

pioneers in the establishment of a technology-based country. In view of the technological interrelationships between industries, however, it is insufficient to look simply at these peaks of the technological mountain range. Japan must pay attention to the foothills as well. It must justly value the roles of the various industries that support the peaks, and build an industrial structure that will maintain and further develop important technological interrelationships.

Here arises the question of what to do with those industries which are essential to technological interrelationships but lacking in international competitiveness. Since Japan can no longer resort to import controls, it should take appropriate measures

to permit these industries to continue on a limited scale for a given period when there are prospects for a recovery in their international competitiveness in the foreseeable future, while promoting as a general principle international division of labor based on the theory of comparative cost advantages.

Many basic materials industries have been forced to make structural adjustments in the wake of sharp increases in oil prices. Some, however, are not only very important from the viewpoint of maintaining and fostering the technological interrelationships on which their development is based, but can also be expected to regain cost advantages in the medium- or long-term, through positive technological

development from a total-industry perspective. Japan should step up development of technology for revitalizing these basic-materials industries, including international joint research and development. ●

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Following articles are the commentaries on the report "Seeking the Establishment of Economic Security of Japan" contributed by three distinguished observers. They are Michael K. Young, director, Center for Japanese Legal Studies, Columbia University School of Law, Yoichi Masuzoe, associate professor at the School of Liberal Arts, the University of Tokyo and Mitsuo Kohno, deputy chief editorial writer of the Yomiuri Shimbun.

COMMENTARY

Economic Security: Japan Reviews its Options

By Michael K. Young
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The small English booklet *Economic Security of Japan 1982* is most thoughtful and interesting and should stimulate rather energetic debate on two—one expected and, I suspect, one unexpected—separate and rather distinct fronts.

That part of the report which will engender expected debate involves the substance of the report itself. Both the underlying premises and the proposals

which supposedly flow from these premises will provoke sharp controversy both here and in Japan.

Additionally, however, I suspect that, at least in America, debate will be equally vigorous, though, at least from the Japanese perspective, somewhat unexpected, over what this booklet suggests about the dynamics of the process of solving problems such as this in Japan. This interim

report is the first step in what seems to me a rather typical process for dealing with important political and economic issues in Japan. That this process is being played out rather more internationally and, at least to foreigners, more accessibly than is commonly the case will help sharpen and focus debate on the relationship between the process and substance of Japanese "industrial policy." (These latter revelations will be particularly timely for America as we struggle to develop a coherent industrial policy, if indeed there is such an animal.)

The booklet is a summary of an interim working report of the Special Subcommittee on Economic Security of the Industrial Structure Council, attached to the Ministry of International Trade and Industry (MITI). The subcommittee, created in November 1980 with membership drawn largely from academic and corporate circles, has met on a number of occasions during the past two years to

examine various measures for, as they put it, "the strengthening, through a national consensus, of Japan's economic position in the midst of an unsettled international environment." Not surprisingly, such a consensus has been difficult to achieve. The interim report was issued explicitly for the purpose of making the public aware of the committee's work. One also strongly suspects, however, that its publication had the additional purpose of stimulating debate and helping gauge support for, or opposition to, various proposed measures. This report is ably constructed to accomplish all those goals. And in the United States, it might even accomplish a bit more.

The first front on which this report will spark lively debate is that of the substance of the proposals themselves. The report initially makes a very strong case for the necessity of considering comprehensively the future direction of the Japanese economy, especially in light of current world economic conditions. It makes an even stronger case for an enhanced awareness of the significant interdependence between Japan's economy and those of certain other countries and the need to craft any proposed remedies against this backdrop of interdependence.

"Fragile" Economy?

Related to these two themes is the notion, expression of which is apparently obligatory any time Japanese discuss their economic situation, that Japan's economic situation is peculiarly precarious and "fragile" in nature. If, by fragile, one means the Japanese economy is particularly interdependent with the economies of other nations because of the need to import significant amounts of various raw materials, oil and the like, and the need to secure foreign capital sufficient to pay for those resources, this notion of fragility is unexceptional, indeed merely a way of restating the second premise mentioned above. One senses in this and many other discussions of the Japanese economy, however, that perhaps the word "fragile" is being used in a somewhat different way. While it is difficult to define exactly what this means beyond the basic scarcity of resources issue, its functional implications are somewhat easier to discover. For example, discussions which start with the premise that the Japanese economy is "fragile" will often suggest that Japan is best served when it is protected from the untoward tugs and pulls of many of the most basic market forces. The term "excessive competition" is a clear signal that one has entered into this sort of discussion.

Outside observers are often surprised at, and might be rather inclined to discredit, this continual sense of doom which, even in the best of times, pervades discussions of the Japanese econ-

omy. The performance of the Japanese economy in the face of the successive "oil crises" and the current, worldwide economic recession also leaves substantial doubt whether the word fragile, at least in this second and somewhat vaguer sense, has any real place in a discussion of the Japanese economy.

I believe this debate is more than merely semantic. If one focuses more on the interdependence of the Japanese economy, one tends to devise solutions which are very outward looking, focusing on ways in which the Japanese economy can be shored up by stabilizing and improving the entire world economic situation or at least the situation of those countries with which Japan is most interdependent. If, on the other hand, one focuses on the eternally though rather undefinably precarious nature of the Japanese economy, one's solutions tend to be rather more inward looking, self-protective in flavor if not in fact. To some extent, while the notion of interdependence, and all that that implies for a more expansive international economic role for Japan, generally wins out in this report, there are occasional hints that this other, vague yet pervasive sense of "fragility" informs at least some of the proposed measures and has dampened somewhat the extent to which the report really commits itself to an appreciably more expanded role for Japan in the global economic community. The notion of fragility in this rather more undefined sense runs counter to the basic notion of interdependence, and occasionally leaves one with the sense that this report does not always have the strength of its own convictions, at least if one takes the report at its word that interdependence must be the watchword of the day.

Things Left Unsaid...

Readers also might be left a bit uneasy by the notable reluctance of the subcommittee to acknowledge in any significantly functional way the demands placed on Japan as a result of its emergence as an economic superpower. These constraints are acknowledged in the summary report, but, according to the way I see it, rather more in the nature of an afterthought than as a guiding principle of central significance. The report gives the general suggestion that Japan should assume a much stronger leadership role on the world scene. However, nowhere does it give this suggestion in concrete terms. Virtually all the proposals are rather reactive in nature. The only place in which it acknowledges a significant "tradition-breaking tack" is in the suggestion that Japan might profitably attempt to shore up the GATT by eliminating tariffs across the board, "if need be." While this is certainly a step in the right direction, and a significant one at that, coming, as it does,

literally decades after the establishment of GATT, it is hardly an earth-shattering step. I was a little surprised that a forward thinking committee such as this did not explore more deeply the nature of the so-called constraints and demands placed on Japan because of its significant economic position. I would have thought concerns of this sort would have played a more significant role in the debate.

I likewise wonder if at some point this subcommittee would not find it useful to consider the reaction of Japan's major trading partners to some of these proposals. For example, there is occasional discussion of the government "taking a direct hand" in certain situations "by shouldering that part of the costs beyond the financial capacity of the private firms." This particular quotation follows some discussion of the necessity of encouraging companies to stockpile necessary raw materials and develop certain critical technology. The implication is unmistakable that on occasion the government will take a rather direct role in supporting these activities. One wonders whether activities of this sort will not raise rather loud and sustained cries of unfair advantage if the commodities produced by the companies which enjoy this advantage find their way into international trade. One also wonders about the reaction of lesser developed countries, newly industrialized countries and even major industrial powers to Japan's attempts to stockpile major reserves of oil and the other raw materials necessary to fuel its economic advancement. At some point during the debate I suspect these issues ought to be aired.

On a much more minor level, one can quibble with other points made or not made in the report. For example, I would like to have seen a bit more attention paid to the role of coal as a source of energy. In particular, while the report discusses the feasibility of coal as a function of the price of oil, it devotes little attention to the possibilities of technological breakthroughs which might significantly alter this current cost-benefit analysis. I would have thought this sort of inquiry quite useful, especially in light of the rather large coal reserves available in one of Japan's most long term, stable allies, Australia. I also thought more discussion of oil suppliers outside the Middle East, such as Mexico and Indonesia, might have been warranted.

In a somewhat different vein, while brief mention is given to the possibility of creating a GATT type arrangement to facilitate trade in services and the transfer of technology, I think substantially greater examination of this area would have been useful. There is little doubt that for Japan and many of its major trading partners, the tertiary sector of the economy is becoming increasingly significant. The U.S.

Department of Commerce, for example, has designated the facilitation of free trade in the service sector a major agenda item for the 1980s and 90s. I suspect the complexity of this problem, the significant overlay of government regulation which already exists in this area, and the increasing importance of trade to most major industrialized countries will result in trade disputes which will make the disputes over autos and steel piles by comparison. The United States fired the opening volley in this war at the recent ministerial level GATT meeting in Geneva. The resistance to that shot, if not the shot itself, was certainly heard around the world. More attention to this problem would seem a useful addition to the perspectives now offered in the report.

Marked by Solid Research and Foresight

On the whole, however, I found this interim report extremely useful and very stimulating. It is very thoughtful, remarkably well researched and contains a number of most provocative and insightful observations. I found stimulating the suggestions regarding Japan's international financial role and the part that Japan might play in revitalization of the world economy. I also found interesting the expression in a variety of places that Japan must make itself more open to foreign goods and foreigners themselves. I likewise was impressed with the perception that various emergency measures might themselves cause significant economic dislocations and that crisis management systems must be developed to deal with the effects of those emergency measures. Japan has learned well the lesson that tinkering with one part of the economy invariably affects another. It is precisely this kind of insight and foresight that makes this report so interesting and useful.

I also was impressed with the rather candid admission that certain self protective measures which might be expedient in terms of domestic politics are not at all justifiable in terms of economic security. For example, even in the discussion of Japan's food supply situation, the subcommittee makes it clear that it is "wrong to protect all agricultural products in the name of economic security." This kind of sensitivity in the analysis is found throughout the report, making it a most useful and, in my opinion, central addition to the debate on these important topics.

The report also contains a number of extremely useful appendices in graph and chart form. The graphs, in particular, make a strong case for various of the subcommittee's assertions, such as the degree of Japan's interdependence with certain other countries and the extremely deleterious effect which would be occasioned by

trade protectionist measures. Other graphs, such as the one which describes the effects on the world economy of a significant decline in Japan's GNP, and charts, such as the one which discusses the types of technological developments necessary to revitalize certain basic industries in Japan, also are highly illuminating. These technical data alone make the report extremely valuable reading.

For Americans— a New Perspective on the Interplay of Government and Business on Japan

There is, however, a second level at which I suspect this report may spark rather unanticipated, nevertheless extremely important debate, at least in the United States. The very nature of this enterprise is somewhat foreign to the American way of thinking. We certainly have various study and advisory committees which issue well thought-out and comprehensive reports. That such a committee can play, especially in an area of such jealously guarded prerogatives as those of the free enterprise system, a central role in the policy making function of the government is rather startling to many Americans. That these proposals will be taken seriously and find expression in actual practice in this area is even more remarkable.

At the same time, the activities of this subcommittee should raise substantial doubts about the claim that the Japanese government is highly interventionist and directive. Rather, the very nature of this enterprise, which starts with a committee composed largely of academics and businessmen and works towards the development of a national consensus, suggests that perhaps the model we so commonly credit in the United States of the Japanese government leading and business meekly

following is not totally accurate. Rather, the interplay between business and government is much more complex and subtle and the government perhaps is more fairly viewed, on occasion, as a tool for the effectuation of all sorts of business interests and, on other occasions, as an organization which creates a constituency for certain future interests which otherwise might be unrepresented in the tug and pull of the political process.

In all events, I think it is particularly timely that we have an opportunity to observe this process play itself out in an area as important to our own interests as this. This is one of those rare occasions on which we know that significant developments are going to occur, and that those developments undoubtedly will be the result, at least in part, of interaction between government and business. A case study such as this surely is a political scientist's dream. We can watch this entire situation unfold and in the process learn a great deal about the way in which the Japanese government operates, and the relationship between business and government. This, in turn, will help us focus our own thinking, not only about the substance of an industrial policy for the United States, but also about the tools of government necessary to effectuate such a policy and the relationship between those tools and other goals and objectives of our society. While these sorts of concerns may be of appreciably less interest to the Japanese, I believe they can be extremely instructive to the United States at this critical juncture in our own thinking about the future direction of the American economy.

As the very length of this rather long—though intended to be extremely short—review indicates, this is an extremely provocative report. It is useful, insightful and will serve in the months ahead as a central point in the debate about the future of the Japanese economy. I sincerely hope it receives wide distribution in the United States. It certainly deserves it. ●

COMMENTARY

Time for Strong Political Leadership

By Yoichi Masuzoe

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The primary objective of Japan's security is national survival. The preservation of freedom, peace and prosperity is also indispensable. The Japanese government, under what it terms "comprehensive security," has been trying to ensure the nation's security through wide-ranging ef-

forts covering the military, diplomatic and economic fields.

Among the unstable factors Japan must cope with in international politics today are the Soviet military threat, trade friction with its industrial allies such as the United States and the European Com-