

Navigating the Nineties

MITI's recent *International Trade and Industrial Policy in the 1990s* takes a hard look at Japan's position in the world and the outlook for the future and then tries to reconcile the two by identifying what Japan should do to make that future better, for itself and all peoples everywhere. This was very much a group effort, as the body it was written by, the '90s Policies Committee of the Industrial Structure Council, is composed of seven subcommittees and draws on the collective expertise of almost 200 members. Some of the people who were most influential in drawing up the "vision" recently gathered for a look-back wrap-up on their efforts.

Tsujimura: The 1990s are shaping up as a very difficult and very crucial time of transition. It is essential that Japan meet these challenges effectively. And that is why this report calls for a shift in priorities. We emphasized heavy industrialization in the 1960s, knowledge-intensive industry in the 1970s, and creativity-intensive industry in the 1980s. Now it is time for an emphasis on human values in the global perspective.

Kozai: Even before this vision was officially released, there was a long article in the *Wall Street Journal*. As the article noted, the main question is whether or not we can make it work. This is especially true in that the report is basically a statement of direction, and there are a lot of details yet to be filled in. It is a major commitment, and I wonder if we have not bitten off more than MITI can chew.

The second point I would emphasize is the interrelationship among the objectives and principles. For example, the first objective of contributing to the international community and promoting self-reform is closely related to the second objective of improving the quality of Japanese life. And long-term growth can only be achieved through improving the quality of Japanese life and contributing to the international community.

Konaga: Japanese industrial policy has

been criticized as a "targeting policy," and that is why I think it is so significant that MITI has made this effort to explain exactly where its policy is coming from and where it is going.

Until recently, the Japanese economy was largely corporate-driven. Now we are changing to a consumer-driven economy. Market mechanisms will continue to be basic, and a greater effort is to be made to ensure broader participation in these market mechanisms.

We are moving away from the emphasis on economic efficiency to a new priority on the quality of life. This is, if you will, a change from the supply side to the demand side.

Better balance

Tsujimura: In a way, we are at the point where people worry that unbridled corporate activity—the very business vigor that underpins our prosperity—has begun to undermine or curtail individual activity. And we now have the ability to strike a better balance.

Kimura: Ever since the mid-19th century, we have concentrated on manufacturing and exporting. But with Japan's present level of prosperity, it is time the people were able to spend their time, energy and money on themselves. So we have moved from industrial efficiency to quality of life—from an emphasis on the public self to the private self.

The second point has to do with global integration. In 1992, the EC will be a single economy, and we are even likely to see a single European currency by 1994. Then there is the U.S.-Canada free trade agreement. Everywhere, we are seeing the movement away from the nation state to the continental union. Although Japan has no choice but to remain a national economy for the time being, we need to be more a part of the international community.

We need to contribute economically, technologically, environmentally and even culturally.

Kozai: The 1990s are a watershed decade, but it is very difficult to tell where this complex mix of events is headed. One of the major currents is that the socialist regimes are crumbling and the era of East-West conflict is ending as the communist countries adopt freedom, democracy and free-market values. And given today's technology, the world is becoming a single, borderless economy.

But this is blighted by ethnic rivalries. Countries that we thought were going to democratize instead revert to police states. In a way, the political situation may be reverting to the 19th century's regionalism. So we have a mix of nationalism, regionalism and globalism.

There are multilateral forums such as the GATT Uruguay Round, bilateral forums such as the recent Structural Impediments Initiative (SII) by Japan and

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Forty-five music festivals sponsored by a leading corporation have been held at this building, the Yatsugatake Kogen Concert Hall, since 1975.

the United States, and unilateral means such as Super 301. It is still a very mixed bag of optimism and anxiety.

That is why it is so important that we promote open regionalism leading to globalism. I suspect this will be made easier by the fact that both the global superpowers straddle two regions—the United States being both an Atlantic and a Pacific power and the Soviet Union being both a European and an Asian presence.

That is why countries have to build mutually overlapping relationships of trust on all levels. It is only within the context of trying to build and consolidate these mutually overlapping relationships of trust that international economic policy has any meaning.

Tsujimura: I am particularly pleased that this report calls for determinedly open regional cooperation.

Konaga: While I applaud this emphasis, I wonder if the vision has not paid too much attention to Europe and the United States — or not enough attention to the Middle East. The Middle East is still a world tinderbox.

So far, Japanese ODA (official development assistance) has concentrated on helping the countries with the best prospects. But given energy's importance, we have to find some way to help the Middle East countries industrialize as well.

The other point I would emphasize is the fundamental importance of our relations with the United States. I doubt if this will change, no matter what happens

in the 1990s. I know that detente will call our security arrangements into question, but I am confident that this can be worked out and that this partnership can continue to underlie our mutually overlapping relationships of trust.

Kimura: The world has become so interdependent and the problems so big that everybody realizes no one nation can solve its problems alone. That realization underlies EC integration, and that is why I do not see these regional groups developing into exclusive economic blocs.

Shared philosophy

But EC integration is more than a rational response to national powerlessness. It is also a union of countries linked by a shared Judeo-Christian philosophy, which is why it is possible for the Soviet Union to live in the greater European house.

The Islamic nations are also bound by their religion. And when countries come together not only for rational reasons but around emotional ties as well, we have the potential for trouble that cannot be defused rationally.

Japan's ties to Asia may be partially rooted in the same subconscious irrationality. Even though there are economic, political and even religious differences, there is a strong magnetism from the racial similarity. This is a major psychological factor, but it tends to be ignored because it is unspoken. We cannot ignore it any longer. We have to be aware of the relationships at this level too and to work to ensure that these affinities do not end up dividing the global community into warring factions.

Kozai: I did not mean that the EC was moving toward blocism. But even as I hope everyone will benefit from the synergy, I do think there is the danger of a Fortress Europe. The SII talks between Japan and the United States, for example, were initiated because the two nations are so close and their economic structures so similar, and the talks have resulted in bringing them even closer together. This leaves Europe as the odd man out, and I can see how the EC might be defensive about this.

On the ODA question, there was considerable support for defining ODA's role more broadly to include the Middle East and other regions.

Likewise with the importance of the partnership with the United States. Personally, I feel that an American presence facilitates Japan's relations with the rest of Asia. And I would hate to see that partnership dissolved or downgraded.

In some ways, Japan's situation now is similar to that in the 1920s, when the Russian threat abated and Japan was able to concentrate on business while everyone else was preoccupied. It was a heady time, and Japan thought nothing of abrogating the Anglo-Japanese Treaty and striking out on its own. We all know how that adventure ended. That is why we have to continue emphasizing overlapping relations with all countries firmly grounded in the partnership with the United States.

Tsujimura: These relations also have to be overlapping in the sense that they are not just at the governmental level but are also at the corporate and even the grass roots level.

Konaga: This also came up in our discussions. For example, friction is emerging not just over trade but even over investment. We suspect that part of the problem is that Japanese executives spend more time trying to coordinate with Tokyo than they do addressing the local community's needs.

That is why we emphasized the "good corporate citizen" idea. If you are part of the local community, you have to take part in community activities. Sometimes this means contributing to cultural or charitable causes. Sometimes it is as simple as fixing something for a pot-

luck dinner. This is being increasingly recognized. Keidanren, for example, has recently suggested that its members earmark 1% of profits for charitable contributions. And there is even talk of special tax incentives to encourage such contributions.

Much of Japanese management transplants very well, but there are also some things that impede being part of the local community worldwide. These we have to change.

Kimura: Localization at the individual level is extremely important. This is a problem that confronts every expanding power, but the common answer is to develop friendships and loyalties to the local community.

For example, the British had people who lived in India for decades and worked with the local populace in building roads and hospitals. And it is these friendships—this integration into the community—that explain why India continues to remain close to Britain even though their foreign and economic policies differ.

Investment link

Kozai: Cross-investment is also important in blocking the creation of exclusionist economic blocs. Europe and the United States are both heavy investors in each other. Cross-investment is tangible evidence of the linkage between the economies, and it makes it harder for either to ignore the other's wishes.

Getting back to the idea of local integration, this has to take place at the personal level. There is the story of a Japanese wife overseas who was asked to help with some volunteer activity in the neighborhood. She said she would have to ask her husband. And he said he would have to ask Tokyo. Several months later, the volunteer group got a big check in the mail. But that was not what they wanted. They wanted personal involvement.

Kimura: Everybody has his own cultural baggage, and Japan is not only an industrial leader, but also an Asian nation. And because it is not dogmatically religious, it might be able to find common ground with both the Judeo-Christian

West and the Islamic Middle East. I would hope Japan can serve as a bridge.

Kozai: The other side of that, of course, is that it could end up being left out of all the groups.

Konaga: That is why we need to integrate trade, investment and aid. All of these are essential, the exact mix depending upon the country.

Morikiyo: Given Japan's growing importance in the international community, it is imperative that Japan come up with new initiatives to meet the emerging global problems. The debt problem is just one example. The global environment is another. Japanese have to be good citizens, not just in the local communities but in the international community as well.

Konaga: The technology is there. For example, I was in Saudi Arabia recently and mentioned MITI's New Earth 21 plan to spend the next 100 years undoing the environmental disruption of the last 200 years. Within this, I said that biotechnology is being used to create a hybrid between a mangrove and a cactus that would thrive in seawater or in drought and would also help to hold down desertification and the global warming. The Saudis were very interested, and they are very hopeful that Japan can pull this off to contribute to the global ecosystem.

Kozai: We have to remember that Japan's national interest is more than the sum of our bilateral relations. It involves global issues as well, and it would be very much in Japan's national interest to use its technology to solve these global issues—the environment, AIDS and the rest. Anything that we can do to help the international community will also ultimately help Japan.

Kimura: We have to put people back in the driver's seat. We need to decide what we want to do and find the technology to do it. We need a better balance among man, the environment and technology. Better balance is also needed internationally in promoting globalism while heeding local concerns and respecting cultural diversity.

And it is needed between today and tomorrow in Japan. Since the Meiji Restoration, people have been sacrificing today

for a better life tomorrow. This vision says that tomorrow is here.

Konaga: Ever since the war, Japan has been a corporate-oriented society. And because so much time, energy and imagination were devoted to corporate concerns, business prospered and Japan grew rich, even if the people did not. Now, however, there is increasing concern at the gap between our national prosperity and our personal poverty, which is why the vision calls for a new emphasis on better living and individual values.

Kimura: The big difference from the past is that this is not just a question of money any more. It is money plus time. Having enough money to meet their basic needs, people want to be time-rich. Young people starting work with a company today do not ask about the bonus plan. They want to know about the vacations. And it is also very likely that this new time-affluence will lead to a flowering of culture very much like the great flowering in the Edo period.

Ideas of affluence

Kozai: While I agree that Japan is becoming more affluent and that this affluence is spreading from the material to the psychological, we must never forget that there are lots of countries that are not affluent—that have poor and growing populations. Much though we may disparage the Japanese standard of living, it is still way ahead of a lot of others.

When I was in the United States in the 1960s, I was struck by how rich everyone seemed. And I am sure the other countries of Asia feel the same way about Japan today. What right does Japan have to be so rich?

Unless we can make a convincing case for this, our prosperity is hollow. America used to have the American Dream—the idea that everyone could be rich if he worked hard enough. This was attractive. It made the country attractive. It made America's affluence tolerable. What does Japan have?

Kimura: Along with the flowering of culture for the affluent leisure class, there was also a strong movement promoting social mobility in the Edo period. The

terakoya schools, for example, ensured that education was widespread, giving more people access to Japanese culture and laying the foundations for rapid industrialization after the Meiji Restoration. The populace was literate, and ideas spread quickly. Maybe this is the kind of role model Japan could be.

Konaga: One of the biggest problems facing Japanese society is the skyrocketing land prices and the fact that land is dividing society into two classes—the rich haves and the poor have-nots. There is a lot the government can do to defuse this, including tax incentives to promote more equitable distribution, but companies can also help by making better use of their idle land.

At the same time, we are going to face increasing labor shortages as the population ages. How will companies respond? Will they just agitate to let more migrant workers in? Or will they modify their systems and procedures to save labor and to make better use of the available resources—including women and old people? Companies have to look not just at their own short-term interests but at society's long-term interests.

Morikiyo: Nice though affluence is, we have to make sure that it is not simply mindless consumption with no thought for the morrow. And that is the thrust of the third pillar of this report—consolidating the foundations for long-term growth. We need the ideas and initiative to push back new frontiers.

Konaga: When you look ahead, the service sector narrowly defined will account for about 36% of GNP by the year 2000. This important sector includes computer software, medical care, recreation and all the other services that we need to make our lives more enjoyable.

But manufacturing is still central. I know that manufacturing does not have the glamour of finance or services now, but it is less important. Yet whether people go into manufacturing or services, they need to be able to meet new situations with aplomb and acuity. We need people who can make their way not just in Japan but in the world at large. They may need languages, but even more than that they need adaptability and the ability to

empathize with other points of view. They need to develop their full potential, and I am afraid that our schools do not encourage this.

Morikiyo: Part of this is the ability to take the long-term perspective. Corporate investment, for example, should not be expected to pay off in a few years. It may be a decade before there is any payout—especially with the basic sciences. And it may be that this is too important to leave to the private sector. The vision speaks, for example, of having the Japanese government do more for basic research.

Konaga: I have long argued that R&D is a form of public investment, and I hope that R&D will be included in the ¥430 trillion total that was promised in the SII talks. It is crucial that Japan be seen as a center of excellence.

Reviving Manufacturing

Kimura: This field lends itself especially to international cooperation. Different people bring different assumptions to their research, and that is why it is so important to have a broad cultural mix.

And this needs to be scattered in many different sites. It is silly to think that everything has to happen in Tokyo and nothing good can be done anywhere else. That kind of attitude has to go.

I know some people might worry that foreign researchers will take the technology home with them, but that should not be a concern. It is everyone's technology anyway. It belongs to all mankind. It is just like when you have an international competition to design a new building. No matter who designs it, it contributes to the culture where it is built.

Kozai: Japan has been playing catch-up economically for decades. But the idea of over-emphasizing services to the detriment of manufacturing is one area where Japan should not try to "catch up." Instead, we should learn from the other countries' mistakes and re-emphasize manufacturing.

One of the reasons manufacturing has been scorned is because it seems to be at odds with the comfort and affluence that

everyone wants. Unless manufacturing can be reconciled with gracious living, you are going to find more and more people dropping out of manufacturing.

Morikiyo: We need to revive the romance of manufacturing. I think this is what people see in science: the dream of discovery, the satisfaction of a job well done with tangible results.

At the same time, this is one of the only ways that Japan can contribute to the international community. Resourceful people are Japan's only resource. All we have is our human energy.

Konaga: Speaking of energy, my friends in Saudi Arabia and Kuwait have told me that there is no danger of another oil crisis. They said they are willing to provide guaranteed supplies at stable prices. And in turn, they wanted us to provide guaranteed markets. But of course that was before August 2.

At the same time we have to work on developing alternative, non-fossil energies. Nuclear energy is a major part of this effort, and we need to do more to make nuclear power acceptable. We need to find the best energy mix for Japan. This is crucial to our long-term security.

All of these things are included in the report. The main problem now is how we are going to implement this grand vision. We need to ensure that Japan really does move in these directions and shifts to a more human-oriented industrial structure.

Kozai: I think the overseas critics have exaggerated the role of vested interests, but I also recognize that there is a kernel of truth in their criticism. We have to be willing and able to change. This does not mean change for change's sake. But there are changes that need to be made, and we have to have the courage to make them.

Kimura: Nor should changes be made just because somebody else is complaining. It has to be change for the Japanese people's sake. We need to have a vision of what we want the 21st century to be like, and then we have to find the means to make these dreams come true.

Tsujimura: The recommendations are all there. And they are all interlocking. None of them can be left out if you expect to succeed with the others. ■