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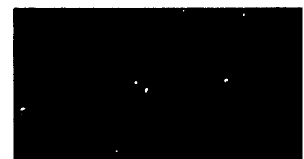
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TRANSLATIONS ON JAPAN  
(FOUO 9/79)



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POLITICAL AND SOCIOLOGICAL

DEFENSE ROLE FOLLOWING JAPAN-CHINA TREATY ASSESSED

Tokyo CHUO KORON in Japanese Jan 79 pp 82-94

[Special report by Prof Mineo Nakajima, International Affairs Dept, Tokyo Foreign Language University: Post Japan-China Friendship Treaty--"The Question of Defense"]

[Text] Japan, unable to become a military power, has no alternative but to depend on a foreign policy based on a diversified axis of coordinates.

1. Anxiety Over Our Stake in Japan-China Relations

The eminent American historian on foreign affairs (Ernest R. May), incisively points to the danger that, in rendering irreversible and essential foreign policy decisions, the parties concerned tend to misapply lessons from contemporary history ("Lessons from History"). Also, if I may exaggerate somewhat, the modern era has frequently produced tragedies because of such glaring irrelevancies.

In the recent past, Japan made a grave historical choice, that is, the signing of the Japan-China peace and friendship treaty. However, with the advent of this new era of Japan-China friendship, we are now imbued with deeper fear and anxiety than heretofore concerning the future of our international environment.

Fluid State of China's Internal Affairs

It is not necessary for me to point out that this fear and anxiety has been amplified by the fluid political situation in China, which surfaced in mid-November, immediately after Deng Xiaoping's return to Peking from a busy trip to three ASEAN nations following his visit to Japan. The reason is that the present state of China's internal affairs, directed toward sharp criticism of Mao Zedong's past patriarchal system and a clear de-Maoification of Chinese society, is on the one hand an outcropping of the deep fissure and internal discrepancies latent in the power structure and leadership of Hua

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Guofeng's regime. On the other hand, it is a result of the inevitable failure of the attempt to unreasonably blame the sins of the "gang of four" as the sole cause of China's retarded political and social condition. It is a situation which, in general, could have been foreseen.

Of course, to those who remain obsessed with Maoist myths, the present state of affairs must indeed have been shocking. However, within China's society itself, criticism of Mao was so latent and recurring that it is no exaggeration to say all "line"-related struggles in the past had been part of this criticism. Also, during the recent seven or eight months, the de-Maoification process was taking a concrete form internally. Therefore, China's de-Maoification is definitely different from the process of de-Stalinization which required the shock treatment of iconoclasm. For the majority of the Chinese masses, it must have been an inevitable phenomenon.

China has thus begun to "take off" from a closed society of Maoist myths. However, this does not mean that de-Maoification will proceed smoothly because there are still elements at the center of power which have inherited the legacies of Mao's policies and because the Maoist regime continues to exist as a social system. Nonetheless, because the absence of clarity during the post-Mao succession to power is beginning to be definitely criticized, there is no denying that the present state of affairs is causing Premier Hua Guofeng himself to tremble with fear behind the "shadow of Mao Zedong," who was the source of his political existence.

When the present transition ultimately results in the so-called "total victory of the former power among the factional forces," the next step in China's future will probably be the rise of an intellectual and strategic anti-Soviet awareness, unlike the emotional and Maoist anti-Soviet consciousness of hate. Today, when even Peng Tehuai, a pro-Soviet leader known as the "Khrushchev of China," has reportedly been restored to honor, the aforementioned probability deserves much thought. The outside world still seems unaware of this fact. However, regardless of the China policies of the outside world, it has always been a historical fact that a certain recuperative force exists within China-Soviet relations, constituting a correlation of alliance and hostility. It is fact about which nothing can be done. It is, therefore, a source of great anxiety and concern.

#### Nonsymmetrical Nature of Japan-China Treaty

As far as the signing of the Japan-China peace and friendship treaty is concerned, the Japanese definitely lacked a perspective that the present Japan-China relations can no longer be bilateral; rather, these relations must necessarily be internationally active and fluid. Moreover, such a perspective may have been clouded, first, by our unique and traditional sentiment in addition to a certain inertia in Japan-China relations. While it may be unnecessary to point out these facts at this time, once the Japan-China pact was concluded, it has been evolving under its self-propelled motion, unrelated to the various factors unique to our country, and it has been raising major international repercussions.

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Secondly, a fact which has hardly been recognized despite its self-evidence is the unawareness of the conspicuous lack of symmetry regarding decisions on policy and intentions between Japan and China. It is abundantly clear that, from the standpoint of present-day China, the two decisive factors which made necessary a Japan-China peace and friendship treaty with a provision on "hegemony" were China's global strategy (the forging of an anti-"hegemony," i.e., anti-Soviet, alliance) and her national goal (the four "modernizations"). In this regard, despite the emphasis on a relationship of two nations "separated only by a narrow strip of water" and two peoples "coming from the same stock and using the same script," such a global strategy and national goal are inconceivable for our nation. To begin with, we may be the only "power" without a national goal or global strategy. Therefore, our policy decisions could be described as being very faithfully patterned after the general models of international and domestic policy decisions. It goes without saying that this treaty was greatly influenced by the various (political) factors of our internal affairs under the Fukuda administration and by economic demands stemming from a long period of recession. Although Foreign Minister Sonoda's tenacity and the antiquated theatrics he displayed in the process of concluding the treaty were conspicuous, it cannot be claimed that our bureaucratic structure (the Foreign Office) assumed the leadership in the policy decisions per se. Nor were public opinion, the mass media and pressure groups decisive factors in this case.

The process of the policy formulation leading to the conclusion of the Japan-China pact thus extremely lacked symmetry and, whereas China's position was determined solely on a strategic basis, our nation adopted a "low policy" in concluding the treaty. We concentrated our attention passively on the wording of the "hegemony" clause, worried about the direct response from the USSR and were unable to maintain a broader strategic perspective concerning the post-treaty situation. Due to this difference, despite our earnest advocacy of an "all-directional foreign policy," the nations of the world in general evinced little interest in our "all-directional foreign policy." They saw in the treaty only the significance of China's strategy.

It may be redundant to point out China's global strategy vis-a-vis the USSR, but what about the stake our political and financial circles are placing on the "four modernizations" which constitute China's present national goal? From Deng Xiaoping's present position, the strengthening of his own political base may not be possible except by pushing forward the "four modernizations" with an urgent sense of mission.

Meanwhile, the greater the development of Japan-China economic relations, the more dissociated China would become from the principle of "salvation through self-help" and the greater its risk of major problems in the future, such as the burden of foreign payments. Therefore, it is worth noting the recent warning by (Raymond Allon), who states: "Nothing seems so ridiculous to me as the idea of an 'unlimited China market.' While I can understand the bankers and industrialists running to Peking, I hope no one will



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"carry any fantasies with them." ("Japan-China Cooperation," L'EXPRESS, 28 Oct - 4 Nov edition)

#### Paying a Two-fold Price

Meanwhile, the enormity of the price being paid by Japan's foreign policy for a stake in China became quickly and abundantly evident through two recent developments. One is the signing of the Soviet-Vietnam friendship and cooperation treaty on 3 November. The other is the foreign policy fiasco suffered by Japan during the UN Security Council election for nonpermanent member seats. The Soviet-Vietnam treaty was clearly a direct reaction to the Japan-China peace and friendship treaty. Furthermore, when we realize that the conclusion of the former, which includes a "consultation" clause (stating that the parties concerned will consult on military and political matters in an emergency situation) initiated by Moscow, is a hidden and fundamental element of the so-called "Asian collective security" concept (for details see the chapter, "What Is the Meaning of the Asian Collective Security?", in my article: "The Choice of Japan's Foreign Policy--Between the Global Strategies of the U.S., USSR and China"; TOKYO KEIZAI SHINPOSHA, 1978), one cannot deny that the significance of this treaty in terms of Asia's future is very great. With even the current military clash between China and Vietnam, the Japan-China cooperation is, of course, a major threat to Vietnam, forcing Vietnam to seek strong ties with the USSR. This marked increase in Soviet presence on the Indochina Peninsula may invite the "return" of the United States which "withdrew" from Asia. This cannot help but increase the tension in Asia.

The latter fact has clearly exposed the weakness in the foundation of Japan's foreign policy which is oriented toward the major powers. Regardless of how we may bank on Japan-China relations, when we realize the cold reality that China itself failed to vote on our side and that some of the ASEAN countries, for example, on whom we had counted did not vote for us, we feel that this indicates the cautious attitude of the countries surrounding China toward "a union of Asia's giants."

Therefore, in spite of the optimism that our international environment would become peaceful and stabilized with the conclusion of the Japan-China peace and friendship treaty, reality could be said to be much worse. Meanwhile, why was our government unable to perceive even such a short-range outlook? Our Foreign Office has apparently erred in its evaluation of the U.S.-China rapprochement, the Albanian resolution (on China representation), the anti-Lin Biao and anti-Confucian movement, China's internal situation during the last years of Mao, the Tien An Men incident, etc., and other aspects of Chinese affairs.

Also, regarding the recent fluid trend of China's internal affairs, Foreign Minister Sonoda's outlook appears to be extremely optimistic, but it is questionable whether it will be justified.

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In any case, if the choice of concluding the recent Japan-China treaty just adds to the accumulation of such errors, we, of course, cannot help but feel great apprehension concerning the future of our national security, to say nothing about our foreign policy.

2. A New Cold War in the Form of a "Cool War"

"Cool War"

The extent of repercussions and effects of the Japan-China amity pact was, of course, determined by the present stage of development and direction in international affairs. Also, in the midst of what may correctly be viewed as a "cold war," the present international situation is moving in an extremely alarming direction with the acceleration in the arms race involving cruise missiles and neutron bombs, not to mention tactical nuclear weapons and conventional weapons, although the United States and USSR are seeking mutual restriction of strategic nuclear arms through the SALT negotiations. The problem of the deployment of MIG-23s to Cuba, said to be confirmed by the United States last November, and efforts by the Carter administration while coping with SALT negotiations to prevent the issue from developing into a "second Cuban crisis" reveal the innards of the "cool war."

The characteristics of the current international situation, in contrast to the postwar East-West cold war period, are as follows: on the one hand, mutual arms deterrence and channels of agreement are working between the United States and the USSR while on the other hand strategic intervention by the two powers in internal conflicts around the world has intensified along with the danger of limited wars. Moreover, the addition of the China-Soviet cold war to the current situation, in the form of China-Soviet confrontations around the world, has spurred and amplified strategic competition between the United States and the Soviet Union.

It becomes clear at this point that the "detente" which began through a polarization of international politics was merely illusory. Of course, the very neat "detente" concept in international politics proved that not only could the cold war be structured, but also that it continued a traditional international relationship called the "European state system," which was suited to a European-type international environment equipped with such conditions of detente as the maintenance of the status quo, peaceful co-existence and social stability. In the non-European regions of Asia, the Mideast and Africa, which lack such conditions, it must be pointed out that the basis for their existence is inherently absent. In Asia, the U.S.-China rapprochement was generally viewed as a symbolic case of "detente," and it was widely believed that the cold war structure had already self-destructed. However, as I discussed earlier, the cold war subsystem had merely been transformed or transmuted as a result of the China-Soviet confrontation since the 1960s and concurrently as a result of the relative decline in U.S. power. Far from being a disintegration of the basic cold

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war structure, I think it must be viewed as the commencement of a new and expanded "cool war" which includes, in addition to Europe and Asia, the Middle and Near East, Africa and the entire Pacific region. (See my article, "The International Environment of the Japan-China Treaty--A Choice Between Peace and a Dangerous Alliance"; SEKAI, October 1978 edition.)

U.S. Strategy

Under these conditions, the United States has switched to a dual global strategy, as clearly manifested in the so-called "New Pacific Doctrine" of December 1975--that is, to implement the "detente" strategy between the United States and the USSR as far as Europe and the Atlantic region are concerned and to strengthen the U.S.-Japan-China "Transpacific coalition" in order to secure the superiority of the strategy. With China's response to this strategy, a clear outline of the anti-"Hegemony" coalition was delineated. (On this point, see my article: "New Pacific Doctrine and the China-Soviet War"; CHUO KORON, March 1976 edition.)

The Japan-China peace and friendship treaty, which is winning the hearty approval of the United States, cannot escape the reality that it materialized in the context of international politics, no matter how our countrymen may emphasize an "all-directional foreign policy." Also, when seen from the U.S. policy on China, as Stanley Karnow, the perceptive U.S. critic on problems of China and Asia has stated: "For the first time in half a century, the United States has not been obliged to choose between China and Japan, but has been able to encourage cooperation between the two nations." ("Historical Rapprochement in Asia"; BALTIMORE SUN, 6 Nov 78)

On the other hand, the USSR, faced with a drastic shift in its position vis-a-vis Asia, has won an increasingly freer hand in its strategy of countering the anti-"hegemony" alliance. Japan, which is unable to form any kind of global strategy, is therefore not only being drawn into the China-Soviet confrontation, but has also been handed membership in an increasingly globalized "cool war." This is why we cannot ignore the "coincidence" of the so-called "emergency" debate in our country about the time of the signing of the Japan-China peace treaty.

Under such conditions, the series of statements by National Security Advisor Brzezinski and Secretary of Energy Schlesinger indicates that the United States has now overcome the difficulty of finding a formula for the restoration of U.S.-China relations, which has merely been an internal U.S. problem, and U.S. policy is clearly changing toward a buildup of China's military resistance against the Soviet Union. The keystone of this U.S. policy is being given further concrete impetus by the policymakers at the core of the Carter administration. For instance, the speech by Assistant Secretary of State for East Asia and Pacific Affairs Holbrooke, "The United States and Southeast Asia" to the World Affairs Council in Boston on 18 November shows this clearly. When he was chief editor of FOREIGN POLICY, Holbrooke published a treatise by Michael (Pillsbury) advocating a U.S.-China military

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alliance. In his recent treatise, "Is Japan Also a Trump Card?" (FOREIGN POLICY, winter 1978), (Pillsbury) focused on Japan's recent defense debate in which he emphasizes and advocates the need for U.S.-Japan-China military cooperation.

China's Strategy

We cannot help but be deeply apprehensive about the young staff in the Carter administration which preaches such strategy as a matter of course. Meanwhile, on the Chinese side, there have been well-known statements by Deng Xiaoping and Liao Cheng-zhi. For instance, Liao Cheng-zhi states: "In the present world situation, the Japan-U.S. security treaty is still useful. As long as we view the Soviet Union as the greatest force capable of causing a global war, we will show understanding toward the treaty." (This was in reply to a question by planning chief Soga of the Japan Socialist Party Central Committee; MAINICHI SHINBUN 22 Nov 78) This statement not only indicates China's acceptance of the Japan-U.S. security treaty but also China's interpretation of the security treaty as a link in anti-Soviet defense cooperation. The Japan-China treaty with the "hegemony" provision has made it possible for China to make this choice.

Thus it may be said that the outline of China's global strategy, which seeks to form an eastern NATO by linking the Japan-China pact to the Japan-U.S. security treaty, is becoming increasingly clear. Also, China is ready to abrogate the China-Soviet friendship alliance and mutual aid treaty, which is due to expire in 1980, with the awareness that the nullification of this treaty will remove any binding restriction on the Soviets from attacking China and that the Soviet threat will increase. Therefore, it is well-known that China is counting on a strengthening of Japan's defense power as a link in the anti-Soviet defense. China is also beginning to move forward toward its national goal of prosperity and military power through the so-called "four modernizations," while urging every stratum of its people to participate in building productivity through de-Maoification.

The "four modernizations" include agriculture, industry, national defense, and science and technology. However, according to the paradoxical nature of Chinese logic, priority will be given to the modernization of science and technology, including production control, and the imminent target will be none other than the strengthening of its national defense. It is therefore clear that the intensified Japan-China economic relations will, in concert with the "four modernizations," ultimately contribute to China's military strength. This strengthening of China's military power will not only be countered actively by the Soviet's increased armament and strategy in Asia, but will also spur an arms growth in Vietnam and other neighboring countries, inevitably resulting in the militarization of all of Asia.

Despite its peace and friendship slogan, the Japan-China pact must be viewed in the light of this latent dangerous trend. In view of this trend, might

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not the "all-directional diplomacy" for peace wind up as a mere show and seriously threaten our own national security? We have so far been unable to find any clear answer which negates this possibility.

3. Pitfalls of the Defense Debate

Meaning of the "Emergency" Debate

The recent debate on "emergency" in Japan arose coincidentally under the aforementioned international circumstances. In the light of the international situation, the "Japan-U.S. joint measures guidelines" between the U.S. forces and Japan's Self Defense Force under the Japan-U.S. security treaty, which were reported in late November last year, contain a great many irritating problems.

The detailed study of these problems must be left to the military and defense experts. However, the most problematical issues concern the "emergency legislation" and the "Japan-U.S. joint measures guidelines." In contrast to the criticism which is expected from some opposition party members, the policymakers and defense authorities in Japan seem not only to be virtually unaware of the dangerous direction of international affairs surrounding Japan, but have been regarding Japan-China relations within a bilateral framework. They also seem to be dealing with the various problems related to the Japan-U.S. security treaty as bilateral problems or as measures between our two countries for the purpose of strengthening Japan's defense power.

Frankly, because they are highly pleased with China's acceptance of the Japan-U.S. security pact and China's anticipation of the strengthening of Japan's Self Defense Force as the bankruptcy of the so-called "unarmed neutrality" concept, Japanese Government authorities lack awareness of the overall structure of the "cool war" and cannot see the price they are paying for their choice of the imminently approaching danger. Of course, some of the supporters of an anti-Soviet Japan-China alliance seem to be wholeheartedly in favor of a U.S.-Japan-China anti-"hegemony" alliance. However, the majority of government leaders, including Prime Minister Fukuda and Secretary General Ohira, have not gone that far. This is why they have supported the slogan of an "all-directional diplomacy."

I noted earlier that "coincidence" of our national "emergency" debate. History teaches us that the crises of a nation and its people often fall within such a "coincidence."

Dangers of the Defense Debate as a Military Theory

Now, according to my discussion in the previous paragraph, in the present international situation all problems related to foreign policy involve national security. And, conversely, it can be suggested that our national security is decisively involved with our foreign policy. From the

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standpoint of our national position, which is almost 100 percent dependent on the international environment, this fact is undeniable. However, it is true that, although such an excellent and strategic choice as the Japan-China peace and security treaty has been made, the debate on foreign policy strategy as a "high policy" in this context has lacked depth. On the other hand, as seen in the "emergency" debate, the debate on defense techniques or tactical defense has been waged actively in conjunction with the discussion of defense in the form of a constitutional debate unique to Japan, and the debate has intensified in recent months. This discussion of defense as a military theory has been stimulated by China's evaluation of the Japan-U.S. security treaty and its anticipation that Japan's Self Defense Force would be strengthened. It will probably become further intensified by the latent theory of a Soviet threat which exists in Japan, as well as by the active buildup in Soviet strategy in Asia.

This will probably result in a defense theory with a military bias. It may even deter our fundamental awareness of the fact that our national security in the present international environment cannot exist as a purely military problem--that it exists only as a secondary factor--but that it can only exist in the broad context of our foreign policy strategy. Such a defense debate, which lacks the awareness of national security as a foreign policy strategy, contains a barrenness which can only result in a mere theory of values. While it is only natural to be prepared for an "emergency," we would be blinding ourselves to the obvious fact that there can be no national security for Japan unless efforts are made to avoid such an "emergency." Of course, if it were possible for our country to become a great nuclear power, comparable to the superpowers, the defense debate would be logically feasible as a military theory. However, this is impossible for our nation and such a direction is clearly not the course our nation should choose.

On the basis of such a self-evident premise, the course of being spurred by the "emergency" debate, of being induced by China's contentions and of drastically strengthening our defense power would not only be a dangerous choice but it would also be meaningless. Meanwhile, the fact that, with the signing of the Japan-China treaty as a turning point, such demands are gaining force in Japan, and the unique situation in our country in which advocates of a Japan-China alliance are often anti-Soviet deserve our attention.

Therefore, we must consider that there is a major pitfall in Japan's defense debate. There is neither an active foreign policy concept as our national strategy for survival, nor a serious awareness of national security in the sense that foreign policy is defense strategy itself.

#### 4. Foreign Policy as a Strategy for Survival

Japan: A Building of "Glass Walls"

Professor Alistaire (Bakkan) of Oxford University (theory of international relations), who died two years ago, in describing the international situation

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in East Asia, said: "Asia stands today in an environment of extreme contrasts--China and the Soviet Union in armed confrontation and an unarmed Japan which stands apart like a glass skyscraper." ("The Asian Quadrangle: Japan's Foreign Policy Sandwiched Between the Giant Nations of the United States, China and the USSR"; BBC broadcast lecture, 2 Dec 74) If I were to add a few changes to this description, Asia today could be described as a three-sided contest in which two enormous steel buildings represent China and the Soviet Union, one a huge steel skyscraper and the other striving to reach the same height. Beside them stands a glass-covered building representing Japan. Unless the glass building is converted to steel, it would be more secure by remaining as a totally pliable glass structure. On the other hand, if it were to try to become a semi-ferro structure, it would be deprived of its safety and might even fall with a loud thud. Of course, although the foregoing allegory is simply that, it does suggest our nation's security situation.

If the idea of a pliant structure is applied to the security strategy in foreign policy, it would mean a diversified axis of coordinates. To become a totally glass structure means to reject the deep-rooted protectionist trend which exists even among the advanced capitalist nations in the face of an upheaval in the international rates of exchange. It means to establish an internal structure which could internationalize the nation internally and open it up from the standpoint of free trade. In effect, our national security can only be secured in this way, when viewed from our strategy for survival.

#### Abstinence Necessary in China Relations

In this case, the first problem worth attention in the Japan-China post-treaty relations concerns the danger of viewing these relations through the concept of a community of joint destiny. Since the signing of the Japan-China treaty, China has repeatedly stressed the slogan of "the friendship and solidarity of the one billion people of China and Japan." This slogan may sound pleasant from the Chinese side, since 900 million of the one billion are Chinese. Also, from the standpoint of Japan's unique sympathy toward China, this concept of the integration of Japan and China is an inclination into which we can easily fall in the light of our historical precedents. However, an over-emphasis of it could bring on a new "yellow peril" fever, invite suspicion among China's Asian neighbors and in Europe, and also hamper the diversification of our foreign policy. This was made abundantly clear by the reaction in Singapore and other Asian nations during Deng Xiaoping's recent visit to Southeast Asia.

The control of Asian tendencies in our nation's foreign policy becomes increasingly necessary with the broadening of contacts between Japan and China. Also, when such abstinence is lacking, as it is already apparent to some extent among our bureaucrats and "old boys" in the defense-related organizations, there is even some danger of an uncertainty of "nationality" arising among the bureaucrat class.

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The reason cool detachment is demanded in foreign policy vis-a-vis China is that the future of China-Soviet relations is still uncertain and the future holds two alternatives--the extremes of a China-Soviet war or a reconciliation--which are both great threats to our country. Because of this uncertainty, it is clear that our foreign policy strategy must be relatively independent. This is also true when viewed from the standpoint of anxiety concerning the future of the Korean Peninsula, which is vitally important to our national security.

In effect, our nation should strictly avoid the dangerous line of a Japan-U.S. security system advocated by both the United States and China in forming an eastern NATO. Rather, we should use the relations between Japan, the United States and the advanced European nations as a base for our foreign policy strategy within the framework of the security system. Japan-China relations should be placed strategically as a subsystem of the overall structure. To change the great-power-oriented nature of our foreign policy and to strive its diversification would diversify this subsystem. That is why Japan-China and Japan-Soviet relations, as well as relations with ASEAN, Indochina and the Pacific region must be viewed with importance. And, of course, remote areas, from the standpoint of foreign policy strategy, such as Mongolia and New Zealand, must also be regarded with importance.

Eliminating the Confidence Gap Between Advanced Nations

Secondly, after considering these situations, the problem of how to eliminate the confidence gap in the expanded Japan-China relations, and between our country and the advanced Western nations amid the rising yen, must be noted. There is competition among Western countries over the serious problem to cope with the future of a changing China, but there is no common area of agreement whatsoever. Also, there is no firm and common understanding concerning the important international task of coping with the North-South problem. From this standpoint, the summit conference of advanced nations (the Tokyo summit), which will be held in Japan for the first time in June 1979, will probably become a touchstone for our foreign policy, as to whether we can escape from the framework of the traditional "world economic conference" and embrace all of these problems.

Need To Consider a Detour Approach

Thirdly, there is the question of a detour approach to the problem of foreign policy strategy. In this regard, a change in the concept of a step-by-step solution to pending issues is necessary, such as taking up the Japan-Soviet issue after the Japan-China issue. An improvement in Japan-Soviet relations is the most important foreign policy issue we now face, and today, progress can no longer be achieved by treating the issue in terms of a triangular relation between Japan, China and the USSR.

An example is the Japan-Australia relationship, which is extremely important. Not only from the standpoint of mutually complementing our economic



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relations with Australia, but also from the standpoint of augmenting our negotiating capability with China and the United States, it must be considered as our most important international relationship at present. The reason is that Australia, which already shares the number three position among our trading partners and which is extremely important in terms of our imports of resources and food products, is indispensable as a source of fishery resources. It is an important link in our strategy for survival from the standpoint of diversifying our foreign policy position, which has become weakened vis-a-vis the Soviet Union through our overdependence on northern fishery resources.

However, the importance of Japan-Australia relations is not sufficiently recognized despite the fact that, in terms of trade, the relationship is much broader than Japan-China relations. Moreover, as seen in the disputes over sugar and beef, factors which could harm those relations--such as the distribution system, speculation, protectionism, etc.--lie latently in our nation's makeup. If these conditions are left unattended and the inherently complex feelings toward Japan which exist in Australia become unwieldy in the future, our nation will suffer great losses. As mentioned earlier, there is no guarantee that China would replace such losses. Our attitude toward Japan-China relations is an outstanding example of the lack of awareness of our foreign policy's role as a strategy for survival and its contribution to our national security.

## A Cultural Diplomacy of Substance

A final but serious problem is the fact that foreign policy as a strategy continues to hold an inferior position in comparison to the priority consideration given to the traditional areas of politics and economics. In the present international situation, foreign policy is in effect also a game of images. It is, of course, at the same time the human, cultural and informational exchange between different cultures and the avoidance of conflict in cultural contacts. Such cultural diplomacy can be an important contribution to our national security. Also, in the present cross-fire of the global strategies of the United States, China and the Soviet Union, our nation, which is characterized by a modern and diverse culture, has reached the point where it must give further substance to its cultural diplomacy. Speaking of cultural exchange, however, the era when we can export our uniquely Japanese culture and arts, the first stage in the era of internationalization, is ending. Our cultural diplomacy has reached the point where Japan's cultural and academic achievements and exchange of human talents should be promoted under a more conventional form.

Of course, in this respect, the International Exchange Fund and Overseas Youth Cooperation Corps have brought great noteworthy results. However, the question of whether to include cultural exchanges as a link in our foreign policy strategy constitutes a dilemma, with a concern about "cultural invasion" on the one hand and the neglect of cultural diplomacy on the other.

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The importance given to the question is still far from adequate. Yet it seems to me that the strategy for survival, or the position of cultural diplomacy as a defense strategy for our nation which is lacking in both a global strategy and a national goal, is an increasingly urgent task. In this respect, also, Japan's foreign policy is at a major turning point.

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ECONOMIC

NTT PRESIDENT VIEWS U.S. DEMAND FOR LIBERALIZATION

Tokyo NIHON KEIZAI SHINBUN in Japanese 8 Mar 79 Morning Edition p 3 OW'

[Interview with Tokuji Akikusa, president of the Nippon Telegraph-Telephone Public Corporation, by NIHON KEIZAI SHINBUN on 7 March--place not given]

[Excerpts] Question: What is the reaction of the Nippon Telegraph-Telephone Public Corporation [NTT] to the U.S. demand for giving foreign companies access to its procurements?

Answer: I cannot understand why the NTT has become an issue. It may be that the bigger a business becomes, the more severe criticism it receives. NTT operations are very specialized and, perhaps for this reason, the issue is not even fully understood within the NTT. I am certain that it is beyond the comprehension of the general public.

Since it is not a domestic issue and is entirely left to diplomatic negotiations, there simply is nothing I can do about it. I am just counting on Mr Ushiba (government representative to the Tokyo-round negotiations) and other specialists in the diplomatic field. I think that this is the first time the Foreign Ministry has become involved with the telecommunications area although ministry officials are highly familiar with economic problems.

Question: It may indeed be an issue that is difficult to understand, but how do you explain your position to the U.S. side?

Answer: If the United States needs to understand the facts involved, then we can give them to it one by one. However, we will be in trouble if the United States is aware of all the facts and refuses to hear us any further. Another problem is that we can hardly find an independent U.S. office with which we can deal on this issue.

Question: The Tokyo-round negotiations are now in their final phase and a settlement on the NTT issue has become a pressing demand. Judging from the present situation, Japan has no alternative but to accept the U.S. demand one way or another. What is your viewpoint?

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Answer: Yes, indeed. Furthermore, there is another grand forum scheduled-- that is, the Tokyo summit meeting (of major industrial nations). The government wants all problems (pending between Japan and the United States) to be resolved by the time of the summit meeting. For this reason, too, the NTT issue calls for an early settlement.

Question: Specifically, how will you respond to the U.S. demand?

Answer: We are still unable to foresee how the situation will develop. At the same time, we know that the NTT is not allowed to do everything in the way it wants under present circumstances. One thing we know now is that the United States has some understanding of the NTT's view and is not demanding a complete, foolproof bidding system on all equipment and materials. First of all, should foreign companies be given access to \$3 billion worth of procurements as demanded by the United States, it would take, according to my computations, 10 years to carry it out. It is impossible to totally alter the present procurement system.

Question: Nevertheless, the private contract method seems to be hardly understood by the public, correct?

Answer: The British Telegraph-Telephone Public Corporation shifted from private contracts to bidding in 1969, resulting in a deterioration in quality of materials, construction delays and trouble at worksites. Consequently, it reverted to private contracts only 2 years after the change.

Question: It seems an overstatement to say that, if the NTT opens itself up to foreign companies, it will lead to bankruptcy for many businesses related to the NTT, correct?

Answer: If we adopt a competitive bidding system, I am afraid that it would entail a drain from the country of techniques developed by the efforts of our specialists. This would apply not only to the NTT but to other manufacturers as well. If these techniques developed through severe competition would be made public, it would demoralize the specialists. There will be no such thing as all related businesses going bankrupt, one right after another, but we should remember that some companies partially or entirely depend upon the NTT, including Nippon Denki and Fujitsu. Nippon Denki depends on the NTT for 20 percent of its business and Fujitsu, 22-23 percent.

Question: Will the NTT, after all, be left outside the Tokyo-round international pact governing government procurements?

Answer: It has been suggested that communications equipment be excluded. However, I would like to refrain from making a hasty comment on it. I want to open the NTT's door to foreign companies gradually; however, if we participate in the international pact on government procurements based on the principle of competitive bidding, it will put our company under the supervision of other countries and will cause it to pay a high price in the future.

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ECONOMIC

ECONOMIC EXPERTS SPECULATE ON JAPAN'S 1979 ECONOMY

Tokyo SHUKAN ASAHI in Japanese 12 Jan 79 pp 144-147

[Discussants: Toshihiko Yoshino, Director of the Economic Research Center, Yamaichi Securities Co., Ltd. and Hisao Kinamori, Director of the Japan Economic Research Center]

[Text] Industry has started to make gains, but with the government giving up its 7 percent growth "pledge," the future is not at all clear. Where is the Japanese economy of 1979 headed? Has there been any change from Fukuda to Ohira? We have spoken with the positive Hisao Kinamori and the cautious Toshihiko Yoshino.

Kinamori: I think 1979 will be a relatively good year. For one thing, during 1978 the economy finally got a grip on recovery. Five years after the oil shock, industry is adjusting well and has found the strength for self-recovery. Prices have also stabilized and business loans and inventory have decreased--things are looking good. Investment in equipment, which up until now has been very sluggish, started to move in 1978 with the focus on service industries. Isn't this quite a change?

Also, because fairly aggressive public investment policies were enacted in 1978, demand has recovered, mainly in construction industries and construction machinery.

On the other hand, the end of 1978 saw exports greatly reduced because of the rise of the yen. But when you look at the pluses and minuses together, I think the plus side is still stronger. Won't this trend be carried forward into the new year and won't 1979 be bright?

The reins of government have switched from Fukuda to Ohira. I think that Fukuda normalized the economy but I would like the new administration to take a little more positive action above and beyond what he did.

Yoshino: I thought the pledge of 7 percent growth basically impossible. The idea of 7 percent growth was an outgrowth of the Japanese-American

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discussions of December 1977. It is a number that arbitrarily emerged as a measure for reducing our international balance of payments surplus. Considering the problems of domestic unemployment and those of industrial management, I cannot view it as something Japan decided on voluntarily.

Therefore, I oppose the 7 percent growth, which the Ohira administration knows is impossible. I think that planting the seeds of future inflation and greatly increasing the national debt, which are the result of a general expansion of spending, are things we should not do at this time.

However, I am not saying for a minute that the more we restrain the rate of growth, the better. I think we should find other ways to deal with employment and the surplus in international payments—and not by generally increasing the growth rate.

Kinamori: I think the economy has gradually improved, but the growth rate is still not sufficient. Even though domestic demand is at a good level, exports have decreased more than expected. The government's interpretation is that this has depressed everything. Exports also exert an important influence on the employment problem, and when we take this into account, I think the question, after all, is the rate of growth of the economy. If growth is lower, the employment problem will be difficult to solve. Because Japan has a very high rate of rise in productivity, when the growth rate is about 5 percent, industry can get along even without hiring more people. At a 5 percent rate, the number of jobless people has increased about 200,000 over last year.

Isn't the most important target of economics the employment problem? As usual, there is a surplus in international payments, and equipment is in good supply; even the rate of price increases is extremely low. Wholesale prices have probably fallen 4 percent relative to last year. Therefore, isn't it an important task for the new year to go ahead with a more positive policy and to stabilize the economy, which has finally begun to recover?

Yoshino: Although I have several reasons why we should not always oppose a 7 percent growth rate, one is that I fear inflation will result if we reach for a predetermined growth rate whatever the cost, and if we must increase public consumption based on a large increase in the budget in order to make up for what is lost in exports. In 1978, although we issued national bonds amounting to 11 trillion and several hundred billion yen, I think that in 1979 so large an amount will not be permissible. If those national bonds are satisfactorily absorbed, I am certainly not opposed to taking in excess capital by increasing the national debt and stimulating the economy financially. However, conditions have changed since April 1978, when we reformed the regulations for issuing national bonds, and lowered the 10-year bond interest rate to 6.18 percent. In other words, the sellers of national bonds have increased and the buyers have decreased. If the value of national bonds is lowered, absorption is hindered. Hereafter, if we further increase the national debt by a great amount, this tendency will

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become more apparent. In 1979, will the market value of national bonds be considerably lowered, or will lowering it be bad? The Bank of Japan, in order to support the market value of national bonds, is buying enormous amounts. Although I won't go so far as to say that danger immediately follows when we buy national bonds in the same way as we support the dollar, by using "excess" currency, isn't there a danger that prices, which we have worked hard to stabilize, will go up again? In that sense, I think that excessive attention to increasing the money supply and the policy of generally increasing demand is an old way of thinking.

Rather, the important thing is to pay a little more heed to how to reemploy people of middle and upper age levels who are the victims of their place in the industrial hierarchy, in what can be called a "structural recession."

At any rate, I am not opposed to a broad rate of growth in 1979. More than that, I think it is a year to take specific steps regarding the important employment problem.

Interest rates: will they go down or not?

Kinamori: If we do not continue the recovery of fiscal initiative at least for 1 more year, in 1979, I think there is the possibility that the economy, which has just begun to recover, will deteriorate again. In order to make recovery permanent, a broad expansion of public investment is necessary. At this year's level, the national debt is 11 trillion yen. That is unacceptable. If we do not raise an additional 5 to 6 trillion yen, we will not be able to put together the necessary budget. Although it is a question of whether or not it can be absorbed, we had better improve the so-called technical problem of diversifying the national debt.

However, as a whole, there is an excess of savings in Japan. If interest rates are unrestricted, I do not think we will be unable to sell the necessary national bonds. However, because we have a system of controlled currency, I think that a policy is required vis-a-vis the level of interest rates whereby we adjust those rates to the point at which necessary growth can be realized. Therefore, by lowering bank interest rates a little more and by issuing national bonds, we will expand necessary public investment.

Yet there is a problem of balance in using public investment alone. Because I think it is desirable to consider the economy as a whole, it has been my opinion for a long time that we should match our demands for public investment with a decrease in taxes.

However, because there is a strong feeling that it is nonsense to talk about reducing taxes when the economy is in trouble, I think there is no prospect of a lowering of taxes. Therefore, don't public investment and lowering bank interest rates somewhat become central concerns?

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Yoshino: Until a lowering of the price of national bonds occurred in April 1978, I was rarely in agreement with Mr Kinamori. Rather, until that time I thought we should lower taxes. However, because I judge the change in the condition of the national bond market since April to be an omen of great danger, I have come to think, from that time, that tax reduction is not appropriate. The reason is that if we lower taxes, we must increase our national debt. At that time, if we cannot smoothly absorb that debt, we will carry out massive buying support in order to check the fall in the market value of national bonds. Because there is the danger that this will become the basis for greatly increased currency production in the future and a source of price increases, I have changed my mind, and think we should grit our teeth and give up the idea of reducing taxes.

And, concerning Mr Kinamori's point that Japan's interest rates are too high, my view is a bit different. The official rate between America and Japan is 6 percent, and the prime rate can go higher. America is far higher and Japan is far lower.

The rate of increase in consumer prices has reflected the rise of the yen up until now. Up to the present, the base rate for the country as a whole has been 3 percent. But when the yen went down when President Carter announced his support of the dollar on 1 November 1978, wholesale prices since November have had a reactionary rise. Now interest rates on 1-year fixed-term deposits are 4-5 percent, but if this trend, which has appeared in wholesale prices, affects consumer prices, I think the day is near that savings will decrease. Certainly, if we lower interest rates on loans, industry will benefit. To that extent I think it is desirable, but given the conditions of present banking facilities, I think that we cannot lower interest rates on loans to the extent that Mr Kinamori says without greatly lowering savings interest rates.

Kinamori: America has a \$20 billion international balance of payments deficit. Imported goods cost that much more than goods made domestically. Thus, I think it is appropriate that they raise interest rates and don't use too much money. However, in the case of Japan, although we repeatedly say we will lower our surplus, in 1978 won't it be about \$17-\$18 billion? Therefore, isn't it appropriate that on the one hand we use it financially, and on the other hand lower interest rates so we can use more equipment investment domestically?

Regarding prices, wholesale prices have declined 4 percent and are the same as last year. Certainly, if the exchange rate is lowered, prices may go up because costs for imported raw materials will go up. However, there is no previous postwar example in Japan of prices having actually gone down 4 percent. Isn't this true for the world as a whole? I think it strange to worry about inflation at such a time.

As for a 3 percent rise in consumer price, this too is historically very low, and because the rise of wages has fortunately become fairly slack, I don't

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think there's a danger of inflation for the time being. Now, if we fear inflation and don't carry out credit and fiscal policies, there won't be a chance for such policies.

A decrease in the workforce: will the decrease in income and the increase in profits continue?

Yoshino: I am not saying we already have inflation now. The rate of increase in wholesale prices relative to last year is minus 4.01 percent--it has really gone down. If, however, you divide it into domestic and foreign factors, and then if you divide foreign factors into contract and exchange factors, exchange factors emerge as minus 4.18 percent. This means that the decreased portion is almost entirely because of the rise of the yen.

Although wholesale prices have gone down 4 percent compared to last year, the rise in consumer prices is at the same time close to 4 percent. If wholesale prices set off a reactionary increase in prices, there is no doubt that consumer prices will go up more. If this occurs, there is naturally the possibility that the vicious circle of wage and price increases will occur again, and soon a consumer price increase rate of the sort that will exceed the interest rate of fixed-period savings will occur. I am older than Mr Kinamori, and although it may be the fault of nervousness, I really do not think it is that simple a thing.

Looking next at the economy, what will happen to industrial profits is important. In the past a separation of macroeconomics and microeconomics was spoken of. Macro was good; micro was bad. I am opposed to that view now. Although sales have declined 2.7 percent compared to the previous period because of liquidations in the period ending September 1978, earnings have increased 11.6 percent.

As the government expected, the growth rate has been low, and therefore unemployment has increased. Why does this kind of macro and micro separation occur? Because of the rise of the yen, things purchased from abroad are cheaper and there are companies which make a great marginal profit on exchange. Also, even companies which buy domestically, processing things which other companies have imported without importing things directly from foreign countries, are able to say to other companies, "Because you have bought at a cheap price, isn't it strange to sell at such a high price?" Industry is not the same as consumers. If industries are united, there is much room for negotiation. When the exchange market price goes up, cases often come up where they even put in a sliding clause which says they will lower the price by that much. Therefore, the cost of imports has generally decreased considerably. If we look at the Bank of Japan's import price index, compared to the same month last year, it has gone down more than 20 percent. About two-thirds of the reason that industrial profits took a favorable turn is the benefits from the rise of the yen. The other one-third is that the Bank of Japan enacted a policy of low interest rates, and rates fell. Added to this, consumer prices have stabilized and wages have not gone up very much.

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When we think of what will happen to industrial profits now, a big factor which has revived industrial profits--namely, the lower cost of imports--cannot but weaken. Up until now, interest rates have, on the whole, fallen, but there is a subtle difference between long and short-term rates. Still, for the time being, I think short-term rates will continue to decline, but seen as a 10-year national debt, won't long-term rates probably cease to go down?

Also, if the falling rate of wholesale prices brings down personnel expenses, and if the rising rate of consumer prices increases, the rate of wage increase will probably go up.

One more thing concerning the rapid decrease in the workforce--I think this, after all, will run into resistance from society.

Kinamori: Macro is not very attractive, but micro has improved. Thus, I think the feelings of industry have greatly changed and have become brighter. Industrial sales have fallen off, but profits have increased. When you ask why this happens, I answer that it is because differences find some outlet. One is abroad. Japanese industry makes money, and because it buys lower from abroad and sells higher, foreign countries lose. Another reason is because wages have not gone up much and the workforce has decreased, and the rate of labor-sharing has gone down. Another reason for increased profit is, I think, the government's deficit. Because the government has spent more than it has received, industrial profits have risen. However, I do not think this increase in profits while sales as a whole decline will continue for very long. Certainly, we cannot have such a reduction of the workforce. The rate of labor-sharing has risen a little too much. I think this effect on industrial profits came about in the course of normalization, but by a certain time, if sales do not increase, profits won't go up either. Even though we may somehow make it through March 1979 under these conditions, I feel profits may drop around September.

Thus, for another year, in 1979, we must boost finances. And isn't it necessary to bring increased revenues and profits into the new year? The expansion of a monetary deficit is definitely a problem, but for a while we must close our eyes to it. Closing our eyes will, I think, expand the monetary deficit a little more. If we look at it only from this angle, it is certainly not a desirable situation, but if we do not take the long view that the economy will improve, the result will be that we must continue issuing national bonds indefinitely. Therefore, even if the deficit expands for a short while, taking the longer view, if we don't use finances so that the economy improves, it will be a bad situation.

The yen market: 200 or 210 yen?

Yoshino: One important factor in thinking about the economy is what will happen to the yen exchange rate. On 1 November 1978, President Carter

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announced a policy of dollar protection. America deposited (traded) currency with other countries, withdrew capital from the International Monetary Fund (IMF), and sold Special Drawing Rights (SDR). On the one hand they expressed their determination to maintain the dollar and procure funds up to \$30 billion. And because they even took steps once to raise the official rate by 1 percent, a movement resulted whereby the excessive rise of the yen was revised. However, I really do not think this will take us back to the level prevailing around the end of 1977.

Although the calculation differs depending on who is doing it, the amount of dollars which has gone from the U.S. to foreign countries is at least \$450 billion, and many people say \$600 billion. Taking an average of \$500 billion, speculating 10 percent would be \$50 billion. Twenty percent is \$100 billion. There are plenty of reasons to suspect that \$30 billion is not enough to support the dollar. Moreover, because America's international payments deficit still continues, excess dollars continue to increase. Therefore, American inflation is clearly coming to an end [sic]. It would be good if the international payments deficit were reduced, but as long as it is not, just how long we will have a policy of dollar protection is problematic. If you see things that way, I think there will be a movement from 190 to 200 yen.

Kinamori: Because America has taken the position of buying and supporting the dollar with \$30 billion, the dollar has recovered, but the basic causes have not changed that much. I do not think American inflation will readily end, and Japan's surplus in balance of payments will continue for the time being. This factor still works in the direction of raising the yen. If the veneer of policy wears off, won't the yen become still stronger? The desirable level is about 200 yen. If the yen does not get a little weaker, Japan's export industries will not be able to carry on normal business, I think, and because our domestic economy is suffering and our international surplus in balance of payments continue, the possibility that a rise in the yen may recur is very real.

We cannot conjecture about matters of foreign governments, but the American government says that because the dollar is its currency, it must protect it. I think they feel that if the dollar becomes a little weaker, more strength would accrue to American goods in export competition, and if the balance of payments improved, it would be good. However, that is not the only reason why they are giving positive support to the dollar: they are worried that OPEC will greatly raise its prices. Moreover, an important thing is that American inflation has become very pronounced. If the dollar gets weaker, American domestic prices will increase. And the popularity of the government will decline. Therefore, I think that policies to fight inflation are an extremely important goal. However, America does not have basic confidence in the dollar now. Therefore, even if we think that the dollar has now stabilized, I feel that the possibility is strong that this will not last.

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Currency revaluation: whether or not to do it.

Yoshino: Just to add one more thing--if you ask, therefore, whether industrial bankruptcies will come in quick succession, that will not happen. In October 1977, when \$1 equaled 260 yen and it looked like the dollar would break through the 250 yen barrier, there were those who said that if we go beyond the \$1 equal 260 yen level Japan's export industries will be washed up. However, there was unusual flexibility in Japanese industry with respect to the exchange rate. That is to say, recent export prices expressed in yen, when compared to a year ago, are about 8 percent cheaper. Speaking only from the change in the exchange rate, prices should be down about 21 percent but 12 percent, which is approximately half, is covered by the rise of dollar-indicated export prices. Whether you say it is that the delivery period of Japanese goods is short, or the quality of the products is good, or that you can immediately get parts--the fact that we have competitive strength outside of the price aspect, and the fact that America, who is our biggest customer, is suffering from inflation, plays a great part in it. Added to this, the lowering of import costs based on the rise of the yen had an unexpectedly great effect.

Kinamori: But exports from Japan have declined in amount of revenue and in quantity. This is a rare thing for Japan. Even if the rise of the yen is not directly related to bankruptcies, there are in reality many industries which can no longer afford to export. Also, there are many which do not export any more because it is senseless to do so. In the automobile and home electric industries, where up until now exports were favorable, even domestic demand has ossified. Because profits originally were relatively good, the dreaded bankruptcies did not occur. However, I think there is no mistake that the decrease in exports has been a fairly large negative factor for the economy. Therefore, to say it again, I think things will be bad if we do not make it the basis of our policy to give careful thought to those points and to cover that portion by expanding domestic demand.

Yoshino: An important thing is how to keep Japan's economy on the track of stable growth. In other words, we are not presently in a period of high-level growth like before. How can we best deal with the unemployment that comes about in the course of that? And, because we have too great a surplus in the international balance of payments, we have exposed ourselves to fierce international criticism. We are not solving the problem of how best to deal with that. Therefore, government policies should put great stress on measures which directly shrink the surplus in the international balance of payments, and on unemployment countermeasures. Moreover, now is not the time to think about the redenomination of the yen, which has almost no relation to the substance of economics.

Kinamori: No, I think we had better carry out redenomination. With \$1 now equal to 200 yen, it is very strange, internationally speaking, and for business, too, it is inconvenient. I think that prices will stabilize, and that now is a good chance to do it.

However, taking the long view, because Mr Fukuda has been replaced, the time for carrying it out has receded a little.

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ECONOMIC

EXPANSION OF CONSUMER CREDIT SYSTEM INEVITABLE

Tokyo NIKKEI BUSINESS in Japanese 29 Jan 79 pp 103-105

[Article by Isao Matsuura, chief researcher, business planning department, Sanwa Bank: "NB Forecast on Consumer Credit Market: 16 Percent Yearly Growth, 80 Trillion Yen Level After 5 Years, Centered on Card Loans, New Products Coming to the Fore"]

[Text] The outlook is for an even greater qualitative and quantitative expansion of the consumer credit market to continue in the future, swelling to the level of 80 trillion yen, over twice the present level, by 1982. Of this, the market for consumer loans, supported by the appearance of bank card loans, a personal credit reporting system, and the expansion of the warranty structure, will probably reach a scale of 15-16 trillion yen.

With the recent expansion of consumer credit we have a remarkable development. In the distribution industry rapid growth of monthly installment sales speciality stores is continuing, and department stores and supermarkets are competing by offering their own credit. In order to turn up new demand, manufacturers of automobiles, household appliances and other items are further expanding their existing installment sales capacities.

Last March, the Sanwa Bank began offering the card loan, through which a loan of up to 500,000 yen can be obtained from an automatic cash disbursement machine. One bank after another followed suit. As a result, as of December outstanding bank loans were said to exceed 100 billion yen.

Consumer Loans To Reach 15 Trillion Yen by the End of 1982

In this atmosphere of consumer credit for everyone, while the phenomenon has appeared of the "wage earner" loan shark transformed into a social problem, the expansion of consumer credit has become a major force supporting

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consumer buying power during the recession. Cited as an explanation for this is: (1) The predominant status of firms as the source of demand for capital is in the process of shifting to the national and local government and the household; and (2) With the rapid advance of computer technology, it has become possible to process and manage consumer credit rapidly and accurately, the greatest portion of which is [words illegible] in small amounts.

It is wrong to view this flourishing of consumer credit as a temporary phenomenon of the recession. Since it is rooted in the structure of the economy itself, its continued expansion is a certainty. Rather, it may be said that consumer credit is at last heading into a period of growth. According to calculations by the Sanwa Bank's research department, assuming an improvement and perfecting of the system, the outlook is for the overall consumer credit market to reach the level of 80 trillion yen by the end of 1982. Of this, consumer loans will probably expand from their 1977 level of 5.76 trillion yen to 15-16 trillion yen. However, even so, the proportion of consumer spending taken up by consumer loans will only be 5.4 percent compared with 17 percent in the United States.

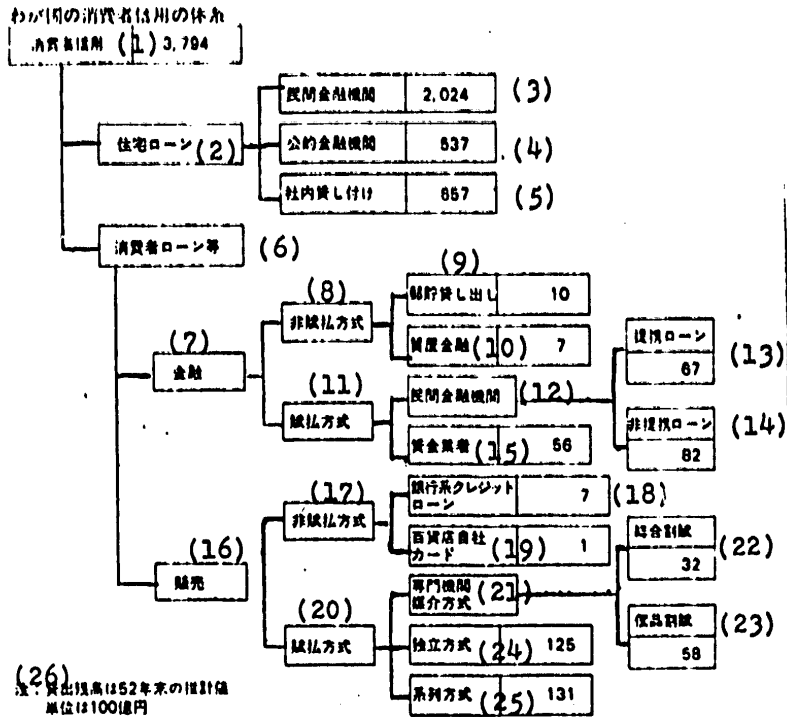
Before there can be a quantitative expansion of consumer credit, system improvements are necessary such as: (1) Expansion of the target group of consumers; (2) simplification of handling; and (3) expansion and liberalization of borrowing purposes. The classic example of this is the bank card loan. Moreover, the equipping of a personal credit reporting system network and a warranty structure are indispensable. Because it will be connected with the problem of personal privacy, a personal credit reporting system in particular involves some very difficult aspects, but in any case it will probably take the form of a link-up between the National Bank Association's personal credit data bank plan now under study and the organized credit file of the rest of the credit industry when this is completed. In addition, the equipping of collection organizations and a consumer protection system are also likely to cause problems.

Great Convenience With Interbank On-Line

Next, let us look at the forecast for individual products. First, the card loan will probably be the heart of consumer credit for existing products. In functional terms, for example, innovations such as sets of various types of accounts; agreed upon repayment plans; and transfer, deposit, and withdrawal of funds by telephone are envisioned. Also, through interbank on-line hookups, it will probably be possible to make and repay loans at any time through the automatic cash disbursement machines of any financial institution.

Until now, the principal type of personal loan has been a joint loan tying together household appliance and automobile companies. Recently, however, the trend is to move away from things, that is, loans for the purpose of purchasing specific products, toward loans for the purchase of services, such as hospital expenses, funds for education or weddings, or loans for

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The Nation's Consumer Credit System

- Key: 1. Consumer Credit
- 2. Home Loans
  - 3. Private Financial Institutions
  - 4. Public Financial Institutions
  - 5. Company Loans
  - 6. Consumer Loans, etc.
  - 7. Finance
  - 8. Non-installment type
  - 9. Postal Loans
  - 10. Pawnshop Finance
  - 11. Installment type
  - 12. Private Financial Institutions
  - 13. Nonjoint Loans
  - 14. Loan Brokers
  - 16. Sales
  - 17. Non-installment type
  - 18. Bank Credit Loan
  - 19. Department Store Card
  - 20. Installment Type
  - 21. Specialist Organization Agency Type
  - 22. Comprehensive Installment
  - 23. Specific Item Installment
  - 24. Independent Type
  - 25. Affiliated Type
  - 26. Note: The estimated unit value of loans outstanding at the end of 1977 was 10 billion yen.

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no specified purpose. Last year, in accord with government policy, educational loans and small sum loans were inaugurated. However, this suggests the possibility that loans which until now have been tinged with the character of government policy measures, such as the low interest welfare loans, may be introduced on a wide scale, and the crossing of policy goals and the private management of financial institutions may become a problem. Home loans account for over 80 percent of the outstanding consumer credit, and this will probably not change in the future. The inauguration of loans for older homes, the introduction of floating interests rates, the sales of mortgage securities and similar measures will be the key to future growth, and the realization of all of these is probably not far off.

Moreover, automobile makers and large distributions, such as department stores, are currently switching from traditional reliance upon credit sales companies and banks to direct loans from company funds. However, for this type of loan an effective revolving credit formula will probably be central to holding customers.

Credit sales and installment sales companies differ in whether or not they have an installment payment capacity. Each has exploited its special characteristics while expanding the scope of its business. However, in the future, a new credit system merging the functions of both will probably be developed in response to consumer needs. Both are putting efforts into direct consumer finance, attempting to offer low cost, good quality financing as an alternative to the "wage earner" loan sharks. Their future development will be watched.

Meanwhile, with respect to new product development, with the improvement of computer use technology, the development of all sorts of consumer credit is said to be theoretically possible. The three remaining major problems are: (1) Personal credit protection; (2) legal regulation; and (3) profitability. As for 1 and 2, provision of facilities and adjustments are gradually progressing in response to the trend of the time and will probably make possible the development of consumer credit based upon a new system such as that of the Japan Data Center (NDC) plan.

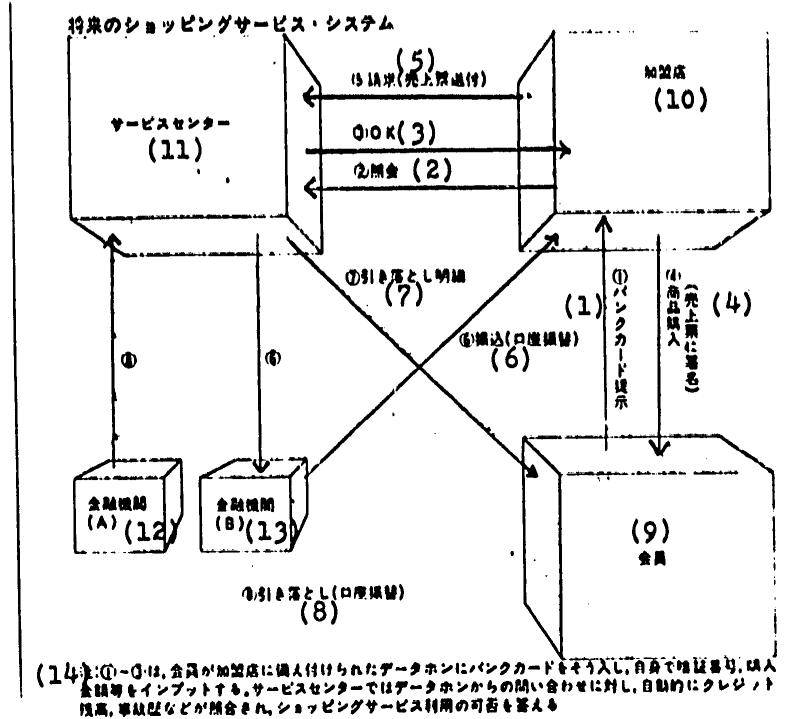
The NDC Plan Suggests Future Direction

The NDC plan was unveiled last November. Since then, study by Japan Telephone and Telegraph, financial institutions, distributors, and others has been progressing. The essential elements of the plan are: (1) shopping service at retail stores; (2) remittance by telephone instruction (Data Phone); and (3) in-store cash advance service. The shopping service system, which is the main pillar of the plan, is shown in the preceding figure. At present its prospects for realization are faint, but it is believed to indicate the future direction of consumer credit.

Even if the expansion of consumer credit makes life more convenient, it does not necessarily make it affluent. The fact that the destruction of



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Future Shopping Service System

- |  |  |
|--|--|
| Key: 1. Bank Card Presentation               | 9. Individual Member   |
| 2. Reference Inquiry                         | 10. Member Store   |
| 3. O.K.                                      | 11. Service Center   |
| 4. Item Purchase (Signature on Sales Ticket) | 12. Financial Institution  |
| 5. Request (Sales Ticket Forwarded)          | 13. Financial Institution  |
| 6. Payment (Account Transfer)                | 14. Note: (1) - (3), The individual member inserts the bank card in the data phone provided at the member store and inputs his secret number, the purchase price, etc. At the service center, in response to the data phone inquiry, credit outstanding, credit record, etc are automatically verified, and approval or denial of the shopping service use is given. |
| 7. Deduction Breakdown                       |  |
| 8. Deduction (Account Transfer)              |  |

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wholesome living is also sometimes a danger is not due only to a single "wage earner" loan shark.

Borrowing by firms is linked to the future growth of sales, but personal borrowing is tied to retrenchment in future living.

It is the duty of financial institutions to recognize fully the character of consumer credit as a double-edged sword and to work to create and support a healthy consumer credit structure by not encouraging easy borrowing and easy lending. At the same time, the fostering of judicious money sense by the consumers will be demanded more and more in the future.

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ECONOMIC

BRIEFS

PRC CONTRACTS--China recently froze a number of plant import contracts by withholding the issuance of import licenses after the contracts had been initialed. According to a report by affected Japanese firms, the value of the contracts frozen by China total 580 billion yen as of 12 March. In addition, the contracts that have been formally signed and that will certainly be frozen are expected to reach 50 billion yen. According to the terms of the plant export negotiations, the contracts were to have taken effect on the 60th day after they were signed and Japan and China were required to issue export or import licenses within 60 days of the signing of contracts. According to a survey conducted by the Ministry of International Trade and Industry, China had withheld the issuance of import licenses beyond the 60-day limit on 20 contracts valued at 420 billion yen as of the end of February. The total value of the frozen contracts rose to 580 million yen as of 12 March. In addition, 60 days have not passed since Petroleum Refinery and Cooper Works and other plant contracts totaling over 500 billion yen were signed. Thus, no contract withholding notices for those plants have been received. However, it is certain that China will serve withholding notices on these contracts unless the two countries agree on financing terms. Therefore, the total value of the frozen contracts will reach 630 billion yen. [Text] [Tokyo NIHON KEIZAI SHINBUN in Japanese 13 Mar 79 Morning Edition p 1 OW]

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SCIENCE AND TECHNOLOGY

LIQUID HYDROGEN TO FUEL 3-STAGE H-1 ROCKET

Tokyo NIKKAN KOGYO SHINBUN in Japanese 11 Dec 78 p 5

[Text] The Space Development Committee hopes to have formulated by the end of March the basic plan for development of the H-1 rocket which will be Japan's main launch rocket in the decade after 1985. Based on this, the Space Development Corporation (director Yokei Matsuura) is anxious to get started on basic experiments on the liquid hydrogen-liquid oxygen (LH-LOX) propulsion system which will be a key point in the development of this rocket.

This rocket is to be developed by our own technology to cope with the increase in the size of stationary satellites for meteorology, communication, and broadcasting, and the LH-LOX fuel technology to be used for the second-stage engine, which we are attacking for the first time, is considered to be state-of-the-art technology. This will not only enhance our technological potential in space development, but it is hoped that the use of LH fuel will also produce important future applications for aircraft and automobiles.

Plan To Use Second-Stage Rocket

The H-1 rocket is a 3-stage rocket weighing a total of 120 to 200 tons with a capability of putting a 500 to 800 kg artificial satellite into a 36,000-km high stationary orbit. It will be characterized by an LH-LOX second stage propulsion system, a more advanced guidance control system, and furthermore, heat-processed materials, the third stage motor, and other objects will be newly developed.

A subcommittee of the Space Committee, which has been studying rocket specifications in relation to the need for practical satellites in the decade starting

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1985, is expected to have an interim report out by about the 20th. Standing on this report, the committee hopes for a final decision by the end of March of next year, since rocket specifications will vary considerably depending on whether the launch capability is to be for a stationary satellite of the 500, 600, or 800 kg class. In other words, for a 500-kg class satellite, currently existing N-rocket technology can be utilized as is for the first stage, whereas for an 800-kg satellite, both the second and third stages have to be strengthened in addition to adding booster rockets to the first stage.

There are other problems demanding urgent consideration such as for instance, increasing satellite size will mean higher output power and less demand on receiving facilities, but would this be economically and technically feasible? Also the development of the H-1 rocket contains elements of the basic technology for the development of the H-2 rocket for manned space development.

Development Cost About 180 Billion Yen

The total development cost for the H-1 rocket is expected to be about 180 billion yen. This includes 60 billion yen for the development of a LH-LOX propulsion system to launch a 500 kg artificial satellite, 60 billion yen for the launch site and ground test facilities, and 60 billion yen for two test flights in FY 1984.

There has been the opinion in some quarters as to whether it wouldn't be cheaper to make use of American space shuttles instead of spending all of this time and money for rocket development. Taka Tsunashima, deputy chairman of the Space Development Committee states however that "when considering a practical satellite for the future, there is no assurance that shuttle launch will be adjusted to our schedule, and also when we have to consider the possibility of having to launch a second satellite in case of failure of the first, it is necessary to have rocket development based on our own technology." There is no denying the fact that the establishment of our own unique technology is a necessary condition when there will naturally ensue many problems involving international cooperation in space development.

Prototype Manufacture and Testing From FY 1980

In the H-1 rocket development schedule, research started in FY 1974 with basic studies on the second stage engine, critical to development of the entire system, preceding that on the first and third stages. Basic studies on the third stage and the guidance control system will start in the next fiscal year, and prototype manufacture and testing start in FY 1980.

Regarding main engine components, the Space Development Corporation is directing and is responsible for their development. Responsible development contractors are Ishikawajima-Harima Heavy Industry for the turbopump and other fuel propellant feed systems, Mitsubishi Heavy Industry for the nozzles and combustion chamber equipment, Nissan Auto for the third stage

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solid propellant rocket, Mitsubishi Heavy Industry for the second stage tank and related equipment, Nippon Electric for computer and guidance control system, Koku Denshi (Aerospace Electronics) for control sensors and related equipment, Ishikawajima-Harima Heavy Industry for the gas-jet control system, Nippon Electric and Mitsubishi Electric for radio equipment, and Mitsubishi Space Systems for software for the guidance control system.

Accelerated Study of the Inertial Guidance Equipment

At present for the basic developmental testing of the second stage rocket, its development is being promoted by an LH-LOX Engine Development Coordinating Council formed by the Space Development Corporation together with the Aeronautical and Space Technical Research Laboratory and the Space and Aeronautics Research Institute of Tokyo University. The council is also promoting joint research on the inertial guidance system and the solid propellant rocket motors.

Since the LH-LOX engine, which will be the hero of this rocket, uses liquid hydrogen as the fuel and LOX as the oxident, cryogenic techniques involving -250 to -260°C temperatures are required. This puts severe demands on the design of the LH pump, combustion chambers, and related equipment. Towards this end, LH pump testing is being performed at the Tsunoda Rocket Development Center of the Space Development Corporation, while a water-cooled 10-ton-thrust combustion chamber is being tested at Mitsubishi's Tashiro Test Site. Various other tests are progressing on schedule as witnessed for instance by the expected design performance in a basic LH test of a 7.5-ton class prototype LH pump built in FY 1976.

Scale-up and Higher Performance

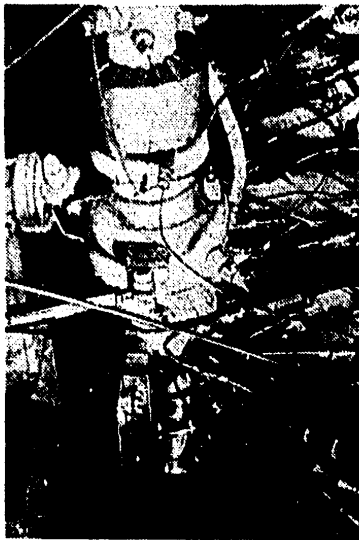
Starting with Japan's first rocket, the pencil rocket developed by the Space and Aeronautical Research Institute of Tokyo University in 1955, both size and performance have increased through the Baby, Kappa (K), Lambda (L), and Mu (M) series of rockets, with a Lambda-4S rocket launching Japan's first artificial satellite Osumi into space. On the other hand, with respect to practical applications or rockets and satellites for space communications and meteorological observation, the Science and Technology Board, the Ministry of Posts and Telecommunications, and the Ministry of Transportation have been conducting research since 1960, and the development work has now been taken over and pursued since 1969 by the corporation.

The N-rocket currently used by the corporation is a liquid-liquid-solid 3-stage rocket capable of launching a roughly 130-kg stationary satellite. The first stage has three solid propellant booster rockets. Particularly the second stage uses N<sub>2</sub>O<sub>4</sub>-A-50 as a propellant. The next rocket in line for development, namely the N-2 model capable of launching a roughly 350-kg stationary satellite, is simply a scale-up of the N-model.

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PHOTO

- Test of propellant fuel system

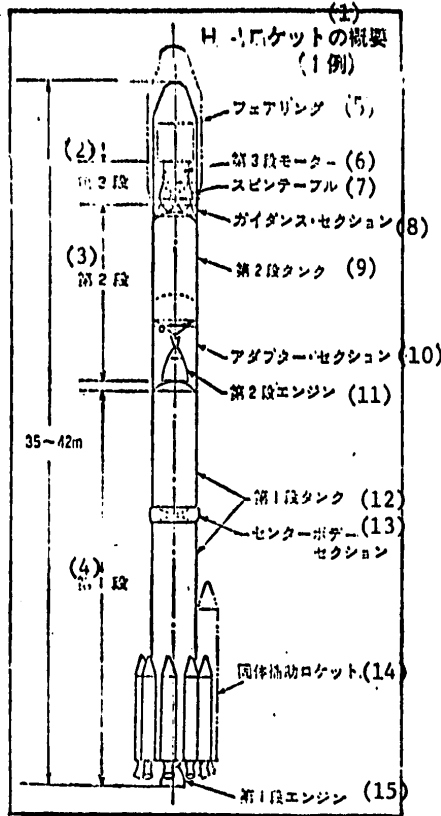


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Outline of H-1 Rocket (Example)



Key to legend:

- (1) Outline of H-1 rocket (example)
- (2) Third stage
- (3) Second stage
- (4) First stage
- (5) Faring
- (6) Third stage motor
- (7) Spin table
- (8) Guidance section
- (9) Second stage tank
- (10) Adapter section
- (11) Second stage engine
- (12) First stage tank
- (13) Center body section
- (14) Solid propellant booster rockets
- (15) First stage engine

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Main Rocket Types for 1985 and Thereafter

On the other hand, taking into consideration energy conservation and enhanced lift capability, the H-1 rocket to be built around an LH-LOX nonpolluting engine is receiving closer attention as the main power plant for the decade after 1985. This will also be a milestone in Japan's future space effort which will be working towards experimenting with materials in a space laboratory and preparing for manned flight.

In any case, the H-1 rocket is in line with the Space Development Committee's concept of development using its own technology, and since this is a key link in Japan's future space development program, the outcome is being watched with particular interest.

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