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19 June 1980

Japan Report

(FOUO 16/80)

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JAPAN REPORT

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MILITARY

PROS, CONS OF MILITARY BUILD-UP DEBATED

Internal, External Pressures

Tokyo ASAHI JANARU in Japanese 11 Apr 80 pp 10-14

[Article by ASAHI SHIMBUN editor Shoji Takase]

[Text] (Introduction) The Soviet Union's military intervention in Afghanistan pulled the world back from detente to confrontation. Against this new background of U.S.-Soviet confrontation, the United States is pressing Japan to increase its defense expenditures, and there is economic friction between Japan and the United States symbolized by the automobile problem and fear of inflation and an energy crisis. In these circumstances there have begun to be dangerous moves to abruptly "reverse course," and challenge the "Japanese taboos" against increasing military strength, lifting the ban on arms exports and reactivating the draft.

Against a background of change to a new military situation--the Iranian revolution a year ago and the recent Soviet invasion of Afghanistan--there has been an octave increase in foreign and domestic demands that Japan increase its defense strength. The United States, in particular, has come to frankly express its strong hope for strengthening of Japan's defense capability prior to Prime Minister Ohira's May visit to the United States.

Domestically, too, there has been a succession of positive statements from leaders of the economic world and others, along the lines of "making a stir to stimulate the defense debate among the Japanese people." There have been, for example, such assertions as "we should raise defense expenditures to the Swiss level of 1.9 percent of GNP (2 percent in 1976)" or "it is necessary to consider the draft for emergencies" or "there should be broad discussion, from both political and economic aspects, of defense questions including reexamination of the policy banning weapons exports."

First let's seek the views of two or three informed persons on what to make of the growth of external and internal pressure for a Japanese defense debate. Hiroshi Takeuchi, chief of the research department of the Long-Term Credit Bank of Japan, who is familiar with the inner workings of economic world, says this:

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"Pressure from economic circles to strengthen defense capability is going to keep on increasing. It is just a matter of time before defense expenditures exceed one percent of GNP. There are various reasons, but one is that with changes in the world situation due to the oil crisis and the Soviet invasion of Afghanistan, business leaders increasingly pride themselves on being able to conduct Japan's foreign affairs themselves, as seen in such things as commercial stocks of oil. Another reason is concern over how the Japanese economy would get by if the United States, the biggest customer for Japan's dollar income, became angry and imposed trade restrictions. The characteristic nationalism of people that age is also involved.

"The position of these business people is to ask those who oppose their thinking to state an alternative proposal, if they have one, on how to secure oil without exporting weapons, and how to be sure to continuing exports to the United States without accepting the increased military expenditures the United States demands."

On the other hand, Isamu Miyazaki, Deputy Director General of the Economic Planning Agency and author of "Gunshuku no Keizaigaku" (Economics of Disarmament) (IWANAMI SHINSHO, 1964), says the following with the disclaimer that he is not a defense expert and these are only personal views:

"The issue of defense preparations these days is highly technical and complicated, and strategically the issue has become global in scope; there is thus the suspicion that the arguments of non-experts will be half-baked. In that sense this issue, aside from its own pros and cons, is no longer one which should be discussed in terms of emotion or patriotism. The issue must be taken up widely and considered cautiously. However, we have learned that it is a mistake, in light of precious human experience, to solve disputes through violence, and we have a constitution which says as much. This has become the major criterion for consideration of Japan's security.

"Speaking economically, we must say that increasing military capability does not have a positive effect on the growth rate because of the inflationary tendency of arms production. Not only that, but in the area of fiscal policy it puts pressure on such things as construction of housing and social welfare of the aged. On this point, there is something which should be respected in Japan's achievements and values in the 30 years since the war. As for the pressure from the United States, which is much talked about now, we should explain clearly the differences between the positions of the United States and Japan, their national situations, and the feelings of the people. In response to the argument of the responsibility of an economic power, we should indicate specifically that the military use of economic power is not the only way to discharge responsibility. It is its use for foreign aid, education for example, which is the new responsibility of those who have learned the lesson of history."

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Finally, there is the view of the Budget Bureau of the Finance Ministry, on which the foreign and domestic pressure for increased defense expenditures is ultimately concentrated:

"When we hear the statements of financial circles we want to ask if the economic world also thinks it will be okay to increase corporate taxes. At this time when fiscal reconstruction has become an urgent task because of the super-deficit financing of a 40-percent reliance on national debt, it would take considerable time to move from 0.9 percent of GNP to 1.0 percent; the drastic step of doubling it to 1.9 percent cannot be called a reasonable proposal.

"If the cost of the 'Medium-Term Operations Estimate' is to be 2.7 or 2.8 trillion yen, it can hardly be disposed of by the target year of 1984, so we do not think the goal of 1 percent of GNP can be reached in 1984. Of course, if the politicians hand down a decision to greatly increase defense spending as a question of allocation within the framework of the General Account it could be fixed up by cutting other items in the budget, but even if the defense increase were to be covered by a new deficit bond issue, we would oppose it fiercely."

The table (following this article) was presented to the House of Representatives' Standing Committee on the Budget on 22 March by Minister of Finance Takeshita. It shows trial calculations of defense budget growth in intermediate years if defense expenditures are to reach the 1-percent level by the years indicated. To reach 1 percent as soon as next year, there would have to be an increase over this year of as much as 23.8 percent. To reach it by 1985 would require an annual increase of 13.8 percent. In any case the growth of defense expenditures would be higher than that of the General Account, a marked contrast to the past 5 years in which defense growth has generally been lower than that of the General Account. But even so, compared with the past record of growth of defense-related expenditures over those of the previous year--13.9 percent in 1976, 11.8 percent in 1977, 12.4 percent in 1978 and 10.2 percent in 1979--the 13.8 percent growth rate needed to reach 1 percent of GNP by 1985 cannot be called particularly high. Still, it cannot be denied that having the rate of growth of defense expenditures higher than that of the General Account would give the impression of a defense-oriented budget.

Apparently the Defense Agency originally intended to spread the front-line equipment costs of 2.7 or 2.8 trillion yen in its "Medium-Term Operations Estimate" over 5 years, raising the defense budget to 0.92 percent of GNP this year (fiscal 1980) and increasing it 0.02 percent each year until 1.0 percent was reached in 1984. As far as can be judged from the 0.9 percent figure for 1980, the first year, the prospects for reaching that target in the next 5 years has grown more remote. In particular, it should be pointed out that the tempo of the estimate as a whole has been slowed by the fact that equipment for rear services, which is the foundation supporting the front-line equipment, is given only growth at the same pace as before.

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In that sense, the unfortunate thing for the "Medium-Term Operations Estimate" is that it collided head on with a period of fiscal reconstruction in which the government is trying to hold down the General Account. This is because it can hardly be expected that defense expenditures alone will show sudden growth when maintenance of fiscal moderation is being demanded. Of course, this is not the first time there has been an upsurge of demands for increased Japanese defense capabilities. Back in the latter half of the 1960's there was criticism of Japan's "free ride" in connection with the operation of the Japan-U.S. Security Treaty. Nevertheless, the defense capability increase argument that the United States has directed at Japan for the past few years and the moves within Japan to create a positive recognition of the Self-Defense Force and to activate discussion of national defense can be seen as new developments in the environs of the issue of Japan's defense in the latter half of the 1970's.

What Happened in the 1970's?

Just what changes did occur in the 1970's? In a speech he made in Hawaii on 27 March, U.S. Ambassador to Japan Mansfield said that the attitudes of the Japanese toward security and military matters has changed dramatically and become more realistic in recent years. As the chief factors in this change he listed three points: 1) the steady growth of Soviet military strength; 2) the increasing self-confidence of the Japanese people, and 3) improvement of Sino-Japanese and Sino-American relations and the friendly attitude of the PRC toward Japanese-U.S. security arrangements. I would add one other factor: the relative decline of U.S. power since Vietnam and the American people's impatience to regain superior power.

First of all, the Soviet Union, which spends 11 to 14 percent of its GNP on the military and is steadily increasing its fighting strength, has tried to position increased numbers of defensive land forces on the Sino-Soviet border and modernize its Pacific fleet. Recently the light aircraft carrier "Minsk" has been stationed there, and has begun to make incursions into the Indian Ocean from its base in Vietnam; this has caused Japan to be concerned about the security of its maritime oil supply routes. In addition, the stationing of Soviet army units in the Northern Territories and the recent military incursion into Afghanistan have undeniably made the Japanese aware of their distrust and wariness toward the Soviets, and have given them the occasion to think about the question of defense.

Second, it is significant that the PRC has made a 180° turnaround in its evaluation of the Japanese Self-Defense Forces and the Japanese-U.S. Security Treaty. The PRC, which until the 1960's had consistently opposed the reemergence of Japanese militarism and called for the abandonment of the Japanese-U.S. military alliance, gradually changed its evaluation of U.S. and Japanese military strength starting with the clash with the Soviet military on Zhenbaodao in March 1969. Beginning at that time the priority in the PRC's military and political posture shifted to strategy toward the Soviets.

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When a Japan Socialist Party group visited China in October 1970, the PRC expressed its doubts about the JSP's anti-armaments policy. At a meeting with the first Komeito group to visit China, in June 1971, the PRC did not venture to refer to the pros and cons of the Japanese-U.S. Security Treaty. At the conference of U.S. and PRC leaders in February 1972, President Nixon tried to persuade the PRC of the importance of Japanese-U.S. security arrangements, and the PRC accepted that without criticism. Thus, during Tanaka's September 1972 visit to China and the negotiations on normalization of diplomatic relations, the existence of the security treaty did not hinder the negotiations; in fact, the PRC went so far as to actively endorse the significance of the Japanese-U.S. security arrangements. It also recognized that there is no link between the Self Defense Forces and reemergence of Japan militarism, and it did not object to the determination of the Fourth Defense Preparations Plan which called for strengthening the self-defense forces.

As seen in this course of events, the PRC's turnabout dealt a near-fatal blow to Japan's reformist peace forces which, starting from a neutral, anti-armaments position under the banner of the Peace Constitution more than 20 years after the war, had shouted in its slogan that the self-defense forces are a violation of the constitution and called for abolition of the Japanese-U.S. Security Treaty, and had energetically developed struggles against the treaty and against the bases. The PRC has now joined hands with "the faction reviving Japanese militarism" which walks the path of adhering to the Security Treaty and strengthening the self-defense forces, and it appears to be throwing cold water on the anti-armaments policy and neutralist road of "the faction which opposes reviving Japanese militarism." This change, of course, by the PRC also became a great obstacle to the development of security and defense policies by the JSP, in which the renovation of Japan and the forces of peace had played a central role. It cannot be denied that the arguments of the JSP have lost their persuasiveness for those who ask, "Why is it that in these days when even the socialists of the PRC accept the Security Treaty and expansion of the self-defense forces, Japan's Socialist Party alone sticks to a backward anti-armaments policy and insists on opposing the Security Treaty?"

Moreover, we cannot ignore the political impact of the fact that the PRC's change has moved the defense policies of Japan's opposition forces, such as the Komeito and the Democratic Socialist Party, in the direction of confirmation of the status quo--or in the direction of strengthening autonomous defense.

Third, there is the change in America since Vietnam. There is no change in U.S. and Soviet strategic nuclear systems, but in the area of conventional forces, the fact that the United States is changing from the 2 1/2 strategy to a 1 1/2 strategy can be called a truly immense change. This is a conversion from a military force capable of dealing with two wars in Europe and Asia, plus small, localized disputes, to a force prepared for war on the European front plus local disputes. Basically, reducing U.S. forces

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in Asia to the minimum and leaving land warfare to allies in the region is an extension of the "Nixon Doctrine"; this great conversion has been made possible by withdrawal from Vietnam and the progress of reconciliation between the United States and the PRC. The Carter administration's plan to withdraw U.S. forces from South Korea, Defense Secretary Brown's "swing" concept and the concept of sending emergency forces to deal with abnormal situations in places like the Middle East and the Caribbean are all parts of the 1 1/2 strategy.

Weakening of Internal Restraints Against War

Why is it that the United States had to reduce its capacity to respond from a 2 1/2 strategy to a 1 1/2 strategy? In somewhat simplified terms, it is because the huge expenditures of the Vietnam War forces a proportional drop in the economic strength of the United States. In the meantime, the Soviet Union was steadily increasing its own military strength and closing the gap with the United States. It is said that to meet this Soviet challenge, the United States will have to increase its nuclear forces and the number of warships, aircraft and tanks.

However, the problem for this "poor America" is that there is no way to increase military strength without further weakening the economy. The United States is caught in a grave dilemma, with healthy development of the economy on one side and the increased military strength necessary for security on the other. What the United States has stressed as its last chance to resolve this dilemma is none other than the formula of having the allied countries shoulder a part of the American defense burden.

"Deterrents require sacrifices. The United States is willing to make those sacrifices, but it is absolutely necessary that the allies make their share of the sacrifices." (From Secretary of State Vance's statement before the Senate Foreign Relations Committee on 28 March.) The following examples of the defense burdens which the United States, based on this severe attitude, is asking Japan to bear are taken from Secretary of Defense Brown's 1980 defense report: 1) promotion and expansion of the military equipment which is a goal of the "Defense Plan Outline"; 2) increased share of costs of stationing U.S. forces in Japan; 3) participation with the United States and Western Europe in efforts to deal with the worldwide buildup of Soviet military strength; 4) flexibility to allow the United States to shift its naval and air forces from the area of Japan under the swing strategy; 5) use of the Maritime Self-Defense Force to temporarily reduce U.S. naval presence in the western Pacific and the Mediterranean Sea, since U.S. naval operations in the Persian Gulf and Indian Ocean enhance the security of Japan.

Within the United States there is an emotional reaction and irritation regarding "weak America," as seen in Republican presidential candidate Reagan's assertion that "America has grown weak because its leaders have forgotten the importance of strength. Let us regain superiority over the Soviet Union now!" It is in this sense that Congress, first of all, and U.S. industrial leaders who are troubled by increasing imports of Japanese products are continuing to demand more obstinately and openly an increase in Japanese defense capability.

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"If our allies will not support us, we should cut back our defense commitments. This would hurt us too, but they are the ones who would suffer most." Even this sort of irresponsible talk has been heard around the Department of Defense lately.

The new moves by the United States, the USSR and the PRC involving Japan are all things which have occurred in the 1970's. One of these, the PRC strategy shift at the beginning of the 1970's, had a great impact on Japanese politics and political parties, and it is no exaggeration to say that was the starting point for the domestic change of state regarding the issue of security and defense.

The development of this new international situation in the 1970's naturally brought with it new changes in the perceptions and judgments of the Japanese people on the issue of defense. In public opinion surveys on the existence of the self-defense forces, the numbers for strengthening and the numbers for maintaining the status quo both increased, and for the first time the two groups totaled over 80 percent. Those for elimination, on the other hand, have dropped from 9 to 4 percent in the last 12 years. This can be read as a sort of conservative trend.

On the other hand, over the last 10 years the economy of Japan has overcome the oil crisis and expanded to the size of an economic power. Calls for a defense capability suitable to an economic power have come not just from the United States, but from Western Europe as well. But as Chinese criticism of the revival of Japanese militarism has died out, similar criticism of Japan has decreased in the countries of Southeast Asia too, and one effective restraint against strengthening of the self-defense forces has disappeared.

Another major factor which has moved the Japanese awareness of the issue of defense in the direction of acceptance of reality is the fact that with the conclusion of the Vietnam War, the heavy odor of gunpowder in the area of Japan dissipated and peace was somehow revived. B-52's going to bomb Vietnam had been stopping in Okinawa and tank repairs had been carried out in the Tokyo area. In such circumstances, the people hoped for peace and disliked war.

The poet Jacques Prevert left behind the saying that "true peace is when war breaks out somewhere else." When this war somewhere else comes to an end, people seem to no longer feel the necessity to talk about peace, of course, or to live with the constant consciousness of restraint against war. When uneasiness about getting involved in the war disappears, there is no need to think about restraints against war. In other words, the internal restraints are weakened. Thus, the post-Vietnam period has been a "winter season" for the peace movement which flourished in Japan after World War II.

The Concept of Peace in Exchange for Military Cooperation

This is none other than what Isamu Mizaki called "the tendency to discuss military preparedness in terms of emotion and patriotism, without giving it cool consideration within the framework of military technology and international politics." And that sort of emotional argument tends to become a

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view such as this: "There is nothing really strange about the economic power Japan having armaments on a par with other advanced countries. We should give up, for the sake of national security, the argument that 0.9 of 1.0 percent is enough."

The Budget Bureau of the Finance Ministry responds to this with a bitter smile: "People in general seem to think there is not much difference between 0.9 and 1.0 percent of the GNP. But in terms of money it is 250 billion yen. That amount would have to be either cut from education and social services, or added to everybody's taxes." In that sense, since the defense argument is an important question for the existence of the nation, it tends to gradually become a matter of principles which ignores one's own financial situation. That is because it sounds and looks better as an argument.

However, it is not possible to erect a nation's security policy on principles of this sort. If Japan is to begin from reality, moreover, it must proceed from such commitments as pure self-defense under the constitution, reliance on the Japanese-U.S. security system, the three nonnuclear principles and the arms export embargo. Viewed in terms of principles and efficient use of military strength, perhaps these commitments look unseemly and shameful. But if we are to abandon any commitments, we must calculate in advance the new costs which will accompany their removal, and make known the advantages associated with the policy change.

During the 1950's which experienced the Korean War and the 1960's when we could feel the Vietnam War close to us, we felt only apprehension about being involved in the war, and concentrated on building the foundation of an economic power. So now in the 1970's, having grown to an economic power, Japan is always being asked what it will contribute to international society in this radically different international atmosphere. This has come to the surface as military requests to Japan from an America which wants to become strong.

But will it be possible, as financial circles think, to ensure ever-growing exports to the United States by agreeing to increase Japan's defense expenditures? And how far can Japan, which differs from the United States in its national situation, popular emotions and geographical conditions, go within its present constitutional commitments in cooperating with military requests instigated by the United States? Isn't there also the danger that by acceding to the military demands of the United States, Japan will in fact aggravate the military power struggle between the United States and the Soviet Union?

In order to overcome these doubts, Japan should actively work out, as an alternative proposal, a new style of peace concept which will make use of Japan's economic strength for world peace and stability.

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(Table) Comparison of Annual Budget Growth Rates if Military Expenditures Are Made 1 Percent of GNP (Units: 100 million yen, %)

Division	1980	1981	1982	1983	1984	1985
(A) 1% reached in 1981	(0.90)	(1.00)				
(B) Defense costs	22,302	27,600				
(C) Growth from previous year	6.5	23.8				
(D) Growth of general account	10.3	12.1				
(E) 1% reached in 1984	(0.90)	(0.92)	(0.95)	(0.97)	(1.00)	
(B) Defense Costs	22,302	25,505	29,168	33,358	38,150	
(C) Growth from previous year	6.5	14.4	14.4	14.4	14.4	
(D) Growth of general account	10.3	12.1	11.5	11.1	10.5	
(F) 1% reached in 1985	(0.90)	(0.92)	(0.94)	(0.96)	(0.98)	(1.00)
(B) Defense costs	22,302	25,371	28,862	32,833	37,351	42,490
(C) Growth from previous years	6.5	13.8	13.8	13.8	13.8	13.8
(D) Growth of general account	10.3	12.1	11.5	11.1	10.5	11.9

- Notes: 1. Percent of GNP in parenthesis.
 2. GNP growth assumed to be 11.4% each year.
 3. Growth of expense costs in even annual steps.
 4. General account growth rate based on estimated fiscal receipts and disbursements.

Medium-Term Operations Estimate

Tokyo ASAHI JANARU in Japanese 11 Apr 80 p 13

[Commentary by editors of ASAHI JANARU]

[Text] This estimate is a sort of 5-year plan drawn up by the Defense Agency last July on the basis of the "Defense Plan Outline" decided by the Cabinet in October 1976. It is to serve as a reference for work within the agency on budget requests, in connection with the way in which front-line equipment is to be provided for the self-defense forces for the 5 years beginning with fiscal 1980. It is not a fixed "medium-term defense equipment plan" decided by the cabinet as in the past; the arrangement is that it will be prepared every third year, with annual revisions, as an estimate for use just within the Defense Agency.

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Here is the major equipment the Ground, Maritime and Air Self-Defense Forces are to receive over 5 years. Ground SDF: 300 tanks, 180 self-propelled cannons, 110 armored vehicles, 111 helicopters, etc. Maritime SDF: 16 destroyer escorts, 5 submarines, 39 other warships of various types to be constructed, refitting of present escorts with missiles, 37 P4C antisubmarine patrol planes and 51 antisubmarine helicopters to modernize anti-submarine patrol capabilities. Air SDF: F-15 interceptor fighters and 4 E2C early warning patrol craft to augment air defense capability. In addition, as common items for all three self-defense forces, study is being given to ammunition stores and successors to the Nike and Hawk missiles.

In terms of personnel, the Ground SDF will attempt to increase proficiency while staying at the 180,000-man level, but the Maritime and Air forces are to increase personnel by 3,650 and 1,800 respectively. As this shows, the trend of defense preparations will emphasize the qualitative and quantitative strengthening of the Maritime and Air Self-Defense Forces.

Incidentally, if the plan in this estimate is realized, the goals of the "Defense Plan Outline" will be almost entirely achieved, the exception being certain warships. Thus the Estimate and the Outline are almost identical in scope. The expenditures required for front-line equipment is estimated between 2.7 and 2.8 trillion yen (at 1979 prices). Now with regard to military expenditures as a percentage of GNP if this plan is carried out, assuming the future growth rate of GNP is under 6 percent it will be possible to implement the plan without changing the policy (in the cabinet decision of November 1976) of not exceeding 1 percent of GNP for the present.

Defense Statements by Business Leaders

Tokyo ASAHI JANARU in Japanese 11 Apr 80 pp 15-18

[Article by Susumu Kodama, editor of ASAHI JANARU]

[Text] The 51st General Conference of the Japan Chamber of Commerce and Industry met in the Tosho Building in Tokyo's Marunouchi on 19 March 1980. Addressing about 200 heads of local chambers gathered there and Prime Minister Ohira, their guest, the Japan Chamber of Commerce President Shigeo Nagano spoke on his pet theory on the topic of fostering defense industries.

"The time has come to discuss the defense problem widely from both political and economic aspects, and to form a national consensus. For Japan to live with no natural resources, it will have to foster superior brains and develop highly sophisticated technology. Japan should attempt to actively develop in this field, and must export products corresponding to international demand."

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Then Mr Nagano submitted the ideas behind this statement to the opinion page of ASAHI SHIMBUN (Morning Edition, 23 March). According to this:

"Recently President Giscard d'Estaing of France received the promise of large quantities of oil from the oil-producing countries in return for the export of weapons. With the oil problem as serious as it has become, it could even be said that the French president's action has improved the livelihood of the French people. When such things are happening, should Japan alone continue to fetter itself with unilateral self-restraint? If the world were asked for permission to export weapons, would it not say such exports are permitted as a means to obtain oil? Since the three principles on weapons exports were the result of losing the war, is it right for the statesmen of today to pass policies based on the emotions of their counterparts of the past on to future generations forever?"

The three principles on weapons exports do not allow weapons to be exported to 1) the communist bloc, 2) countries which are involved or which are likely to become involved in hostilities, or 3) countries to which weapons exports are forbidden by a UN resolution. They were produced at the time of the Sato Cabinet, and in the time of the Miki Cabinet they were strengthened to the point of "reluctance to export even to countries other than those to which exports are forbidden by the three principles."

A little more than a month earlier, on 7 February, the annual "Kansai Financial Seminar" of the Kansai business world was held in the International Conference Hall in Kyoto. There Hosai Hyuga, president of the Kansai Federation of Economic Organizations, developed the defense argument more boldly than Mr Nagano. "Britain (an island country in the same position as Japan) spends 4.7 percent of its GHP (on military expenses). Even Switzerland which has styled itself a neutral country for ages gives 1.9 percent of its GNP to national defense costs. ...West Germany spends 3.4 percent and also brings in NATO troops; it is held hostage, so to speak, and it uses the draft. France also spends 3.3 percent. Thus, each country devotes considerable expenditures to national defense. The per capita defense expenditures of Britain and Switzerland are three times or more those of Japan. Japan, taking advantage of the Japanese-U.S. Security Treaty, spends a mere 0.9 percent of its GNP on defense costs.... It is my view that just adding 1 percent to the 0.9 percent would make it possible to maintain security in Hokkaido. I think the whole country--government, businesses and individuals--will save 1 percent to cooperate in the security of the nation.... And I think it is necessary to study such things as the draft for emergencies when it is needed."

Perhaps influenced by the prominent figures of Tokyo and Osaka financial circles who, when they were ready to act, challenged head-on Japan's big postwar taboos against the draft, expansion of military expenditures and promotion of weapons exports, President Yoshitada Konoike of the Japan Junior Chamber of Commerce said, "In the long run Japan needs to export weapons; I am opposed to nuclear weapons, but we should have things like nuclear submarines. Repeating the financial world's arguments on increased military preparations and weapons exports has become fashionable.

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Mr Nagano and Mr Hyuga, as the honorary president of Nippon Steel and president of Sumitomo Metal Industries, are at the top of two major steel companies representing Japan, and they are thought of together with Nippon Steel president Yoshihiro Inayama who several years ago made touchy statements mistakenly taken as pro-war. Thus, they give the impression to public opinion of "the shrewdness of the steel industry as the producer of munitions."

Even 4 Percent of GNP for Defense

Financial leaders have not just started making statements of this sort. Whenever business conditions have turned down, these statements have kept coming up in the form of references to the foreign and domestic political, economic and social situations. Here are some of the main ones.

First there is the "4 percent of GNP" line of Mitsubishi Electric Co. President Ken Okubo, who spoke to the Japan Weapons Industry Association as its president in May 1969:

"Because this is a very important period involving revision of the security treaty, reversion of Okinawa and university disturbances, we should eliminate excessive competition in the defense industry and firm up a posture of cooperation, and we should be careful, as an industry, to deliver the very best munitions. We would like the government to share the view of industry and raise defense spending to at least the French level of 4 percent."

This statement cleverly seized on the upsurge of a self-defense mood the year before actualization of the reversion of Okinawa and the 1970 renewal of the Security Treaty.

Next is the constitutional revision line of Takeshi Sakurada, then president of the Federation of Japan Employers' Associations Representative, who spoke to the federation's interim meeting in October 1979:

"The preamble of the Japan-U.S. Security Treaty specifies that Japan should at all times participate in common defense involving the United Nations, but if a UN army were to be formed Japan, under the present constitution, could not join in. Though we say it is necessary to strengthen our capacity for autonomous defense, this cannot be done in a rational manner because of the 9th article of the constitution which forbids maintenance of war potential. The constitution must be changed."

With revision of the Security Treaty coming up, he played to perfection the role of a hawk of the business world.

There is also the "Malacca Strait Defense" argument propounded in May 1971 by Tokyo Electric Power's Chairman Kazutaka Kikawada, who was then chairman of the Board of Trustees of the Japan Committee for Economic Development:

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"Although the Strait of Malacca is very important geographically, it has not even received a coastal survey. It must be kept in good repair, even if we have to take the job over from the United States."

The Strait of Malacca is between the Malay Peninsula and Sumatra, and is a key point in oil tanker traffic going to Japan from the Middle East, Africa and the south. Mr Kikawada was referring to the necessity of international cooperation, but this was misinterpreted as a hawkish defense argument, and Mr Kikawada was busy issuing a denial and defending himself.

Also in May 1971, Toshiba Corp. President Keizo Tamaki, who was then president of the Japan Weapons Industry Association, made a statement:

"We should think of weapons not just for domestic demand, but for export as well. For this reason we have spoken with the government about relaxing application of the three principles, which have hindered exports."

This chorus of financial leaders swelled even louder at the time of the autumn 1973 oil shock and the long recession which followed. In October 1975 Mitsubishi Corp. President Bunichiro Tanabe pressed the matter in chats with Prime Minister Miki and other leaders of the government and the Liberal Democratic Party:

"I do not mean real weapons, but we should send out things which are nearly weapons, things which we can export competitively. Otherwise, it will be difficult for Japanese business to recover."

In November 1977 Nippon Steel President Yoshihiro Inayama, then president of the Japan Iron and Steel Federation provoked an outcry with his comments in conversation with a newspaper reporter:

"It would be too bad if war broke out somewhere and Japan missed hundreds of billions of yens worth of orders. What developed Japan's economy was receiving orders from the Korea War and the Vietnam War. But now there is no war, and no surge in demand. Japan's economy is having such difficulties that it cannot get by without a war."

In March 1978 Japan Chamber of Commerce and Industry President Nagano had made the weapons export argument, as he did this time, to a news conference:

"The Japan Federation of Economic Organizations has called on the government to ease its administrative guidance measures blocking weapons exports; the entire business community is going to work on the government. Now that tanker orders have disappeared and the shipbuilding industry cannot even feed itself, we could anticipate considerable demand for shipbuilding if we just did not take the narrow view of not exporting anything--like ships--associated with weapons, whether or not they are clearly weapons themselves."

On that occasion Nagano's statement was supported by the structural recession; his recent statement differs in that it is aimed at securing oil.

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It is readily apparent from reading this series of statements from business leaders that in time of foreign or domestic upheavals or when an economic downturn is approaching, the defense argument is almost certain to make its appearance. With similar timing before the Security Treaty revision, on the reversion of Okinawa, after the Vietnam War, with the oil crisis, structural depression, the Middle East dispute, the Soviet Union's invasion of Afghanistan, and so on, the business world has intoned the arguments of strengthening defense, exporting weapons, and reviving the draft. And as opposed to periods of high growth, when a low-growth period starts and companies' profits worsen, the defense debate becomes even sharper and more enthusiastic in financial circles.

The Weapons Industry's Sales Estimate

The total value of the weapons, vehicles, aircraft and ships which Japanese industry will sell to the government in 1980 is about 540 billion yen. That is a little over one-half the sales of a really super year. When times are good and there are a few other jobs, the industry does not seem to feel like crying out "More Weapons!" But when times are bad, they want sales so much that the words seem to leap right out of their throats. Most of the business leaders who expound the defense argument get very upset when they are called "merchants of death" and it is suggested that they are acting in behalf of their own sales; they take the pose that it is "for the nation." But it is clear from the business leaders' statements cited so far that the ring of the cash register cannot be ignored.

What are the sales estimate of the arms industries the business leaders are so enthusiastic about?

First, orders and profits are stable, and there is no worry about price cuts or uncollectable payments. With other products, it is not rare for the merchant to resign himself to sacrifice sales at reduced prices. With weapons, however, everything ordered is bought by the Defense Agency. There is no risk to the seller when the buyer is a government office. When business conditions turn bad, construction firms with few jobs in the private sector pressure the government to "increase public works." It is much the same with the financial leaders' calls to "increase defense preparations." There are also the "sweet deals" of which one business leader said, "since they do not know the costs of the weapons, it is possible to add on to the price."

Second, there is the theory of capital called expansionism. In the defense industry, huge sums are eaten up by research and development and by equipment funds. Being businessmen, they must recover the money invested and show a continual profit. To do this there must be a market which consumes large volumes to enable growth and regeneration. But because of the renunciation of war in Article 9 of the constitution, there are limits to the growth of the defense budget. And under the administrative guidance of the three principles of weapons exports, Japan is in actuality unable to export

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weapons. That is why the financial leaders have demanded revision of the constitution, strengthening of military forces, and relaxation of the ban on exports.

Third, there is a plan to mobilize government money as a subsidy for weapons research and development--the resulting advanced technology could also be applied to products demanded in the civilian sectors, and thus enhance the competitive strength of Japanese products internationally. Although they complain that "the amounts are too small to be profitable," companies like Mitsubishi Heavy Industries, Kawasaki Heavy Industries, Mitsubishi Electric, Toshiba Corp., Nissan Motor and Fuji Heavy Industries are for this reason devoting much effort to the weapons industry in addition to their main business. They calculate that if export competitiveness can be raised by applying the latest electronics, metallurgy and automation technology, obtained in the course of weapons development, to automobiles or home electronics, railroads, pollution control devices or production automation, they can cover the deterioration in the balance of payments caused by the jump in oil prices.

Fourth, there is the calculation that it is impossible to go bankrupt when involved in the defense industry; the state would not allow it. The reason the U.S. Chrysler Corp. will not fail, even though it has lost out in the Japanese-U.S. small car war and has been driven into a management crisis, is that it is also a prominent maker of tanks and is thus in the position in which the U.S. Government cannot let it collapse.

In Japan, too, the reason the government and the business world worked so hard to rebuild Sasebo Heavy Industries is that the company, in addition to being an influential business in that region, does work for the Defense Agency.

Recently other considerations, beside these estimates on sales, have been involved in the defense argument. One of these is the apprehension that Japanese goods may well be shut out of the U.S. market unless there is a quick stop to the deeprooted American displeasure with Japan for not playing an active role in international political and economic forums--what is called the "free ride on security."

The United States has called on Toyota and Nissan to build plants in the United States in connection with the Japanese-U.S. automobile dispute, but the two companies have not agreed and the U.S. mood has taken a serious turn. With the presidential elections looming ahead, there are increasing calls in the United States for import restrictions to oppose Japan, which does not bear its share of defense costs and puts this surplus strength into exports. The business leaders dealing in steel, household electronics, cars and so on are afraid that unless Japan shows its "sincerity" quickly by increasing defense spending, it will lose the extensive U.S. market.

For example, Toyota Motor Co. President Eiji Toyoda says this:

"The friction between Japan and the United States is not a problem that can be solved by automobiles alone. The Ministry of International Trade and

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Industry may think that sending automobiles is one solution, but I think other problems are far more serious, and unless they are cleaned up completely, friction will keep flaring up. The defense question is one of these other more serious problems. This is not a problem that can be shifted onto automobiles. I think it is time for Japan to use its common sense and put a little more money into defense spending."

One other consideration is a sense of crisis regarding the terrible effect on Japan's economy unless oil is guaranteed by selling weapons to the oil-producing countries. If all the other countries are doing it, why must Japan alone continue to show self-restraint and fetter itself?

This line of reasoning asks, should we choose an energy crisis and the threat of inflation, or should we export weapons?

The strange thing about the defense statements of business leaders is the question of why they are so enthusiastic about defense arguments which are unrelated to their main business.

It is understandable that the head of a textiles company would talk of strengthening military forces. If there are more soldiers, there will be that many more uniforms purchased. It is also reasonable that the president of the Japan Weapons Industry Association would call for increased production of weapons and export promotion. That is hardly unusual when you consider that the group represents the interests of 88 influential weapons manufacturers.

When it comes to the Kansai Federation of Economic Organizations, though even though Kansai has such prominent weapons manufacturers as Kawasaki Heavy Industries, Daikin Kogyo, Shin Meiwa Industry and Shimadzu Seisakusho, they are certainly not the whole thing. To the contrary, there are many companies having no connection with weapons. Perilous talk from the leaders of economic organizations of this sort makes people wonder.

Link Between 'Impatience' and 'Spirit of Anticipation'

Although the Japan Chamber of Commerce and Industry includes 1.03 million small and medium enterprises throughout the country, there is no doubt as to the extent to which they receive the benefits of defense industries. Why do their leaders call for the lifting of the ban on weapons exports in this way? And how is that related to the "primary business" of the chamber, which is to foster small and medium enterprises?

All these gentlemen seem unable to repress their patriotism, and seem to speak from a broad perspective, devoid of commercial motivation, but there is also the spectacle of the leaders of the Kansai business world making spirited statements as though competing against each other. Because of this, there have come to be persons who make the following interpretation:

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This trend is related to the recently conspicuous diminution of business leaders and the decline of the influence of economic organizations. The big names of the business world have died or retired from the front lines, and recently the business world's strategy of politico-financial bonds through political contributions has fallen into disuse because of the enforcing of political fund regulations. Moreover, (according to a Diet member with a business background), "These days businesses keep lobbying the government even about minor details, and they no longer look up to politicians." Thus, the influence of business on politics is retreating even more rapidly than the political base of the Liberal Democratic Party, there is talk that the economic organizations are "useless" and should be dismantled." It has been said that when people driven into extreme poverty are asked their reason for being, they suddenly become very talkative; it is no different with business. That the business leaders have come to chat about defense questions outside their "primary business" is actually nothing but urgent PR activity to say, "we deal with this sort of question."

Kansai businessmen have long been filled with the spirit of keeping ahead of the times; in other words, they have been characterized by anticipatory buying. After the war, it was Kansai that took the initiative for improvement of relations between Japan and China. On the defense question, too, Kansai formed study groups long before Tokyo and began to send survey teams to Europe. Can it not be said that the link between the "spirit of anticipation" and the "impatience" of the business regarding the decline of its influence on the political world is the "challenge against the taboos."

In Tokyo, Yoshihiro Inayama (president of Nippon Steel) became president of the Japan Federation of Economic Organizations (Keidanren) in May; this post is styled "Prime Minister of the Business World." Under the plan of "competition and cooperation" between Keidanren and the Kansai federation, between Nippon Steel and Sumitomo Metal Industries, and between Inayama and Hyuga, it is not surprising that Mr Hyuga showed unusual hustle.

Neither is it unreasonable that Mr Nagano raised his voice to demonstrate his well-being to the world when his subordinate, Mr Inayama of Nippon Steel, was made "Prime Minister of the Business World."

This background for development of the defense argument by business leaders--including patriotism, cash register calculations, and PR for the value of economic organizations--is animated and complicated. The thing which should not be forgotten is the tendency of public opinion to turn to the right and return to conservatism. This has encouraged statements on defense by business leaders and provided a basis for favorable reception of those statements by the public. Those making the statements always have to decide how far it is safe to go.

According to an ASAHI SHIMBUN public opinion survey (5 and 6 March), the number of persons desiring strengthening of the self-defense forces increased sharply from 18 percent to 25 percent since the last survey (December 1978).

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Labor unions have also come to express clearly right-wing views on the defense question, as seen in the statement by Keiichi Takahata, chairman of the Labor Union Committee of Matsushita Electric Industrial Co.:

"Speaking as a labor union executive, I cannot understand the anti-armaments, neutralist argument of the Socialist Party. I think the self-defense forces have to be clearly recognized. It is thus essential to make a clear interpretation of Article 9 of the constitution. If there is no capability for self-defense under the current constitution, then it should be amended to provide a capability for self defense. Of course, it is not appropriate for Japan to have nuclear weapons, but I think a self-defense capability appropriate to Japan should be considered within the scope of Japan's economy." (From a public debate on the national consciousness in December 1977)

As business conditions turn down, there has been an increase in unions calling for a quick increase in defense orders, in connection with maintaining employment levels.

There are moves to establish a law for protection of secrets, enactment of 'Era-name Gen-go', the pilgrimage of the Christian Prime Minister to the Yasukuni and Ise Grand shrines, the PRC insistence on "the importance of the Japanese-U.S. mutual security system, aggression against neighbors by (supposedly) peace-loving countries such as the Sino-Vietnamese dispute, the Cambodian dispute and the Soviet invasion of Afghanistan--with such things overshadowing Japan and the world, this surge to the right is just another aspect of the business leaders' idea of "founding the state on the basis of the weapons industry."

Political Economics of Draft

Tokyo ASAHI JANARU in Japanese 11 Apr 80 pp 19-22

[Article by Takao Kamakura, professor, Department of Economics, Saitama University]

[Text] It appears that the world has now turned from "detente" back to a cold war set-up. In his fiscal 1981 State of the Union address, U.S. President Carter explicitly made confrontation with the Soviet Union his first order of business and called out for the formation of an anti-Soviet united front including the NATO countries, Japan and even the PRC. Moreover, the American Government asked the Japanese self-defense forces to make up the loss of naval strength in the western Pacific caused by the departure of the U.S. carriers strike force for the Persian Gulf, and to block access to the Pacific for the Soviet navy. The American Government asked the Japanese Government to increase defense spending, to pay a greater share of the cost of stationing U.S. forces in Japan, to increase stores of ammunition, to increase mine and torpedo capability and submarine and

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warship detection capability, and even to attain the goals of the "Medium-Term Operations Estimate" (actually the Fifth Defense Plan), which was a cabinet decision of July 1979, ahead of schedule (one year early).

Although they saw little actual danger of world war, Japanese Government authorities also began to make hysterical statements on the danger of war, unusual intensification of threatening Soviet propaganda, and the drive toward Hokkaido of Soviet far eastern forces. However, the U.S. military strategy of an anti-Soviet united front had already been stated in the 1968 "Defense Report," and threatening Soviet propaganda in Japan had been repeated since before the time of the problem in Afghanistan. The Soviet Union did not suddenly become intimidating on the occasion of the Iranian revolution and the problem in Afghanistan; there has been no decisive change in the world situation. The changes have been a definite retreat from U.S. dominance and a definite uprising--and estrangement from the U.S.--by the developing countries as seen in the Islamic world. That is the reason that America has tried to regain its dominance by rebuilding the united front against the Soviet Union.

In response to the loud demands of the Carter administration for formation of an anti-Soviet united front and increased defense spending in various countries, the Japanese Government has shown, on the surface, reluctance out of deference to the constitution and to the people and Diet. In reality, however, the government is rushing toward a military buildup--with conscious cooperation--based on the "awareness" of Soviet intimidation and the growing threat of war. The business world in particular has taken this opportunity to launch a major campaign for strengthening of military preparations. Such things as the "draft" statement by Kansai Federation of Economic Organizations President Hosai Hyuga and the statement by Shigeo Nagano, head of the Japan Chamber of Commerce and Industry, on "fostering the weapons industry and lifting the ban on weapons exports" are a "courageous" escalation from the business world's earlier statements on strengthening military preparations. Of these, the Hyuga "draft" statement has raised much reaction and controversy from various quarters. Just what did it mean?

Goal of the Draft: Reduced Personnel Costs and Procurement of Armaments

The foundation of Mr Hyuga's "draft" statement is, more than anything else, the recognition that the world situation has changed decisively. That is, because of such things as the shift in the relative strength of U.S. and Soviet strength, changes in the Islamic world, the outbreak of problems in Africa, Indochina and Afghanistan, and particularly the construction of Soviet military bases in the Northern Territories and deployment of the Minsk and Backfire bombers, the time for Japanese indolence has disappeared and a "serious threat" has arisen. With this awareness, Mr Hyuga says the core of a country's security is its "national defense capability," and he insists on strengthening defense capability from every angle. Specifically, he calls for increasing defense spending to the Swiss level of 1.9 percent to provide "at least the strength to resolve local disputes and to resist

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war" and for "nurturing the will to defend the country in each of its people" to "establish a defense consciousness." Also, "I think it may be necessary to study such things as the draft, when necessary in time of emergency." In short, "things have taken a turn for the worse" both in the international situation and in the status of Japan, making it necessary to reorient ourselves in regard to security and to give the people consciousness of "each person defending the country to protect his own freedom." This would "ensure the effective application of the Japanese-U.S. Security Treaty." As for the draft, he proposed that a "study" may be necessary as an issue "in time of emergency" in connection with fostering a defense consciousness.

The Hyuga statement emphasized defense consciousness and education for that purpose. He also said, on the matter of raising defense spending to 1.9 percent, "all the people, government, business and individuals, will cooperate for national security by conserving 1 percent," putting the stress solely on building a defense consciousness on the basis of cooperation between the government and the people, rather than making a straightforward call for expanded production of munitions and relaxation of the ban on munitions exports like Chamber of Commerce President Nagano. There is really nothing particularly new about the argument for bringing back the draft; introduction of an "emergency" draft was suggested in the well-known 'Sanya' strategy study, and both the government and the Defense Agency have considered introducing it in their emergency legislation. Mr Hyuga cannot have been unaware of this. And it is not the case that Mr Hyuga himself sees a realistic possibility of either a world war or a Soviet invasion of Japan. But then why did he deliberately raise the Soviet threat, stress enhancement of the people's defense consciousness, and raise the draft argument as part of that? I must suppose that the statement, coming as it did from the head of Kansai business circles, had a hidden, practical goal which may or may not have been the direct intention of Mr Hyuga.

Something which is important in connection with the Hyuga statement is the paper "Our Views on Defense Preparations" which was released by the Defense Production Committee of Keidanren in May 1976. This was the basic view of the business community calling for expanded production of munitions following the Fourth Defense Plan. It first mentions "formation of a fundamental defense capability" and requested "establishment of an efficient defense set-up," along with "ensuring a national consensus" and increasing "national depth as a whole." It specifically proposes "efficient use of defense spending by activation of a system of reserve self-defense officers." In connection with rear services, it proposes maintenance and augmentation of defense equipment, upgrading of equipment and other factors in establishment of basic defense production capacity, and pursuit of efficiency in rear services--reduction of support units and their replacement by the private sector. It also called for "national depth" and "comprehensive and systematic improvement of cost-effectiveness," together with "ties to the regional economy" and "effective utilization of the reserve self-defense officers system." In short, in contrast to the poor business conditions in the munitions industry which were aggravated by stagflation during the course of the Fourth Defense Plan, this paper called for "national depth"--greater defense consciousness among the people and a system of defense in the

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private sector--and utilization of a system of reserve defense officers in order to reduce personnel costs as a portion of defense spending and to use defense spending efficiently and effectively for increased capital outlays for procurement of equipment.

In actuality, the draft proposal in the Hyuga statement has to be taken as a further advancement of the reduction of personnel costs by use of a reserve system as mentioned in the Keidanren "views." Of course, there is a great difference between a reserve system and a draft system. In the latter case it is possible to take the view that an increase in troop strength actually increases personnel costs. But methods of filling out and ensuring the numbers of the self-defense forces under the present volunteer system have already reached the limit in terms of personnel costs. The financial crisis, moreover, has become quite severe. To increase military strength in this situation, it is necessary to plan an increase in personnel.

And on the other hand, the primary aim of the business leaders is to try to strengthen and develop the munitions industry, particularly strategic industries, beginning in the 1980's. The draft is becoming increasingly prominent as a practical issue in connection with that. On one side the draft proposal is an open emphasis on defense, but its other side is the pursuit of capitalistic "rationality"--reduced personnel costs and increased capital outlays for procurement of equipment.

Prepared Rolls of Draft Eligibles

As seen in the views of Keidanren Defense Production Committee mentioned above, the defense production industry has repeatedly requested a positive increase in spending for procurement of equipment and for research and development.

On 9 December 1979, before the 1980 draft budget was set, Keidanren gave the government a paper entitled, "Memo on Defense Portions of the Budget: Our Views on Promoting Research and Development for Defense Equipment." In this Keidanren asked for special measures to keep 1980 defense spending from falling below 0.9 percent of GNP, and it asked for an increase in "capital outlays," saying that within 1979 defense expenditures of 2.0945 trillion yen, the capital outlays, including research and development and purchases of weapons, aircraft and warships, compared with 51.4 percent for "personnel costs and provisions," and that increasing the number of self-defense force personnel would improve the equipment per capita ratio and increase mobility to respond to emergencies. Moreover, research and development funds for 1979 were only 1 percent of defense spending (20.4 billion yen). The paper gave the specific guideline that this portion "should be assigned a goal of 2 percent for the present, to be reached in a programmed manner. Particular emphasis was put on research and development out of recognition that preparation of a fundamental defense capability through autonomous development of technology is an urgent task for dealing with growing military tensions. This emphasis is also an effort to raise the level of technology which is propped up by development of munitions technology.

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The Keidanren Defense Production Committee had praise for the increase of capital outlays for defense spending in the 1980 budget to 24.4 percent: "the business world's assertions on curtailment of personnel expenses and strengthening of facilities was accepted to a certain degree." But at the same time it decided to put strong pressure on the government to establish guidelines raising the proportion to the 30 percent maintained in West Germany, saying that in many western countries it is 40 percent or higher (ASAHI SHIMBUN of 27 January 1980). Thus it proposed, as specific policies to hold down spending for personnel and provisions, 1) reducing the authorized strengths, concentrating on reduction of the Ground Self-Defense Force, and 2) turning rear services not directly related to fighting--ground facilities, equipment supply, transport, food supply, etc.--over to the private sector to the extent possible.

The proportion of "capital outlays" in Japan's defense spending actually is low in comparison with the United States and Europe. As shown in the figure (at end of this article), capital outlays dropped as low as 19.6 percent in 1976 and were still only 24.4 percent for 1980, and spending for research and development has only maintained a level of about 1 percent. The proportion of spending for personnel and provisions, on the other hand, averaged 50.1 percent under the Fourth Defense Plan (1972-1976) and was 51.4 percent fiscal 1979. In the 1980 budget it is 49.3 percent. In the United States and Europe capital outlays, including research and development costs, range from 30 to 40 percent; research and development costs alone are 10.2 percent in America, 13.1 percent in Britain, 5.1 percent in France and 4.7 percent in West Germany (1977 data). The proportion for personnel costs is 42.2 percent in Britain and 42.0 percent in West Germany (1979).

Keidanren assumes that in the 5 years of the "Medium-Term Operations Estimate" (the Fifth Defense Plan) the expenditures for defense will rise to 0.97 percent of GNP (GNP is estimated at 289.9 trillion yen for 1984 and defense expenditures are estimated at 2.8167 trillion yen--growth each year is 6 percent), and calculates that in order to raise the proportion for capital outlays to 30 percent by 1984, it will be necessary to hold the growth of personnel (and maintenance) costs to an average 4 percent per year and increase capital outlays an average of 12.3 percent per year.

"The proportion of personnel costs for the ground force is the highest at 76 percent, compared with 37.5 percent for the maritime force and 37.7 percent for the air force. It is necessary to give the private sector the indirect jobs that once belonged to the Army Service Corps or to bring women, and put the money that is saved into equipment." (Secretary General Tetsuya Chiga of the Keidanren Defense Production Committee) This is very direct managerial thinking, but can this effect of reduced personnel costs be accomplished by the draft, as the "emergency" draft which is a realistic possibility, or in any other form?

The Japanese army before the war was a conscript army. Since the war, needless to say, it has been a volunteer force. The countries in the West with a draft now include West Germany (15 month obligation) and Italy (12 months

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for the army, 18 months for the navy); America and Britain use volunteers. In West Germany, with armed forces of about 470,000 persons, the draftees in the three branches average about 50.5 percent and the volunteers, at 49.5 percent make up about half the total (1970 data). In volunteer countries like America and Britain, on the other hand, the volunteer system still has men drafted in time of emergency, and maintains volunteer ready reserves; the system can mobilize large numbers of conscripts in time of emergency. In the United States the state National Guard troops can be incorporated into the federal service by presidential order, and there is talk of reviving a selective draft. Even in the former Japanese military, the navy was primarily volunteer and the army, with its high rate of attrition, was primarily conscript.

That is to say, because of modernization of equipment and the high level of technology in today's military, relatively long periods are required to gain the technical knowledge and master the necessary operations. Accordingly, it is necessary to ensure the presence of soldiers with technical skills, primarily volunteers, who serve for long periods. There is a great chance, however, that these volunteers will resign after gaining the technical training. There many different countermeasures and benefits have been devised to retain these "technical personnel" and noncommissioned officers with long service, especially active-duty officers and noncommissioned officers. West Germany has established such countermeasures as vocational guidance education, guaranteed conversion to government employment, enlistment bonuses, improved wages, increased allowances and so forth. America has career development plans, conversion plans and job-finding plans, and also many bonuses, pensions, allowances and measures to improve the quality of military life. Retention of these volunteers, especially the technical personnel and key personnel [soldiers] with the potential leadership, will require a considerable financial burden. Thus the situation in the West is to either retain adequate forces in peacetime and draft large numbers of "frontline soldiers" in time of emergency (America and Britain) or prepare and maintain forces by drafting for periods of about 2 years. In actuality, such conditions have also been prepared and are considered in Japan as well.

As stated above, the proportion for personnel costs in Japan's military spending is high, and that for capital outlays is relatively low. There are three reasons for this.

First, improved treatment and benefits have been adopted as a policy to retain personnel. Salaries are relatively high, and pay raises directed at starting pay have increased personnel costs for units with relatively high numbers of new people, and costs have been further increased by active implementation of personnel retention policies based on numerous allowances, an expanded promotion structure, pensions based on continuous service, vocational training, enlistment incentives and so on.

Second, in the rank structure of Japan's self-defense forces, the ratio of officers and senior enlisted to junior enlisted is unusually high. In the ground forces, for example, the ratio of senior to junior enlisted in 1960

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was 1:1.2, but in 1975 it was 1:1 and now it is 1:0.8. The total number of officers, warrant officers and senior enlisted is 95,632, but there are only 58,554 junior enlisted. Taking all three branches together, there are 38,459 officers (14 percent) and 122,282 senior enlisted (46 percent), but only 109,112 junior enlisted (40 percent) (1978 data). In the former Japanese military the proportion of junior enlisted men was 78 percent, and in the present West German military it is 67 percent. By comparison, the structure of the present self-defense forces is heavily biased toward officers and senior enlisted. This is something which was brought on during the Fourth Defense Plan by a policy of using money to retain personnel and fill vacancies. It increases the proportion of personnel costs, lowers capital outlays, and obstructs equipment expansion and modernization.

But on the other hand, recruiting and expanding the leaders and field grade officers will make it possible to provide leadership and discipline to large numbers of fighting forces in an emergency. At the end of the Third Defense Plan the Japanese Self-Defense Forces had the leaders and nucleus of men to provide leadership and discipline for 508,000 men, using the structure of the former Japanese military, or about 450,000 using the ratio of the present West German military. In other words, the conditions for an emergency draft have already been prepared. At the same time, the financial crisis makes it impossible to use money in the volunteer system for retention, and the proportion for capital outlays will drop even further. The inevitable course will be to retain and replace decreasing numbers of highly trained individuals, and to rely on a reserve system and emergency conscription to make up the large numbers needed. An emergency draft has not only been prepared as an important item of emergency legislation; it is even thought of as constitutional within the government. Moreover, roles of draft eligibles have already been prepared through the local governing bodies.

The third reason that capital outlays are a small part of defense spending is the increase in spending for base countermeasures. This is itself carried out on the basis of the idea of increasing "national depth" to get a national consensus on the self-defense forces. But on this point, the government has begun, by means of elevating the defense consciousness of the people, to try to get the approval of local residents for bases, not by using money, but by changing their awareness. This calculation is behind the national consensus and elevation of defense consciousness.

Military Expansion Under Stagflation

A high rate of growth can no longer be hoped for. Recession in the presence of inflation will become even more serious in the 1980's. There will certainly be increased competition among capitalist countries in connection with obtaining resources, and there will be competition and economic friction among the advanced countries trying to obtain markets and export capital. Thus the strategy of government and the business world for the 1980's is to raise the technological level and resource efficiency of

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domestic industries, while using national funds and technical aid to help obtain resources on the one hand, and rationalizing domestic industries to minimize friction among advanced countries on the other.

Specifically, there are plans to obtain raw materials by exporting weapons, and to reorganize and technologically upgrade domestic industry by focusing on the munitions industry. The munitions industry, and particularly the aircraft industry, has been given the status of the "leading industry" in the 21st century.

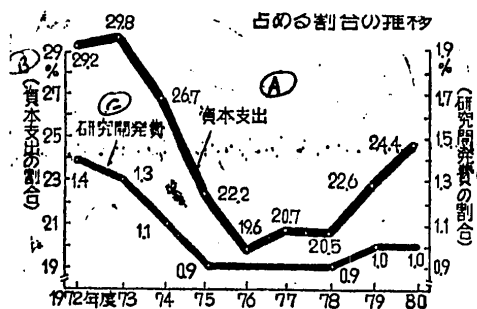
However, expansion of the munitions industry will involve a burden for the state. The financial crisis, moreover, will grow more severe in the presence of stagflation, and military spending cannot be left to expand at its own rate. Even in the 1979 budget there were calls for more efficient financial policy, and "reduction management" developed in both financial and administrative areas. "Japanese welfare policy" is being advocated in the face of reduction of personnel costs and welfare cutbacks; self-help efforts and mutual aid which does not involve public funds are being called for and carried out.

It can be said that this trend clearly extends to the area of expenditures for war supplies as well. It is true that since 1977 the production of the munitions industry has continued to grow at annual rates in excess of 10 percent, but on the other hand, it is not easy to reduce personnel costs when servicemen are obtained as volunteers, and the costs of dealing with local residents in connection with bases have also mounted up. There is no flexibility in the expansion of the burden for subsequent years and of continuing costs, and new projects have been limited. In these circumstances it is necessary to push independent technical development and aim for a "technologically independent country," while responding to the American request on the one hand, and fostering and strengthening the munitions industry as the focus of strategic industries on the other. Thus it can be said that the clear aim in the area of munitions expenditures is to hold down personnel costs and cut back the costs of persuading the citizens, while still bringing about an increase in costs to the nation.

This is not to say, however, that military strength will decrease; it must be increased, in fact. How can the personnel costs within this be reduced and rationalized? This is the reason for utilization of a self-defense reserve system and introduction of an emergency draft. Thus, the deciding conditions will be elevation of each citizen's defense-consciousness and formation of a national consensus on introducing the draft, on increasing the nation's burden in the direction of increased defense spending, and on tolerating bases. This is an awareness that the only way to protect the nation is to use our own strength and bear the burden ourselves. The characteristic of the 1980's will be the attempt to maintain a system which cannot be maintained unless the masses bear the burden and make the sacrifices, doing this by unifying the masses into a nation which voluntarily agrees to make the sacrifices and bear the burden. This same direction is indicated even more pertinently in the area of munitions expenditures and strengthening military capabilities. The hidden reality of proposals

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to elevate defense consciousness and introduce an emergency draft is the attempt to strengthen and expand the munitions industry as the focus of industry, and to maintain this system.



Trend of Proportion of Capital Outlays and Research and Development Spending Within Defense-related Spending

- Key: A. Capital outlays
 B. (Proportion in capital outlays)
 C. Research and development spending
 D. (Proportion in research and development spending)

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MILITARY

DEFENSE INDUSTRY FUTURE EXAMINED

Tokyo INDUSTRIA in English May 80 pp 18-20

[Text]

A survey by the *Nihon Keizai Shim-bun*; a leading economic daily in Japan, shows that 227 out of 1,592 companies, except financial institutions and insurance companies, whose stocks are listed on the stock exchanges, delivered their products to the Defense Agency in fiscal 1979 (annual terms ended between April, 1979, and March, 1980). The deliveries include indirect ones through trading firms or business acquaintances. The results of the survey are noticeable in that 14.3% of the companies whose stocks are listed on stock exchanges, or one out of every seven enterprises, is in the defense industry.

According to the survey, the deliveries to the Defense Agency in fiscal 1979 totaled ¥511,468 million, up 7.3% from the previous year. (Of the total, indirect deliveries amounted to ¥95,000 million.) There were no exports of weapons, which are banned by the Government. There were deliveries of war supplies to the U.S. forces in Japan and repairs of machinery and equipment for them. But the income from this business earned by nine companies totaled only

¥7,696 million. There were also deliveries of strategic materials (special electronics parts and machinery) under the Trade Control Ordinance. The revenue earned by 31 companies from these sales totaled ¥84,408 million.

Statistics of the Ministry of International Trade and Industry show that Japan's production of color TV sets in 1979 reached ¥628,852 million and that of machine tools ¥476,558 million. These figures show that the scale of the nation's defense business has grown to equal the sales of color TV sets or machine tools.

The Table 1 shows the sales to the Defense Agency (estimates for fiscal 1979) by the 20 top companies and the ratios of the sales to their total turnover in the same period.

The top company is Mitsubishi Heavy Industries, which delivered many large weapons, such as F4 jet fighters, defense ships and T74 tanks, to the Defense Agency. Although the company's sales are by far larger than those by any other companies, its deliveries to the Defense Agency accounts for less than 10% of its turnover. The deliveries to the

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Defense Agency by other big companies do not exceed 10%, either. Kawasaki Heavy Industries and Ishikawajima-Harima Heavy Industries rank high among the 20 companies, but other major shipbuilding companies, such as Mitsui Engineering & Shipbuilding and Hitachi Shipbuilding & Engineering, don't. This is presumably because the construction of ships takes a long time and Mitsui and Hitachi had not ships to deliver to the Defense Agency in fiscal 1979. Mitsubishi Electric, Nippon Electric, Toshiba - all leading electric appliance makers - rank high in the list because they deliver quantities of electronics equipment for aircraft or missiles.

Japan Aircraft Mfg., an affiliate of Kawasaki Heavy Industries, produces airframes and parts and also repairs aircraft. Sumitomo Precision Products is a maker of propellers and heat exchangers, affiliated with Sumitomo Metal Industries. Japan Aviation Electronics Industry, affiliated with Nippon Electric, produces connectors and navigation equipment. Teijin Seiki is a Teijin-affiliated maker of textile machines, which is branching out into the production of aircraft equipment and hydraulic equipment. These companies, relatively small in business scale, depend heavily on demand from the Defense Agency.

The Japan Ordnance Association also conducts a survey on deliveries to the Defense Agency by its member firms every year. According to the association, the 97 member companies delivered ¥450,493 million of products either directly or indirectly during fiscal 1973. The amount was 1.3% of their total turnover. The breakdown of their sales in the same year is shown in Table 2.

The deliveries to the Defense Agency during the past five years show an annual growth of 7.4%.

According to the Defense Production Committee of the Federation of Economic Organizations, the capital expenditure for equipment, earmarked in the defense budget, has been increasing since 1952 at an annual rate of about 15% and is expected to reach ¥544,800 million in fiscal 1980. The committee says the production for defense will continue to expand by a big margin for some time to come in view of the tension in the world and the U.S. request that Japan increase its defense spending.

The delivery of aircraft, which accounts for the largest portion of sales to the Defense Agency, has almost leveled off since 1975. But the delivery of F15 jet fighters and P3C anti-submarine aircraft, for which the Defense Agency issued orders, beginning in 1978, is to start in 1980.

However, it appears that the Japan Ordnance Association is not taking a very optimistic view. The defense budget is held down to 0.9% of the GNP and it is difficult to increase the defense spending.

Although the Japanese defense industry has grown to a noticeable level in the number of the companies involved and in terms of their sales to the Defense Agency, it appears that the problem exists in whether the industry will be able to continue to grow as fast as it did in the past. Changes in the international situation and moves in Japan's politics will determine the fate of the defense industry.

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Table 1.
Deliveries to Defense Agency by Manufacturers in FY1979

Names of Manufacturers	¥1 billion	%
1. Mitsubishi Heavy Industries	127.0	9.9
2. Kawasaki Heavy Industries	43.3	8.8
3. Mitsubishi Electric	42.0	4.1
4. Ishikawajima-Harima Heavy Industries	40.0	5.9
5. Nippon Electric	16.6	2.4
6. Toshiba	16.5	1.2
7. Fuji Heavy Industries	14.0	3.7
8. Shin Meiwa Industry	10.2	15.0
9. Japan Steel Works	9.7	8.4
10. Hitachi	8.0	0.5
11. Japan Aviation Electronics Industry	7.8	31.2
12. Sumitomo Precision Products	7.5	41.8
13. Japan Radio	7.4	15.9
14. Tokyo Keiki	7.4	19.0
15. Teijin Seiki	7.0	30.7
16. Shimadzu Seisakusho	6.6	7.5
17. Shinko Electric	5.8	11.0
18. Japan Aircraft Mfg.	5.8	51.6
19. Daikin Kogyo	5.3	4.5
20. Nissan Motor	5.2	0.2

Note: (1) Source: Nihon Keizai Shimbun
(2) The mark % indicates the ratio to total sales.

Table 2.
Breakdown on Products in FY1978

	¥1 million
Aircraft	188,757
Weapon	108,587
Electric & Electronic Equipment	62,036
Ship	61,673
Vehicle	26,179
Others	3,261
Total	450,493

Source: Japan Ordnance Association

Table 3.
Change of Amounts Delivered

FY	¥1 million	Growth Rate (%)
1974	339,080	-
1975	384,408	13.4
1976	361,185	-7.0
1977	420,289	16.4
1978	450,493	7.2

Source: Japan Ordnance Association

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ECONOMIC

'JAPAN TIMES' HAILS GROWING BUSINESS EARNINGS IN OCTOBER-MARCH PERIOD

OW291901 Tokyo JAPAN TIMES in English 28 May 80 p 12

[Editorial: "Status of Business Performance"]

[Text] Contrary to earlier predictions of a downturn, business earnings for the October-March accounting term improved markedly in the manufacturing industries. They are likely to enjoy a handsome gain in current profits for the fifth consecutive half-year period, in spite of the rising cost pressures from high oil prices and rates of interest.

Current profits in the manufacturing sector are estimated to have improved 7 to 8 percent for the last business term. Admittedly, the growth of earnings has slowed down from the first half of fiscal 1979. Still, the prophesied plunge in profits did not materialize.

In the non-manufacturing sector, the profit picture is entirely different. Profits fell by an estimated 80 percent on the heels of a 25 percent drop in the last April-September period. This is largely due to heavy losses suffered by electric power companies which were prevented from raising charges to meet the bloated fuel bill until the start of fiscal 1980 in April.

All in all, the overall business earnings--that is, earnings throughout the manufacturing and non-manufacturing sectors--are expected to be about 15 percent less for the last business term than in the April-September period. An overall profit gain of 12.4 percent was reported for April-September last year.

What happened is that the manufacturing industries boosted their earnings at the expense of the electric power and gas companies. Manufacturing enterprises also benefited from a strong expansion of demand, supported by a surge in investment and exports. This expansionary climate enabled them to raise product prices, passing on the risen costs of oil and raw materials to users and consumers.

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The impact of the higher rates of interest seems to have proved less than feared, because businesses have shed excess borrowings from external sources after years of "weight-reducing" efforts. They are today far less burdened with borrowings than in the 1973-1974 when the first oil crisis plunged Japan into a deep recession. Also, accelerated production, in anticipation of rises in steel and electricity prices, has contributed to improving business performance in the manufacturing industries.

Of particular significance is the fact that Japanese manufacturing businesses went ahead with the expansion of plant and equipment investment. Financial analysts earlier predicted that capital spending was bound to go down as large cost rises would cut into corporate earnings.

Businesses, nevertheless, invested actively for the modernization of equipment and, above all, for energy conservation purposes, including conversion from oil to non-oil energy sources like coal. It would seem that Japanese industries are investing in order to survive in the age of energy scarcity, even defying the conventional considerations on investment costs and rates of returns.

The decline of the yen exchange value, which continued until recently, gave impetus to export expansion and contributed to business prosperity. In terms of its impact on domestic prices, however, the yen depreciation is often blamed for having magnified the inflation in the prices of imported fuel and raw materials. But in some industries, like automobiles, whose dependence on exports is high, bulging export sales and earnings seem to have reduced their need to raise product prices in the domestic market.

In view of the strong momentum still shown by exports and domestic demand, businesses may indeed hope for favorable earnings in the present financial term. The large gas and electricity rate raises effected in April would speed recovery in the performance of power and gas companies in the non-manufacturing sector. The raised power and gas prices will, over a period of time, translate themselves into higher costs to consumers in the form of higher product prices.

One of the sources of uncertainty ahead is consumer spending. Wage settlements of this past spring were somewhat better than last year, but on the whole they gave consumers only a modest increase in nominal income. Their real purchasing power, on the other hand, has been sharply limited by the still unabated inflation. In the 1973-1974 oil crisis, the burden of painful adjustment was chiefly borne by businesses. In the present instance, that burden seems to be falling on consumers, or the household sector of the economy.

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ECONOMIC

FIVE JAPANESE COMPUTER MAKERS HAVE TWO-DIGIT SALES GAINS

OW301415 Tokyo MAINICHI DAILY NEWS in English 29 May 80 p 5

[Text] Japan's five native-capitalized computer makers were Tuesday found to have all remarkably increased their sales during fiscal 1979 (ending March this year) to continue business improvements of the year before.

According to their fiscal 1979 sales reports made public by Tuesday, the best selling of the quintet, Fujitsu Limited, of Tokyo, outsold, for the first time, top selling IBM Japan, Ltd., also of Tokyo by a slight margin.

Fujitsu's sales during fiscal 1979 (staggered three months ahead of calendar 1979) totaled 326.8 billion yen, up 8 percent over fiscal 1978. IBM Japan, a local majority-owned manufacturing and sales subsidiary of IBM (International Business Machines Corp.) of the U.S., during calendar 1979, had booked 324.2 billion yen in sales, 3 percent up from the year before.

IBM of the U.S., dominating 60 to 70 percent of the whole world computer market, commands only 35 percent of the Japanese computer market under the Japanese Government's policy to foster Japan's computer industry in the interest of the nation's economic security.

The four other native-capitalized computer makers also built their fiscal 1979 sales by two-digit percentage gains over the preceding fiscal year--Hitachi, Ltd., of Tokyo, selling 216 billion yen, up 14 percent; Nippon Electric Co. (NEC), also of Tokyo, 200.7 billion yen, up 20 percent; Mitsubishi Electric Corp. (MELCO), also of Tokyo, 53 billion yen, up 18 percent; and Toshiba Corp., of Kawasaki, 50.4 billion yen, up 17 percent.

In contrast, IBM Japan and Nippon Univac Kaisha, Ltd., of Tokyo, a joint computer dealer of Sperry Corp. of the U.S. and some investing Japanese business interests, both witnessed only 3 percent or so growth in their 1979 sales.

According to the five indigenously-capitalized computer makers, their sales increases, decidedly greater than their two American-capitalized rivals, are attributable to:

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- 1) Domestic demands have grown very sharply for medium or smaller-size computers in whose production they excel their U.S.-capitalized rivals, and for their recently developed compact and easy-to-operate "office" computers;
- 2) The domestic business and industrial drives for building efficiency have picked up speed to require more computerization; and
- 3) Their recent rush to develop new products to compete with IBM's "E Series" of efficient medium-size computers introduced early last year have worked well in arousing a new local wave of demands.

For the current fiscal year 1980, the quintet visualized continued increases in sales, with Fujitsu anticipating 9 percent more than fiscal 1979, Nitachi 16 percent more, NEC 20 percent more, MELCO 17 percent more, and Toshiba 15 percent more.

But they invariably place hope chiefly on their smaller and "office" computers. NEC, for instance, sees "an almost unlimited growth potential" for the local demands for "office" computers, including the recently developed plain Japanese language-using types. The local demand for big computers is believed to have hit the limit.

The U.S.-capitalized companies are believed to have suffered from such a trend of the local market and also from an increase in their clientele's switches from purchase to renting of their products.

But in terms of net profits, the five Japanese companies, all burdened by heavy capital expenditures, were no match before IBM Japan, which reported a surprising 11 percent in net profit margin in 1979.

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ECONOMIC

EXPERTS ANALYZE DEFENSE RELATED STOCKS

Tokyo SHUKAN ASAHI in Japanese 25 Apr 80 pp 24-27

[Article by Yoshitaka Kobayashi and Hideo Morita]

[Text] At the first sign of the smell of gun powder, the stock brokerage circle reacted sensitively. The big four securities firms of Nomura, Nikko, Daiwa and Yamaichi are unexpectedly favoring "purchase of defense related shares" and pushing "defense stocks" as this year's selling point. Under the Peace Constitution, it had been practically taboo for securities circle to push defense industry stocks. The taboo is now beginning to fade away. The shrewd Kabuto-cho [Japan Stock Exchange] turns the slightest change in national consciousness into a money-making proposition.

For example, in the 7 April issue of the NOMURA SHUHO [NOMURA WEEKLY REPORT], an information journal published by The Nomura Securities, Ltd. for investors, there is an article titled, "The Changing People's Outlook of Self-Defense Forces." Referring to the ASAHI SHIMBUN public opinion poll, the article points out that within the past 1 year and 3 months, supporters of the Self-Defense Forces [SDF] increased from 79 percent to 83 percent and claims that "the 7 percent increase in people who want to strengthen SDF is particularly noticeable." The article is trying to draw attention to the change in the people's awareness of self defense.

According to this public opinion poll, the number who answered that the SDF should be strengthened increased as follows: 18 percent in December 1978 to 25 percent in March 1980. Pointing to this development, the "Nomura Shuho" raises the question, "Is it because people are beginning to feel a threat, such as from the Soviet invasion of Afghanistan, Soviet buildup of military facilities in the northern territory, etc.?"

It is true that public opinion is changing but the main cause which excited the stock brokerage circle in "defense stocks" was President Carter's "State of the Union" message in late January. The president determinedly stated, "This is the world's strongest country and it will remain so, whatever the costs," and revealed that defense expenditures would be increased. Japanese securities circle predicted two developments in the wake of President Carter's message.

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- 1) With the increase in U.S. defense expenditures, imports from Japan, including materials for fighter aircraft, will increase.
- 2) Japan, which is acting jointly with the United States, will also increase its defense expenditures.

From February to March, the various securities firms thoroughly briefed the managerial staff that, "defense related stocks will play the leading role in this year's stock market." The year before last, it was "pharmaceuticals" (Kaken Chemical Co., Ltd.) and last year, it was "energy" (Nippon Oil Co., Ltd.), and for securities circle which is searching yearly for a particular issue to lead the stock market, the defense related stocks loomed as a savior. As though to support the movements of the stock brokerage firms, the leaders of the business and industries have been releasing hawkish statements since February.

On 7 February, at a Kansai economic seminar, Hosai Hyuga, president of the Kansai Federation of Employers' Association, stated that "Japanese defense spending should be increased from 0.9 percent of GNP to at least 1.9 percent, which is the equivalent of Switzerland. It is also necessary to consider the draft system."

During the drafting of the 1980 fiscal budget, the defense production committee (Fumihiko Kono, chairman) of Keidanren [Federation of Economic Organizations] urged the Defense Agency to speed up modernization of weapons. Furthermore, Shigeo Nagano, president of the Japanese Chamber of Commerce and Industry, called for arms export and even Tadashi Sasaki, chairman of the board of trustees of the Japan Committee for Economic Development, a dove faction in the financial circles, urged that "the defense issue should be widely discussed as the national problem of the 1980's and efforts should be made to arrive at a national consensus."

Sell When Wars Nearby and Buy When Wars Faraway

The reaction began to appear from January in the stock market. Generally speaking, the defense related stocks reached the peak level in February and declined somewhat in March. They are beginning to advance slightly in April.

Heretofore, the stock brokerage circle had believed that "it would be only natural for Japanese defense related stocks to be noticed." However, the stock firms were not in a position to push "defense stocks" before public opinion polls indicated acceptance.

The big stock companies have given the following interpretations of the development.

(The Nomura Securities, Ltd.)

To be precise, the so-called defense related stocks are stocks of aircraft related industries. Included are the manufacture of fighter and antisubmarine

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patrol aircraft such as the F-15 and P-3C, respectively, and the YX plan to build the next-generation large civilian aircraft. Together, they will constitute transactions of several trillion yen.

Playing the leading roles in [post-WW II] Japanese economy were ships, then automobiles, and it is only a matter of time for aircraft to take over. Therefore, this company started research on defense related stocks from a year ago. As a result of the research, hopeful predictions became possible. Take titanium alloy, for example. It is indispensable as an aircraft part with high heat resistance. However, the United States is markedly deficient in its supply. On the other hand, Japan has the capability to increase its production. It is believed that any increase in U.S. defense expenditure will immediately increase its export amount.

Take bearings, as another example. Japan's skill is rated as the world's best. If automobile bearing costs 300 yen apiece, aircraft bearing costs tens of thousands of yen apiece. The U.S. industries, which are inferior in manufacturing skill and capability, cannot do without Japanese-made bearings.

(The Nikko Securities Co., Ltd.)

Business transaction will not be limited to the Defense Agency. Transactions will cover the entire world. That is the scope of Japan's defense industries. Until last year, issues to watch were limited normally to stocks of a single enterprise but this year, issues to watch will come from enterprise conglomerates.

The Afghanistan and Iran problems are stimulating the stock market. In the securities circle, there is a commonsense saying to "sell when wars nearby, buy when wars faraway."

For Japanese, both Afghanistan and Iran are "faraway wars."

There are many market ingredients to watch ranging from computers and radars to metallic materials and graphite fibers.

Five Thousand Firms Involved as Subcontractors and Sub-subcontractors

(The Daiwa Securities Co., Ltd.)

The technology of the high growth period is becoming outdated. The time has come when new technologies must be developed. In defense industries, the technologies of a country are brought together. Therefore, interest is mounting to actively operate defense industries to utilize new technologies born from them in other industries.

First of all, technological improvements originate from mass production methods. As experiences are gained in dealing with aircraft such as F-15, P-3C and YX, Japanese aircraft manufacturing technique will be developed

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into the world's best. Of course, at present, Japan cannot be compared with the United States in aircraft industries. The same can be said for radar, radio communication, etc. However, as American orders are filled, the technology will be nurtured.

The same is true of stocks. Since the strength of Japanese defense related industries is not yet publicly recognized, now is the time to buy.

(The Yamaichi Securities Co., Ltd.)

Looking at the cover page of the 4 February issue of the U.S. weekly magazine, BUSINESS WEEK, we gained confidence.

There was a picture of a fighter aircraft with only one side of the wing and no engine. The 6-page special article mentioned "lack of titanium," "lack of bearings," "lack of manufacturing machineries," "lack of skilled workers," etc. and related the serious deficiency in U.S. military industries. These are the very fields in which Japanese industrial circles can perform effectively.

The outlook of the securities brokers is that "politics and economics will function with the military as the focal point in the 1980's."

What is the reaction of the "defense industries" to these movements of the stock brokerage world?

"I was surprised at the stockbrokers' sharp sense of direction. It was around spring of last year, they probably sensed the pro-military trend, stockbrokers came, one after another, and inquired, 'which company is likely to make profits?' Of course, I refused to answer. Then, around January of this year, they came again and asked this time, 'if weapons are out, isn't there any company which might profit from materials?'" The one making the above comments is Jinshichi Hirano, executive director of the Weapons Manufacturers Association of Japan in which 97 large weapons manufacturers are members. He further stated:

"Defense industries are sarcastically referred to as stable industries in a structural recession. In total sales, while the 'pachinko' industry netted 1.5 trillion yen, the defense industries in 1978 netted less than one-third of that, or approximately 450 billion yen. Besides, because of the recent inflationary prices, even if defense expenditures increased by 0.1 percent of the GNP, the situation would be considered satisfactory if the same level were maintained in actual performance."

Thus, he is taking an extremely conservative stand.

It is true that the amount of Japan's weapons production does not even come to 1 percent of the total industrial production. The profit margin is set to equal the average profit rate of "Japan, Inc.," but there are many cases where the production takes a lengthy period and the capital rotation rate is low. Moreover, continued production is not guaranteed and risks are not slight.

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"Therefore, this is not too attractive an enterprise." This is the unanimous comment of those in the concerned industries.

However, matters are not as clear-cut as that. Kazuo Tomiyama, Kanto Gakuin University professor, who is knowledgeable of defense industries asserts, "It might not be true of the entire industry but examining the performance level of specially designated enterprises, it can be seen that weapons production is well-established business and there are great hopes that increased defense expenditure means increased profits."

According to the said professor, as an example, orders for the Type 74 tanks, for which Mitsubishi Heavy Industries, Ltd. is the prime contractor, reached 60 tanks from this year, an increase of 12 over the orders received up to 1979. With these orders, the company's Sagamihara plant will actually have a 25 percent increase in work ration, an increase of about 4.8 billion yen in sales and there should be considerable profits. GNP 0.1 percent, converted to monetary amount, becomes approximately 250 billion yen (1980 government estimate) and if the money is used to order weapons from specially designated enterprises, "companies making exorbitant profits might begin to appear."

(Statement of Professor Tomiyama)

Enterprises which are looking for order of defense materials are increasing yearly. During the transition to low growth period, companies are trying to find a way out in the defense industries which are maintaining a comparatively high growth (estimate of the Weapons Manufacturers Association of Japan is an annual growth rate of 15 percent this year). Companies which applied to register with the Defense Agency as a participating enterprise in defense armament bidding numbered 2,107 in 1978, an increase of 5.2 percent over the preceding year. It is reported that among them were about 300 new companies, mainly medium-small enterprises in business recession. Including subcontractors and sub-subcontractors of weapons production, there are said to be 5,000 large and small enterprises involved in the so-called "stable industry" under the "wings" of the Japanese Government.

However, the situation cannot be assessed as "sound and sure to make profits." The fact is that there is abundant productive capability but no work. According to the survey of the Keidanren's defense production committee, the strong divisions have a 70 to 80 percent work ratio and not a few divisions have only 30 to 40 percent ratio.

There are some who point out the weakness of defense related costs to inflation and high prices. Increase in pay to SDF members, increase in retirement pay, etc. are said to be restricting armament expenditure and reducing orders for weapons production.

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Outstanding Technology Wanted Overseas

The capital outlay, mainly of armament purchase costs, fell below 20 percent of the total defense related expenditures for 1976. Although the situation improved somewhat since then, the figure barely reached 24 percent in 1980. The absolute minimum requirement is 30 percent for weapons modernization..."

Lamenting the situation is [Hiroshi] Morikawa, executive director of the Keidanren's defense production committee. In the industrial circles, there are not a few hardliners who advocate "reduction of SDF members." This reflects an up-against-the-wall view that "to protect defense industries, the only alternative is to cut down on personnel and food costs which account for 50 percent of the total outlay."

Amidst this adverse situation, it is also a fact that Japan's industrial circles have considerable confidence in weapons production.

"As long as time and money are available, there is fully adequate capability to manufacture the world's best weapons."

Making that boast is Tomio Tanatsugu, president of the Weapons Manufacturers Association of Japan and vice president of Tokyo Shibaura Electric Co., Ltd. In support of this statement, a certain military expert made the following remarks: "The technical standard of Japanese weapons is very high. For example, the bearings and caterpillars of the Type 74 tanks and the rescue aircraft of Shin Meiwa Industry Co., Ltd. are among the world's best. Foreign countries eagerly desire them. Even with small firearms, they are resistant to moisture and dirt and fit the body size. Besides, if weapons are purchased from Japan, there is no need to worry about falling into its sphere of influence. For these reasons, offers are sure to come from South-east Asia and Middle East.

(Statement of Osamu Inagaki, military commentator)

It appears that behind such assertions as "increase defense expenditures" and "lift the ban on the arms export" made by the hawkish elements among leading business leaders, are complex considerations and expectations.

On the other hand, since the United States publicly announced armament expansion, that demands from the civilian sectors in America will come pouring in to Japanese enterprises is a factor that cannot be overlooked. Concretely, because of increased production of military aircraft, U.S. production of parts and materials for civilian aircraft will be delayed and orders for such items will come to Japanese defense industries. Outwardly, it is meeting American "demands from the civilian sectors" but indirectly, it is tantamount to subcontracting U.S. arms industries.

If such is the case, the brisk activities of the stock brokerage circle to play up "defense stocks" cannot be said to be wholly groundless. It can

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be fully anticipated that indirectly, these and related industries will reap the benefits. Is it something to be happy about? Somehow, a slight feeling of apprehension steals over one.

Main Defense Related Industries of Japan

[Noted in the following order: Company Name, Percentage of Sales*, Characteristics as a Defense Industry]

Mitsubishi Heavy Industries, Ltd.--9 percent--Japan's largest defense related enterprise. Provides one-fourth of Defense Agency's total procurement. Leader in energy, aircraft plant.

Kawasaki Heavy Industries, Ltd.--9 percent--Prime contractor of P-3C fuselage. Emphasis on aircraft. Estimated 1982 sales of aircraft division are 100 billion yen.

Ishikawajima-Harima Heavy Industries Co., Ltd.--8 percent--Top in aircraft engines. Prime contractor of F-15, P-3C engines. Also built escort and transport naval vessels.

Kobe Steel, Ltd.--percentage omitted--Leader in titanium alloy. Deal for titanium with U.S. Boeing Co. Estimated sales of 100 billion yen in 5 years.

Hitachi Metals, Ltd.--percentage omitted--Yasugi plant for high-grade special steel became a specially designated plant of Boeing Co.

Shimadzu Seisakusho Ltd.--8 percent--Ratio of sales to Defense Agency is 8.4 percent. Orders for air conditioners, starting devices, etc. of F15.

Fuji Heavy Industries, Ltd.--5 percent--Anti-corrosive treatment of titanium alloy for F-15. Subcontract production of tail rudder for Boeing 747.

Nippon Seiko KK--percentage omitted--Production of bearings for important strategic material. Producing ball screws for machine tools at good pace.

Toray Industries Inc.--percentage omitted--Holds over 30 percent of world's share of graphite fiber. Mostly used for aircraft. Interferon is also highly rated.

Hitachi Seiki Co., Ltd.--percentage omitted--Famous for specializing in machine tools. In good shape because of rapid increase in orders. Will have the best account settlement, historically, in 1980.

Mitsubishi Electric Corp.--4 percent--3d highest in share of armament contracts from Defense Agency. Also engaged in atomic power, alternate energy sources, space development.

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Japan Radio Co., Ltd.--20 percent--Assigned project for improved Hawk amounts to 20 billion yen in 5 years. Prime contractor of sonobuoy for P-3C.

Tokyo Precision instrument Co., Ltd.--21 percent--Estimated income of 13 billion yen from F-15. Prime contractor of radar warning device.

Shinko Electric Co., Ltd.--8 percent--Holds the biggest share in electric generators for aircraft. Has orders related to F-15 totaling over 4 billion yen.

Komatsu Ltd.--2 percent--Holds half the share with Mitsubishi Heavy Industries in armored cars. Also handles warheads for artillery shells.

The Japan Steel Works, Ltd.--6 percent--Biggest gun maker. Prime contractor of guns for Type 74 tanks and naval ships. Also handles atomic reactor parts.

Shin Meiwa Industry Co., Ltd.--15 percent--As the former Kawanishi Aircraft Co., has high technical standard. Makes P-3C fuselage parts, auxiliary fuel tanks for F-15.

Sumitomo Precision Products Co., Ltd.--50 percent--Monopolistic maker of propellers and landing gears. Orders related to P-3C, F-15 amount to 22 billion yen.

Teijin Seiki Co., Ltd.--30 percent--Of the aircraft division products, 90 percent delivered to Defense Agency. Maker of hydraulic, fuel and engine system parts.

Tokyo Shibaura Electric Co., Ltd.--1 percent--Second to Mitsubishi Electric Corp. in electric parts. Responsible for inertia navigation system of F-15 and logic unit of P-3C.

Nippon Electric Co., Ltd.--2 percent--Manufactures microwave network and special radio equipment. New Badge system orders possibly amount to 200 billion yen.

Kokusai Electric Co., Ltd.--13 percent--Radio communication equipment for aircraft, ships and special vehicles. Prime contractor of HF secret communication equipment for P-3C.

Toyo Communication Equipment Co., Ltd.--14 percent--Responsible for identification device for F-15, P-3C. Also makes aircraft collision prevention device.

Hokushin Electric Works, Ltd.--10 percent--Concentrates on instruments. Estimated orders of 10 billion yen in 10 years related to P-3C, F-15.

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Oki Electric Industry Co., Ltd.--4 percent--Defense Agency procurement amounts to about 6 billion yen. Experienced in manufacture of measuring and communication equipment.

Adachi Electric Co., Ltd.--2 percent--Maker of ground radio communication equipment and microwave measuring equipment. Promising future in new Badge system.

Kayaba Industry Co., Ltd.--4 percent--Various types of hydraulics. Received orders from Boeing for YX-use hydraulics, for 300 aircraft, amounting to 1 billion yen.

Koito Manufacturing Co., Ltd.--2 percent--Lighting fixtures such as wing-tip lights, aircraft interior lights, etc. Outlook is for 20 percent yearly increase in manufacture for aircraft.

The Yokohama Rubber Co., Ltd.--4 percent--In addition to aircraft tires, partly responsible for fuel tank, hose and aluminum honeycomb.

Japan Storage Battery Co., Ltd.--4 percent }
Yuasa Battery Co., Ltd.--5 percent } In addition to the main storage batteries of submarines, manufacture electrical sources for missile guidance system. Also, auto batteries such as for jeeps.

Daikin Kogyo Co., Ltd.--5 percent--Artillery shells, rockets and fuses, missile warheads, etc. Also, aircraft parts.

Howa Machinery, Ltd.--3 percent--Monopolistic maker of rifles. Also, manufactures mortars and hand grenades.

Daicel Ltd.--3 percent--In addition to emergency escape equipment for aircraft crew, manufactures gunpowder and rocket propellants.

Nippon Oils and Fats Co., Ltd.--3 percent--Sales of ammunition, rocket propellants, etc. to Defense Agency amount to 1.3 billion yen. Including space related items, totals 2.5 billion yen.

Asahi Chemical Industry Co., Ltd.--1 percent--Ammunition, rocket propellants. Joint planning with Toray Industries Inc., Teijin Ltd. and Toyobo Co., Ltd. on space ship R&D.

Toho Titanium Co., Ltd.--60 percent }
Osaka Titanium Co., Ltd.--70 percent } Six manufacturers of metallic titanium in the world. Japan holds one-third of share. About 30 percent of products of these two companies exported to Europe and the United States. In process of increasing production capabilities.

(Note: Survey of a certain large securities firm. *"Percentage of Sales" is the ratio of sales to Defense Agency as compared with total company sales.)

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SCIENCE AND TECHNOLOGY

NEW WONDER DRUG NEARS COMMERCIALIZATION

Tokyo BUSINESS JAPAN in English May 80 p 123

[Text] Japan, ahead of the rest of the world, is going to industrialize Interferon, which has attracted the hope of mankind as a "new dream drug."

The Research Development Corporation of Japan has commissioned Midori Juji Co., Ltd. and Toray Industries, Inc. (at commission fees of 880 million yen and 870 million yen, respectively) to perfect within about three years equipment and technology to produce 4,000 million units of Interferon per month. Thus the production of Interferon will be industrialized in Japan by March 1984, if all goes well.

Interferon is a kind of protein containing sugar, with a molecular weight of about 20,000, which the cells of human or animal organisms produce when they are invaded by a virus.

Interferon moves out of the cell, acts upon other cells of the organism and induces the production of antiviral protein which inhibits the intracellular proliferation of the virus. Hence, Interferon is regarded as effective in the treatment of various virus diseases including virus hepatitis which cannot be treated satisfactorily with conventional therapies. Furthermore, Interferon is said to inhibit cancer cells.

One problem is that only Interferon manufactured from human cells is effective for human cells. From 100 million to 200 million units of Interferon are believed to be needed for treating cancer. The prerequisite to practical application as a medical drug is, therefore, the establishment of a mass production process. Research on production techniques has been progressing rapidly throughout the world.

Present production techniques are based on the reaction of virus or nucleic acids on such human cells as (1) leukocytes which have been separated from the blood for transfusion as superfluous ingredient, (2) lymphoblasts, or high proliferative cancerous leukocytes and (3) human diploids.

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In our country, the Japan Red Cross Society has produced about 1,000 million units of Interferon from leukocytes and started deliveries for clinical tests. The supply is limited, however, because leukocytes themselves do not proliferate, so that a large amount of blood is needed.

Overseas, a joint research group of U.S. and Swiss scientists has succeeded in the development of a new process to produce Interferon through the recombination of DNA.

Two molecules of Interferon are produced from one coliform bacillus by genetic engineering. A new way has been opened for the mass production of Interferon. But the realization of higher efficiency and ultimate industrialization depend on future research.

On the other hand, Midori Juji Co., Ltd. and Toray Industries, Inc. have made giant strides in the field of Interferon.

The technology of Midori Juji is based on research by Director Tadakazu Suyama and researchers in the Central Research Laboratories of the company, working on the production of Interferon from cells derived from human leukocytes.

Toray's technology is based on the research of Director Akihisa Miyake and researchers at Toray's Basic Research Laboratories, working on production of Interferon from human diploids. Both companies intend to conclude their programs within five years.

Midori Juji's process is as follows: Sendai virus or the virus of the Newcastle disease are introduced as inductor in the culture of leukocytes separated from human blood. Interferon, released in the culture, is refined in a preparation with a relative activity of over 1×10^6 units/mg (protein).

Mass production is difficult according to this technology, since leukocytes separated from blood are no longer proliferative and the supply of blood depends on donors. Midori Juji is also studying the production of Interferon by means of lymphoblasts which proliferate in a floating tank culture.

In Toray's process, a multistage plane culture process is used since human diploids do not proliferate except in a single lay and their life span is limited (about 50 divisions).

Diploids contained in the culture solution proliferate on glass walls under controlled condition. Interferon, released into the culture through the introduction of an inductor, is refined to an Interferon preparation with a relative activity of over 1×10^6 units/mg (protein).

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