

Pulling Together

Interview with Eishiro Saito, chairman of Keidanren by Shozo Hochi, editor of the Journal of Japanese Trade & Industry

Keidanren (Federation of Economic Organizations) was established in August 1946 to maintain close contact with various economic sectors, to sound out opinions of business circles on economic problems both domestic and international and to endeavor to obtain practical solutions to these problems. With a membership including 121 industry associations in mining and manufacturing, trade, finance and almost every other conceivable field and 877 of Japan's biggest companies, Keidanren is Japan's largest and most influential economic federation.

Bringing together some of Japanese business's best minds, Keidanren offers advice and recommendations to the government on economic issues and maintains liaison with overseas economic organizations in an effort to resolve international economic problems.

On May 28 this year, Nippon Steel Chairman Eishiro Saito was elected to succeed Yoshihiro Inayama as Keidanren chairman. Saito was selected, sources report, for his vigor as epitomized by his motto of always looking on the bright side, his international experience as exemplified by his chairmanship of the International Iron and Steel Institute from October 1977 to October 1979 and the prestige that he brings to the job of coordinating Japanese economic views and smoothing international economic friction.

One of the biggest problems facing Keidanren as Saito takes the helm is how to facilitate the industrial restructuring needed to survive in the new climate created by the yen's appreciation. The basic directions are set forth in the Report of the Advisory Group on Economic Structural Adjustment for International Harmony (commonly referred to as the Maekawa Report after the group's chairman, former Bank of Japan Governor Haruo Maekawa) released this April. This report calls for restructuring the Japanese economy for international harmony by stimulating domestic demand, expanding direct overseas investment and rationalizing Japan's sunset industries. Over the past several years, Keidanren has been a staunch supporter of the government's efforts for administrative and fiscal reform. How is it going to reconcile its support for smaller government with the need for economic stimulation? The *Journal* asked Saito first about his aspirations for Keidanren as the Japanese economy stands on the brink of this historic restructuring.

Question: *What policies are you particularly advocating to solve the trade friction between Japan and the United States?*

Saito: It is essential that Japan and the United States work as equal partners to maintain world

peace and economic stability. It would be most unfortunate if the current trade imbalance were allowed to threaten this vital postwar partnership nurtured for more than four decades. Disruption of this interdependent partnership would do grave damage not only to Japan-U.S. relations but to the Western alliance and hence to the entire world. Our two countries must work closely together, and it would be a disaster for anything to come between us.

Concerned about any possible deterioration in relations with the United States and determined that Japan should play its proper role in the international community, we at Keidanren have been pressing the government for some time now for substantial market opening, simplification and streamlining of standards and certification procedures, expanded overseas

Eishiro Saito



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investment and economic cooperation and the initiation of a new round of multilateral trade talks under GATT, both to rectify the trade imbalance and smooth the free flow of goods and services. Since becoming Keidanren chairman, I have established a new committee for fuller dialogue with foreign-affiliated companies, have empaneled another committee to cooperate on the specifics of structural adjustment, and have otherwise sought to make Keidanren more open to the international community.

Q: *This is also an area that the government has stressed.*

A: That's right. After formulating its action program of tariff cuts and other measures for enhanced market access, the government adopted and implemented a set of comprehensive economic measures late last year and is doing everything it can to soften the friction with our trading partners. More recently, the government has shifted its emphasis to policy coordination for the preservation and strengthening of world economic growth, measures to cope with the deflationary effects of yen appreciation, creating a climate conducive to industrial restructuring and a host of other multifaceted policy measures, including a major push to stimulate domestic demand with private initiative taking the lead. However, it must be realized that, by their very nature, these measures will not have an immediate effect.

This change from an export-oriented economy to a domestic-oriented economy is a major transition for Japan, and it demands, and is getting, the full attention and positive support of both the government and private industry. Happily, the ruling Liberal-Democratic Party (LDP) scored a landslide victory in the Diet elections this July. I have met with Prime Minister Nakasone several times to convey our interest in seeing political stability and a vigorous effort to mitigate the deflationary impact of yen appreciation, and I am confident that his mandate has put the LDP in a position to move dramatically on this front.

Q: *Could you give us some details of what you have in mind?*

A: Japan's real GNP recorded negative growth in the January-March quarter of 1986—the first time this has been a minus figure in 11 years—and pessimism about the future is widespread. The yen has appreciated about 40% in just half a year, forcing companies in many industries to cut back with plant closures, less overtime and layoffs. There is an almost tangible air of crisis. Business already has its back to the wall, and much more American-inspired appreciation could well push the Japanese economy over the brink.

It is true that there has not been any decline in the dollar-denominated Japanese export figures, but this is largely a J-curve phenomenon. Exports are already off sharply in yen terms.

Japanese business is working hard to cope with the yen's appreciation, and business and

government are cooperating in a major drive to restructure the economy for international harmony. So it came as a shock when the U.S. House of Representatives passed the protectionist Comprehensive Trade Policy Reform Act of 1986. This was very disappointing, and there are increasing numbers of Japanese businessmen and economists who have commented on how the United States seems neither to understand what is really happening nor to be willing to make the hard decisions needed to get its own act together. This same point was also made by U.S. Undersecretary of State for Economic Affairs W. Allen Wallis this April in a speech to the U.S.-Japan Economic Agenda in Washington. Japanese market restrictions today account for only part of the United States' bilateral trade deficit. Japanese import resistance is only part of the problem, and the smaller part at that. Even if all Japanese market restrictions were removed, America's global trade deficit would not change as long as total investment in the United States exceeds domestic savings—so long, that is, as the U.S. budget deficit remains unsolved.

Solving the Japan-U.S. trade imbalance will take cooperative efforts on both sides. Japan has to make a major effort to shift away from its export orientation, but at the same time the United States has to make at least as great an effort to develop an export mentality. Likewise, we hope courageous action will be taken in the United States to reduce the budget deficit, since that is another major cause of the trade deficit. Rather than trying to blame everything on Japan, the United States needs an action program of its own to get its own house in order.

Q: *What was the reaction at the Japan-U.S. Business Conference in Tokyo this July?*

A: I got the impression there that both sides were generally satisfied with the way things had gone and were anxious now to put the conference's recommendations into practice. There were times when the discussions were sharply candid, but these are all people who know each other and there was no personal acrimony at all. It was a very useful exchange of views.

Q: *You spoke of the conference's recommendations. What were the highlights of the joint communiqué?*

A: For one thing, the communiqué contained a clear statement that "dialogue on an industry-to-industry basis could serve a useful function in resolving bilateral trade problems including market access." I was especially glad to see this since I have long argued that we need greater efforts to harmonize competition and cooperation between Japan and the United States by holding industry-to-industry dialogues on problems of immediate concern so that any sectoral friction can be contained and resolved before it escalates into political and emotional tension affecting the entire bilateral relationship. This was a real breakthrough, since there had previously been considerable reluctance to say anything like this for fear of running afoul of the fair trade or anti-

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trust laws. In this same vein, the communiqué also voiced strong support for the policy coordination and surveillance agreed on at the Tokyo Summit for greater exchange stability.

It was also very significant that representatives from both sides went on record in support of the objectives in the Maekawa Report. In effect, the American representatives agreed that the United States' current reliance on imports needs to be adjusted to achieve a greater balance between imports and domestic production. This is unprecedented, and one of the most important things to come out of this conference, since it means that the Japanese position is finally being understood among American businessmen and that these people are recognizing the need to work together with Japan for stable world economic growth.

Q: You come to the chairmanship of Keidanren at a very difficult time. There are, for example, as you mentioned, the yen's appreciation, the need for industrial restructuring and economic stimulation, and the imperative for putting government finances back in order. What are your own economic policy recommendations?

A: Having the yen appreciate over 40% in only about six months has been traumatic for the Japanese economy—all the more so because of Japan's export dependence. While I think any benefits of yen appreciation should be passed along 100% in lower prices for products imported under government supervision—things like beef, wheat and sugar—this will not be enough to offset the deflationary impact. That is why Keidanren is getting together with the other major economic organizations to present a single package of recommendations to Prime Minister Nakasone.

Q: According to reports out of the Japan-U.S. Business Conference, exchange rates were one issue the two sides did not agree on, the Japanese side arguing for ¥180-200/\$ and the American side plumping for ¥160-170/\$.

A: People were all over the ball park on this. There were some Americans who said they were willing to settle for ¥170-180/\$, others who favored ¥150-160/\$, and a few wild men who were pushing for ¥130-140/\$. What bothers me is not so much the actual rate but the fact that this has happened all at once rather than gradually. Because it has been so sudden, it has a very contrived and unnatural air about it.

You have currency exchange rates being set in total disregard of purchasing power parity, and currency traders moving billions of dollars as though currencies were some speculative commodity. Personally, I would like to see Japan take the lead in convening another meeting of the G-5 (finance ministers and central bankers from France, Great Britain, Japan, the United States and West Germany) to put the brakes on this runaway appreciation.

Economic stimulation here at home is also important, but I would rather see this done by creating a climate conducive to capital invest-

ment with incentives such as tax reform, investment credits and income tax cuts than with massive public works investments.

Q: You sound rather down on government pump priming.

A: Along with tax reform incentives, expanded public works investment for infrastructure improvement offers a major economic stimulus. But it is more important that the government stick to its commitment to put its finances back on a sound footing and to get to the point in 1990 where it no longer has to issue deficit-financing government bond issues. I would hate to see this effort derailed by any idle promises that politicians might have made in the heat of the campaign. Economic management has to be a sustained and systematic effort with the support of all the people. For several years now, the government has preached the virtues of austerity and explained the need for all of us to live within our means. This is not something that can be abandoned now simply because it is politically inexpedient. I don't think the people would or should stand for it.

Q: Until recently, Keidanren has been dominated by the manufacturing sector. Yet Japan has become increasingly a service society, and there are more and more Japanese companies locating overseas to meet the competition from the newly industrializing countries (NICs) and to escape buffeting by the yen's appreciation. Some people have even suggested that there is a deindustrialization under way in Japan. How is Keidanren adapting to these events?

A: For one thing, Keidanren is in the forefront of the technological revolution, as shown by the appointment of Toshiba's Shoichi Saba and Sony's Akio Morita as Keidanren vice chairmen to handle high-tech issues and to develop future strategies. I think these are two very apt appointments.

People talk about heavy and service industries, high-tech and low-tech and all the other dichotomies, but I believe all of these industries have to coexist in a mutually supportive relationship if you want to have a strong economy. Software developed in the service sector comes into its own when it is put to use in manufacturing for greater efficiency and better living standards for us all. Motorola is one of the highest-tech companies around, but I remember Chairman Robert Galvin's remark that people'll still be having toast and eggs for breakfast in another 20 years—you can't eat a program. It's impossible to divide things into neat opposites of heavy vs light or big vs small. People tend to want to make these distinctions between black and white and yes and no, but the truth is that the world is full of grays and maybes.

The same is true everywhere. In resolving the trade friction, for example, there are some things that Japan should do and others that the United States should do. That's why it's so important that people be able to sit down together, talk the issues out and reach compromises. ●