

# Letters

## Time Well Spent

I read the *Journal* with great interest. The diversity of subject matter as well as the range of opinions presented in the *Journal's* pages are indeed impressive. The fact that all of the articles are clearly and concisely written encourages one to read through each issue in its entirety and, upon reaching the back cover, realize that it was time well spent.

While all the various sections are stimulating and informative, a personal favorite is the "Profile" segment. These interviews present informed opinions of Japanese business leaders while also conveying a personalized perspective on Japan through the personalities of the individuals interviewed. Also, by including articles written by foreign as well as Japanese authors, the *Journal* not only serves to communicate substantive information on economic issues but also contributes to cross-cultural understanding.

With respect to promoting cross-

cultural understanding, I found Heita Kawakatsu's article "The West vs. Japan in Historical Perspective" in the September/October 1983 issue particularly interesting, and I also enjoy Shuji Takashina's series of articles.

Jane Ann Lindley  
*Congressional Research Service*  
Washington, D.C.

## Modernization Does Mean Westernization

I found Jun Eto's article in your January/February 1983 issue, "Groping for an Identity," and David Ziegler's in the counter-argument September/October issue, "Modernization Does Not Equal Westernization" most interesting.

In Japan recently attending a management seminar sponsored by JICA (Japan International Cooperation Agency), I had occasion to personally make an in-depth study of Japanese management tech-

niques and economic and sociocultural patterns. My study of Japanese management practices and sociocultural patterns indicates that modernization does indeed mean Westernization. "*Wakon yosai*"—Japanese spirit plus Western technique: This modernization would appear to be an adaptation of technology, and I do not think it was meant to cover sociocultural patterns of Confucian origin.

I would be very interested in having Japanese authors clarify this situation in order to clear up the doubts in foreign minds. It will certainly be helpful if your publication can clarify this issue for us.

A. G. Devendra  
*Chief Executive*  
*Ceylon National Chamber of Industries*

Letters to the editor, with the writer's name and address, should be sent to: the Editor, Japan Economic Foundation, 11th Floor, Fukoku Seimei Bldg., 2-2 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, 100 Japan. Letters may be edited for reasons of space and clarity.

# Publisher's Note

## The Uses of Friction

By Naohiro Amaya



Japan's population during its long years of isolation from mid-17th to mid-19th century was around 30 million, a figure which could easily be supported by the land's capacity to produce food and the other necessities of life. Self-sufficiency made the Tokugawa shogunate's isolationist policy very easy to enforce and, for the most part, unquestioned by the Japanese people.

The centuries of complacency were disturbed in 1853, however, when Commodore Perry and his "black ships" knocked forcibly upon the nation's closed doors. The event ushered in a new era in which Japan opened itself up to the rest of the world. Had Perry never come, Japan's isolation may well have continued. Had he never come, Japan may never have developed the social, economic, and technological strength needed to defeat Tsarist Russia in the Russo-Japanese War of 1904-1905. In the end, the pressure from Perry moved Japan to modernize.

In 1945, after Japan surrendered unconditionally to the Allies, General MacArthur and the Occupation Forces dismantled the Japanese military, dissolved the powerful *zaibatsu* industrial conglomerates, forced wartime leaders into domestic exile, carried out sweeping land reforms, and encouraged the labor unions. The effect of these and other extensive reforms was to democratize Japan's political, economic, and social systems. And with this democratization came the Japanese management techniques so admired by the West today. This was another instance of pressure resulting in an ultimately stronger Japan.

Since the 1960s, the United States and other trading partners have been pressing Japan to liberalize its import policies. Recognizing the justice of these demands, Japan has abolished virtually all of its import restrictions: steel in 1961, automobiles in 1965, and computers in 1973. Confronted by stiff import competition, Japanese corporations were forced to rationalize and to become powerful competitors in the international marketplace. Japan's present industrial strength may thus be attributed in large part to the need to compete in the real world. Likewise, the residual protection granted Japan's agri-

cultural and financial sectors may be one reason why these industries are uncompetitive. Bitter though it may be, free competition is the best medicine for an ailing industry.

What, then, are we to make of the American automobile, steel, household appliance, and machine tool industries? If the Japanese experience is relevant, and there is no reason to believe it is not, import restrictions can offer these industries only short-term relief and can only be detrimental in the long term. These industries must learn to confront the challenge from abroad and must find within themselves the ability to compete head on.

Competition and cooperation are in the long-term interest of the industrialized nations of Europe, the United States, and Japan. Instead of searching for ways to block out trade friction, it would be more constructive to consider how it may best be utilized to our mutual advantage.

\*After a thirty-year career as one of the Ministry of International Trade and Industry's brightest lights, Naohiro Amaya retired as vice minister in April 1981. He assumed the presidency of the Japan Economic Foundation in June 1984.

# CURRENT TOPICS

## Private Sector to Join Construction of Kansai Airport

Japan is pushing a multi-billion-dollar plan to build a spacious new international airport in the bay off Osaka, the country's second largest city. The new Kansai International Airport will replace the existing Osaka International Airport, now suffering from limited capacity, and will hopefully solve a controversial noise pollution problem.

The Diet (parliament) has already passed a bill to establish a company to undertake the project. Construction is to start next year, with inauguration slated for 1992.

The airport will sit on a man-made island to be built in southeast Osaka Bay. The local community is pinning high hopes on the project as a way to revitalize the Kansai (Osaka and vicinity) region, and the local business community will join the central and local governments in financing the new company.

Plans to build a new airport predate the first oil crisis of 1973, but they underwent numerous changes in the subsequent economic confusion. The government's ballooning budget deficit in particular weighed heavily on the plan, forcing changes in the size of the proposed airport, and in its financing.

Initially, the government planned to have a wholly-owned agency build the airport island, bridges and runways. A separate organization with private sector participation would then have put up the terminal and other facilities.

This two-way approach was dropped because of the budget deficit and a government streamlining plan banning the creation of new agencies. For the same reason, a master plan drawn up by the Transport Ministry was scaled down: the revised Phase I plan reduced the island from 600ha. to 500ha., and shortened the main runway to 3,300 meters from 4,000 meters.

Under Japanese law, international airports must be built and operated by the government. That is why special legislation was required to let the private sector join the project. Behind the move in favor of a government-private joint venture was the policy of Prime Minister Yasuhiro Nakasone's government calling not only for an administrative overhaul but also for utilizing private-sector vitality in public works projects.

The present plan calls for the central government to bear ¥80 billion (\$333 mil-

lion) of the cost, and local governments and the private sector ¥20 billion (\$83 million) each. The balance of the ¥1 trillion (\$4,170 million) total bill will be covered by borrowings.

The business community in the Kansai area is more than willing to shoulder its part of the burden. "Responsibility for an international airport rests with the government, and, in this sense, the project is not appropriate for private investment," says Hosai Hyuga, a top Kansai business leader who has been leading a private-sector campaign to promote the project. "But we have agreed to cooperate at the request of the government, which faces severe financial difficulties. We believe our investment will help get an early start on the new airport."

Hyuga says the proposed ¥20 billion private investment is likely to be assured soon, with some 400 Kansai firms putting up funds.

The new airport company president will be Yoshio Takeuchi, former director general of the International Offshore Development Center and a leading expert in harbor construction engineering. Yoshi-shige Ashiwara, honorary chairman of the Kansai Electric Power Company and another top Kansai businessman, will chair the committee to form the new enterprise.

It remains to be seen when the new airport will take its final shape as blueprinted by the master plan—a sprawling 1,230ha. facility with two 4,000-meter runways and one 3,400-meter runway. The project still faces many unsolved difficulties—including technical problems with land reclamation, access to the island, the interface with local economic development, and environmental preservation. But with the existing airport

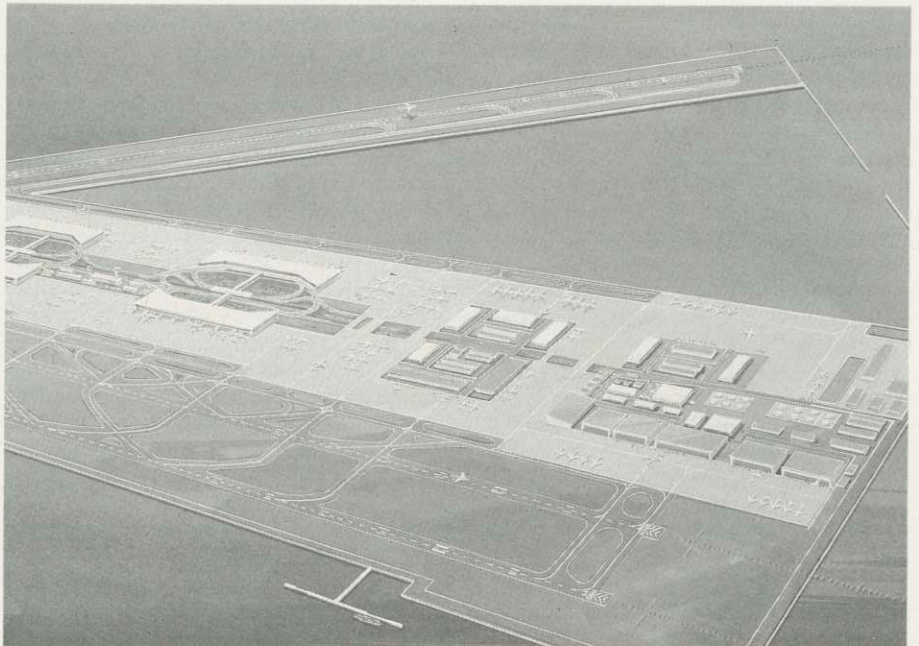
hemmed in by crowded residential districts and the source of frequent noise pollution suits, everyone agrees that something must be done. In the process, Japan's industrial Kansai should emerge with an expanded gateway to the world.

## New Banknotes to Debut Nov. 1

There will be some new faces at banks across the nation later this year when the Finance Ministry replaces three of Japan's four denominations of banknotes with new designs. The new ¥10,000, ¥5,000 and ¥1,000 bills will enter circulation on Nov. 1. The fourth note—¥500—will remain unchanged.

This will be the first time since the current denomination system was introduced in 1946 that as many as three Bank of Japan notes are changed simultaneously. The new notes will gradually replace the 3.6 billion old notes now in circulation.

The new notes will bear portraits of three prominent modern Japanese intellectuals in place of the political figures on existing banknotes. The ¥10,000 note will show Yukichi Fukuzawa (1835–1901), an educator who founded Keio University. He will replace Prince Shotoku (574–622), a legendary political and cultural leader of ancient Japan whose name has become synonymous with large-denomination notes. The new ¥5,000 bill will carry a portrait of Inazo Nitobe (1862–1933), a Christian philosopher-agriculturist who served as deputy secretary general of the League of Nations, and the ¥1,000 note will depict novelist Soseki Natsume (1867–1916), whose works dominate modern Japanese literature.



The new Kansai International Airport, in the bay off Osaka, is due for completion in 1992.



The new ¥10,000, ¥5,000 and ¥1,000 banknotes

Photo: Asahi Shimbun

The new notes will bring other changes as well. Unlike their predecessors, all three bills will be uniform in length—7.6cm, the same as the present ¥1,000 note—and narrower than their old counterparts. They will also all have braille marks to help blind people tell them apart. Using sophisticated printing technology including new waterwork devices, the new notes are intended to prevent counterfeiting.

Plans for the switch were first announced in 1981, triggering a rush of speculative buying in shares of companies expected to benefit from it, including printing, paper and ink stocks. But the market reacted calmly to the news that the new notes will finally debut in November.

Financial institutions, railways and vending machine operators will be most affected by the new note issue. But they are also quiet, probably because the issue date was given more than four months in advance unlike the 10 days or month of the past. The Bank of Japan estimates that some 250,000 machines will have to be remodelled, at a cost of about ¥100 billion (\$417 million).

Some economists believe the issuance of the new notes has virtually precluded the possibility of a redesignation of denominations, which some politicians as well as business leaders reportedly favor. Redesignation of denominations would entail issuance of further new notes and hence huge costs.

At a time when Prime Minister Yasuhiro Nakasone's government is trying to cut government costs, the economists say, it would be impossible to discard the new

notes being issued in November and issue different new notes.

The change has sparked unexpected bidding for new notes with the initial serial number "A000001A" in parts of the country which have some connection with the men of culture on their faces. The first ¥10,000 note is being sought by Keio University and Nakatsu City, Fukuzawa's native place, the first new ¥5,000 by Morioka City, Nitobe's native place, and the first ¥1,000 by a Tokyo elementary school where Natsume studied.

## Japan Boosts ODA 24.4% in 1983

Japan provided \$3,761 million in official development assistance (ODA) to developing countries and international organizations in 1983, up 24.4% from the previous year. In terms of Japanese currency, last year's ODA rose 18.6% to ¥893.3 billion, accounting for 0.33% of the country's gross national product (GNP)—the highest ratio so far recorded.

The 1983 figure, released by the government, made Japan the third largest aid donor after the U.S. and France among the 17 member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). In 1982, Japan was fourth after the U.S., France and West Germany.

The surge in last year's ODA resulted from a steep rise in contributions to international aid organizations, which together with direct assistance to developing coun-

tries constitute a major portion of Japan's ODA. ODA through international bodies more than doubled last year to \$1,336 million from \$656 million in 1982.

In a bid to offer international economic cooperation appropriate to its economic power, Japan pledged in 1981 to double ODA for the first half of the 1980s from the \$10.68 billion provided in the second half of the 1970s. In order to attain this medium-goal, Japan must extend a total of some \$21.3 billion in 1981-85. The sum is equivalent to about ¥2.5 trillion or 5% of Japan's general-account budget for fiscal 1984.

But Japan, like other industrial countries, faces a huge budget deficit, and this inevitably holds down the growth of ODA appropriations. Although it rose sharply last year, ODA declined in 1981 and 1982. ODA in 1981-83 totaled \$9.95 billion—less than half the five-year target.

Although the Japanese government seeks to double its ODA budget in the 1981-1985 period as a prerequisite for achieving the medium-term target, the ODA budget for fiscal 1984 came to only ¥528.1 billion in value. However, appropriations for ODA were allowed to increase 9.7% under the fiscal 1984 budget—an exceptionally sharp rise compared with other programs, most of which were left unchanged or even curtailed to help hold down the swelling deficit. To double its ODA by 1985, Japan must boost appropriations for fiscal 1985 by as much as 21% over the year before.

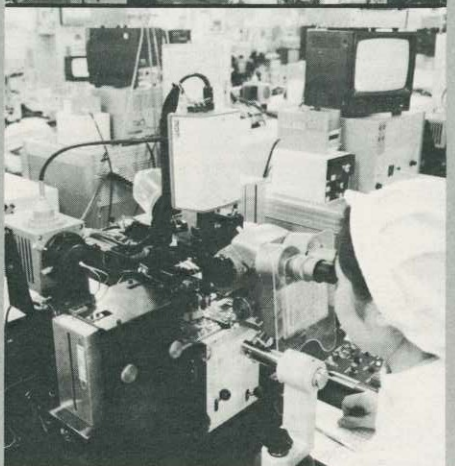
The government says it will do its best to meet the target. But Foreign Minister Shintaro Abe has made it clear in the Diet that it is difficult to live up to the pledge, given the stringent state finances. The government intends to maximize the growth of ODA appropriations for fiscal 1985, treating them as one of the few exceptions to its austerity policy. But it concedes it will be practically impossible to realize the internationally pledged aid goal.

## Fiscal 1984 R&D Spending Seen Up 11.4%

—Business Speeding Technical Development—

Japanese businesses are stepping up their investment in research and development to cope with mounting international competition for high technology. A recent newspaper survey shows that R&D spending will post double-digit growth in fiscal 1984, ending next March 31.

The survey, by the business daily *Nihon Keizai Shimbun*, covered 580 nonfinancial and nonservice companies listed on Japan's stock exchanges. Overall, it found their planned R&D investment for fiscal



Nippon Chemiphar Co. (left), NEC Corp. (center) and Fujitsu (right) are the top three Japanese firms in terms of proportionate R&D spending.

1984 running 11.4% ahead of 1983 levels at ¥3,275.6 billion (\$13.7 billion). This should boost the ratio of R&D spending to total sales to 2.5% from 2.3% last fiscal year.

Behind the sharp increase in R&D expenditures is the growing reluctance of U.S. and European firms—faced with stiff Japanese competition—to license technology to Japanese companies. Japanese business leaders have also learned from the IBM computer spy case, and are trying to come up with technology of their own without copying foreign expertise.

But more importantly, the move is based on long-term corporate strategy. Japanese businesses believe they will be left behind by their domestic and foreign rivals unless they offer new products with high value-added, particularly products based on high technology. They are confident that basic research today will pay dividends 10 or 20 years from now at a time of rapid technological innovation.

The sharpest increases in R&D spending are planned by industries competing in the high-tech sphere. Spearheading the race is electric machinery, up 15.7%; other industries with solid gains include precision instruments, new ceramics and pharmaceuticals. An increasing number of firms are boosting their R&D spending beyond their capital investment. Of the 20

largest corporations in terms of R&D investment, 11 plan to spend more on R&D than on plant and equipment.

Total R&D spending is still far less than that of U.S. businesses. But some Japanese corporations are outpacing their U.S. competitors in the ratio of R&D investment to sales. The ratio for Hitachi Ltd., for example, is 7.3% against 6.3% for IBM.

The pharmaceutical industry has the highest ratio of planned R&D spending to expected sales for fiscal 1984—7.9%. Next comes precision instruments, 6.2%, followed by electric machinery, 5.7%. Accelerating technical innovation is forcing these high-tech industries to step up R&D in the face of keen international competition.

On a company-by-company basis, Nippon Chemiphar Co. tops the list at 14.7%. Electronics company NEC Corp. places fifth with 11.1% and Fujitsu eighth with 10.0%. Among precision instrument makers, Olympus Optical Co. is 10th in the overall rankings with 9.8% and Canon Inc. 16th with 8.9%. Leading the fine chemical industry is Kureha Chemical Industry Co., which is 28th with 7.3%. Among automakers, Nissan Motor Co. is 92nd with 4.1% and Toyota Motor Corp. 113th with 3.5%. But Toyota is the second largest R&D investor in absolute terms—

with ¥190 billion (\$792 million)—after Hitachi, ¥210 billion (\$875 million). Nissan is fourth at ¥150 billion (\$625 million). Hitachi, despite its enormous spending, only places 29th in its ratio of R&D spending to sales.

## Education Accounts for 20% of Family Spending

—Householders Groan Under Heavy Burden—

An average Tokyo family allocates slightly more than 20% of its household spending to educating children, according to a Tokyo metropolitan government survey. The survey put average education spending at some ¥64,000 (\$270) per month, up nearly ¥8,000 (\$33) from two years before.

Much of the increase results from higher spending on supplemental training such as cram schools and private tutors. Three out of every four junior high school students are taking such lessons, as are about 30% of senior high school and elementary school students. More than 70% of the parents polled want an education system which will not require these extra-curricular lessons.

The survey covered 452 families selected from the metropolitan government's price surveying staff and their relatives and acquaintances, with 895 school-age children (including those attending kindergarten and college). The survey, based on household accounts in November 1983, showed monthly education spending per household averaged ¥63,780, up ¥7,736 or 14% from the previous survey two years earlier. That was equivalent to 21.3% of an average ¥299,309 (\$1,247) in total household expenditures.

School fees, such as tuition and commuting costs, accounted for 59% of education expenses, supplementary learning 28%, and special private lessons like music 13%. Expenses for special lessons increased around 10%, but spending on supplementary learning surged some 20% from two years before.

The survey found that 33% of senior high school students, 30% of elementary schoolchildren and 75% of junior high school students receive lessons at cram schools or from home teachers. These supplementary learning lessons cost senior high school students ¥22,508 (\$94) a month, junior high school students ¥17,391 (\$73) and elementary pupils ¥14,531 (\$60). Piano classes were the most popular special lessons, followed by calligraphy, swimming and training on the abacus. The survey found that 86% of elementary schoolchildren were taking these or other private lessons, with more than half enrolled in two or more classes.

The ratio of educational expenses to total expenditures was 23.6% for householders in their 50s and 22.0% for those in their 40s. One householder in his 50s with three children in private schools was spending ¥248,000 (\$1,030), or 62% of total expenditures, on schooling each month.



Visiting MITI Minister Hikosaburo Okonogi (left) meeting with Thai Premier Prem Tinsulanonda at Government House  
Photo: WWP

The survey also showed that 74% of parents questioned desired an education system that would need no cram or prep schools. And 63% pointed out that the heavy financial burden could not be relieved without ending the "entrance exam war" stemming from the excessive importance attached to academic careers in Japanese society.

## Japan, Thailand Discuss Trade Issues

—First Trade Committee Meeting in Five Years—

Japan and Thailand held the 11th meeting of their Joint Committee on Trade in Bangkok July 25–27. The committee last met in Tokyo in August 1979.

The talks were convened at the strong

request from Thailand. The first two days were devoted to official-level talks, and the final day to discussions between Minister of International Trade and Industry Hikosaburo Okonogi and his Thai counterpart, Commerce Minister Kosol Krairiksh. Okonogi also paid a courtesy call on Thai Premier Prem Tinsulanonda. The bilateral trade imbalance was a main topic during the nine hours of official-level talks and the three-hour ministerial session.

The Thai side asked Japan to expand imports from Thailand, especially in the agricultural sector, to correct the trade imbalance. Specifically, Thai officials called for expansion or abolition of Japan's import quotas for canned pineapples and tapioca flour, and lower duties on other products, including boneless chicken meat. But Japanese delegates explained Japanese domestic situation, noting that in April the import duty on boneless chicken meat was cut from 20% to 18% and the minimum import quota for canned pineapples enlarged by 100,000 cases.

In the talks between Okonogi and Kosol, the Thai minister also pressed Japan to open its market wider to Thai products. Okonogi asked Thailand to look at the trade imbalance from a broader perspective, in light of the different industrial and trade structures of the two countries.

The Thai side expressed gratitude for Okonogi's confirmation that Japan will buy at least ¥6.1 billion (approx. \$25.4 million) worth of Thai rice this year, as compared with about ¥4.5 billion worth last year, to be used as food aid to various foreign countries under the Kennedy Round and other projects.

Although the two sides did not succeed fully in narrowing their various differences over bilateral trade issues, the meeting helped them understand each other's position, according to Japanese officials. They agreed to meet again in Tokyo on a mutually convenient date.



Three out of every four Japanese junior high school students are enrolled in supplemental educational programs.  
Photo: Asahi Shimbun