoh, will maintain the prestige and authority built up by his predecessor.

The fact that the majority of the Chamber's members are small and medium companies means that this organization is in a position to advance the kind of proposals for the future management of the Japanese economy which cannot be expected from the other big three economic organizations. It is also well positioned to play a different kind of coordinating role in the "zaikai."

After all is said and done, the "zaikai" remains a nebulous institution which defies clear definition. Yet, like so many other unique Japanese institutions, one thing is certain: the "zaikai" will continue to flourish for many years to come. ●