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14 July 1980

# Japan Report

(FOUO 17/80)



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## JAPAN REPORT

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POLITICAL AND SOCIOLOGICAL

DOUBLE ELECTION CAMPAIGNS TAKE OFF AT FULL SPEED

Nationwide Election Campaign Examined

Tokyo NIHON KEIZAI SHIMBUN in Japanese 4 Jun 80 pp 10-11

[Text] Local Constituencies

Kanto Area

Tokyo (4 seats): House of Councillors Speaker and LDP nominee Yasui (independent, incumbent), previous national constituency candidate Miki (Komeito, incumbent) and Party Committee Vice Chairman Ueda (JCP, incumbent) all have stable bases of support and firm organizations, and have held the advantage from the beginning of the campaign. They are pursued by Kato (JSP, newly up for election), who has adopted a perfect "docking" strategy with a lower house candidate, former Joint Staff Council chairman and promising newcomer Kurisu (DSP, new), and Ushinomiya (independent, new), who doesn't apologize for his prominence; the mood is that of a free-for-all. Because the number of votes needed to succeed in this double election will be higher, attention is focused on who will get the floating votes. It will also be noted how the voters react to the defense controversy being fought out by the hawk and dove factions.

Kanagawa (2): This will be a fierce battle among five influential candidates. At first Hatano (LDP, incumbent), Takeda (JSP, incumbent) and Komeito recommendee Hironaga (DSP, new) were being chased by Koizumi (JCP, new) and Onishi (NLC, new), but the situation changed with the concurrent elections. Hironaga, who casts the shadow of a Komeito-DSP united front, has been hurt somewhat, and Onishi expects to get more votes because of the double election. It appears the same-day balloting will work to the advantage of Takeuchi and Koizumi, who rely on organization, and a sense of crisis is growing in the Hatano camp. Hara (other, new) is also putting up a good fight.

Saitama (2): The frontrunner in this constituency is Nao (LDP, new), who is well known throughout the prefecture and has a firm foundation of LDP

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votes, Following him is Seya (JSP, incumbent), who is making the most of his success in the last two elections and guarding his seat at all costs. The middle-of-the-road candidate recommended by Komeito, the DSP and the SCL, Doki (independent, new), is an unknown quantity, but if the intellectuals are stirred up there is no telling where the floating vote might end up. Yajimi (JCP, new) is making a strong effort. Maki (other, new) is from the National Federation of Marxist Workers' Unions.

Chiba (2): The seats should go to Inoue (LDP, new) and Akakira (JSP, incumbent). The center of attention is how far Maeda (JCP, new) will eat into their lead and what effect the struggle at the top of the LDP will have. Inoue got a late start because of the struggle over party endorsement so Akakira was a step ahead at first. But the prospects are that the conservative vote will increase greatly because of the concurrent elections in the lower house, so matters are developing to Inoue's advantage. Nishi (other, new) and Ueda (independent, new) are not doing well.

Ibaragi (2): The organizations of Oshima (LDP, incumbent) and Otsuka (JSP, incumbent) are a step ahead. The LDP, seeking to monopolize the two seats, put forward Moriyama (LDP, new) and is making every effort to build up the mood for that, but the prefectural party organization has been badly shaken by the double election. These three candidates are followed by Sato (DSP, new) and Eguchi (JCP, new).

Gumma (2): The front runner is Mogami (LDP, incumbent), who is making inroads among the women and youth with his own grassroots campaign. Fukuda (LDP, new) is close behind and the LDP is eager to monopolize the two seats, but when the lower house was dissolved, the organization of Yamada (JSP, new) became fully active, and he is pressing hard. Yoshimura (JCP, new) is standing in for a candidate who switched to the House of Representatives race, and he is slow in becoming known.

#### Hokkaido-Tohoku Area

Hokkaido (4): Will the LDP snatch back the two seats it lost last time by having too many candidates, or will the opposition parties hang on to the seats they now have? The leaders are Iwamoto (LDP, new), Tsushima (JSP, incumbent) and Ogasawara (JCP, incumbent), and they are being energetically pursued by Aizawa (Komeito, incumbent), Takagi (LDP, new) and Sakashita (JSP, new). The lower house election is a blow to Aizawa, who was elected by the middle-of-the-road coalition. The question for Takagi is how to stop the fishermen from leaving the LDP over the issue of South Korean fishing boats, and how to get votes away from Sakashita. The National Federation of Marxist Workers' Unions is running Sakaki.

Aomori (1): Yamazaki (LDP, incumbent), who is seeking his third term, is better known and has a stronger base than Yamauchi (JSP, new) or Hori

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(JCP, new). He gained his seat in a special election to fill a vacancy, and leads with the full support of the LDP. The JSP candidate in the special election was expected to try again, but because the election day was moved up and the campaign periods overlapped, Yamauchi was suddenly put forward, and he has been hurt by the late start. Horii is not well known, and will have a hard time.

Iwate (1): This is a JSP-Komeito-DSP cooperation constituency. The conservative camp, which hopes for a third term for Masuda (LDP, incumbent), is filled with a sense of crisis, but the fact that the lower house election is to be held at the same time has fortunately strengthened the solidarity of the conservative forces in the prefecture; they are ahead in the farming and fishing villages. Takahashi (independent, new), who is backed by the SCL as well as the JSP-Komeito-DSP grouping, is fairly well known in the cities, but the system of cooperation among the three parties is not yet fully developed, and its growth has been stalled by the break-off of the conservatives from the Senda Association (the former governor's support association) on which the coalition had relied. Miyawaki (JCP, new) is trying to get more votes than he did in the last election.

Miyagi (1): Endo (LDP, incumbent) is backed by the construction and the commerce and industry organizations, and has a decisive lead. The double election has made it difficult for Takahashi (JSP, new) to get the support of Komeito and the DSP; he faces a hard battle. Shimoishi (JCP, new) trails Takahashi.

Akita (1): Both Sasaki (LDP, incumbent) and Sawada (JSP, former member) are trying to broaden their support, with targets of 350,000 votes. The Komeito has made the situation chaotic by deciding on "emotional support" for Sawada. Although Sasaki got an early start and is ahead of Sawada at this point, he cannot be too optimistic. Ito (JCP, new) has developed a minute campaign.

Yamagata (1): Yasoshi (LDP, incumbent) has the strength of incumbency plus a record of five terms as governor, and has wide-spread support throughout the prefecture. He is followed by Sato (independent, new), who is backed by the JSP, the Komeito and the DSP jointly and who gained renown as director of NHK's Yamagata station, but the dissolution of the lower house raises the question of how much cooperation there will be among the JSP, Komeito and the DSP. The new candidate backed by the JCP has switched to the lower house race, so the upper house candidacy was turned over to Wakabayashi (JCP, new). Thus the effect of the double elections has been great. All camps find it hard to predict the vote, and tension runs high.

Fukushima (2): The LDP has put forward Suzuki (LDP, incumbent), who is looking for his third term, and Sato (LDP, new), hoping to carry both available seats. There is apprehension, however, regarding competition for the conservative vote. The JSP has only nominated Yaoita (JSP, new) a veteran

of 11 victories in lower house elections, to take one seat. Amid the fierce struggle between the LDP and the JSP, Mogami (JCP, new) is trying for a larger share of votes than in the last election.

Chubu Area

Aichi (3): There is a fierce battle with the candidates of the LDP, the JSP, Komeito, the JCP and the DSP all equally good. Former Nagoya University President Takagi, who is backed by the Komeito, is widely known and has become "the eye of the storm." Increasing apprehension about that has brought about an even more vigorous election campaign by Morishita (JSP, incumbent). Oki (LDP, new) is doing well with the backing of plentiful conservative votes, and Miharu (DSP, incumbent) has the firm support of the labor unions. These four are being wildly chased by young Nishida (JCP, new). Tani (other, new) is also putting up a good fight.

Shizuoka (2): Will the LDP take both seats for the first time in 12 years? Tozuka (LDP, incumbent) has made much of the strength of incumbency. The chairman of the election strategy committee, however, decided to run for a lower house seat because of the double election, so little-known Fujita (LDP, new) will have a problem catching up. Aoki (JSP, incumbent), on the other hand, had been on the defensive but his position is improving as support from labor solidifies. Yamada (JCP, new) and Shiina (other, new) are also hoping to advance.

Yamanashi (1): Nakamura (LDP, incumbent) is in first place. There was concern about the weakening of election strategy because of division in the prefectural party organization, but his campaign was helped by the double elections when a policy of "Nakamura for House of Councillors" was set with the personal support groups of four former Diet members. Hara (JSP, new) is going all out to catch up by winning over some conservatives and the votes of Komeito and the DSP. Sakurai (JCP, new) plans to expand party strength, but faces a hard struggle.

Niigata (2): The seats should be divided between the LDP and the JSP. Hasegawa (LDP, incumbent), who was elected to fill a vacancy in a special election in May 1977, has been steadily gathering votes through a series of small rallies, and may well be the top vote getter. Shitoma (JSP, incumbent) is trying to improve over the last election by reaching the level of 400,000 votes. Maruyama (JCP, new) is trying to expand support from a base of organization votes, but is not quite strong enough.

Nagano (2): The point of interest is to what extent Kishima (JCP, new) can prevail against the heavy barrier of Natsume (LDP, incumbent) and Oyama (JSP, incumbent). Natsume and Oyama are experienced and well-known as the mayors of Nagano and Ueda respectively, and they aim to go over the 400,000 vote line. But this is a classic case of a locked-up election, and it will be overshadowed by the lower house race.



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Gifu (1): Fujii (LDP, incumbent) is well known and has a strong organization; he has made a fast start. The JSP made a public appeal for candidates, and nominated Yagi (independent, new), but Yagi is far behind Fujii. Sugihara (JCP, new) has campaigned with endurance. Yeda (DSP, new) is the first DSP-recognized candidate in the Gifu constituency.

Toyama (1): Yoshida (LDP, incumbent) has a decisive advantage. The voting rate is expected to go up because of the double election; this will strengthen his position in a sense, but it will also increase the anti-LDP vote, so he is trying to keep optimism in check. Takeda (JSP, new) only decided to join the race in April, and has been hurt by his late start. He is putting his full effort into becoming known in the urban areas. Tanbo (JCP, new), whose selling point is his youth, has also developed a spirited campaign.

Ishikawa (1): Yasuda (LDP, incumbent) has a record of two past terms and is exceptionally well known; he is far ahead, but trying to avoid excessive optimism. Kobo (JSP, new) has been hurt by a late start and poor recognition. He is at the stage of making himself known in organizations, particularly labor groups under the umbrella of the prefectural trade union council. The campaign of Kawakami (JCP, new) is closely connected with the JCP candidates in the lower house races in the first and second districts.

Fukui (1): Tsuji (JSP, former), who is trying to make a comeback, and Kumagae (LDP, incumbent), who is trying for his fourth straight term, are running neck and neck; the battle has become a "LDP-JSP showdown." Kumagae has a broad base of support in the prefecture and has a slight lead at this point, but he feels the hot breath of Tsuji, who is popular among the women and young voters and who is attacking such things as the agedness of the Kumagae camp; and it will not be possible to predict the outcome until the final stage. Yoshida (JCP, new) is also putting up a good fight.

Chugoku Area

Okamoto (2): The two seats are designated for Kato (LDP, incumbent) and Terada (JSP, incumbent). Oda (JCP, new), who was defeated in the last lower house race, is waging his first prefecture-wide campaign.

Hiroshima (2): Nagano (LDP, incumbent) is in the lead. Konishi (DSP, new), who is backed by a Komeito-DSP barter arrangement for cooperation in upper and lower house races, is in third place behind Hamamoto (JSP, incumbent), but Hamamoto was careful to tighten up his camp, and Konishi is far behind. Moriwaki (JCP, new) hopes for a large increase in the number of votes he receives.

Tottori (1): Ishiwa (LDP, incumbent) was governor for four terms, and his record is well remembered throughout the prefecture. Arami (JSP, new)

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has a record of over 24 years as a prefectural legislator and is well known in the western part of the constituency--the key question is how many votes he can get in the east. Hota (JCP, new) will try to get more votes.

Shimane (1): This is a stable battle for Kamei (LDP, incumbent), who has firm control of the prefecture's conservatives. Ishibashi (JSP, new) is becoming known through his spirited activity, and he is striving for the votes of the DSP and Komeito, who have not put up their own candidates. Katsumbe (JCP, new) is backed by the strength of his party, which did succeed in the last lower house election, and he hopes for a large increase in votes.

Yamaguchi (1): This is a battle of newcomers between Eshima (LDP, new) and Hamanishi (JSP, new), but Eshima is ahead in that this is a conservative country. Ito (JCP, new) is waging his own campaign.

Osaka (3): Even before his official announcement, Shiragi (Komeito, incumbent) was energetically holding meetings and making addresses. He is well known and has a firm organization vote; he leads the race. Nakayama (LDP, incumbent) has been going through every part of the city, and is in a stable position with a firm hold on the conservative vote. Hashimoto (JCP, incumbent) is planning to succeed on the basis of party strength. Nakamura (independent, new) is hoping to pull down one of the three incumbents. Last time he ran as the NLC candidate and was narrowly defeated, but this time he has the support of the DSP and is actively campaigning together with the two parties' candidates for the lower house. He is making full use of his fame as a broadcast celebrity. Makiuchi (JSP, new) was defeated last time because of inadequate preparation, but with the floating vote in addition to the labor vote, he may show a considerable improvement. Yamamoto (other, new) is making a good effort.

Kyoto (2): Ueda (LDP, incumbent) and Kamiya (JCP, incumbent) both have firm bases of support and there is talk of "LDP and JCP designated seats." But depending on what happens with the Komeito and DSP votes, which are waiting for a united candidate, Sugiyama (JSP, new) may move up. The JSP has asked Komeito for its support, and the DSP has decided to vote autonomously.

Hyogo (3): Nakanishi (LDP, incumbent) has gathered broad support, and seems to be the top vote-getter. Yahara (Komeito, incumbent), is also in a stable position. The third seat is the object of a JSP-JCP confrontation between Motooka (JSP, new), a major newcomer backed by the prefectural council of trade unions, and Yasutake (JCP, new). Nukiyama (DSP, new) has almost caught up from her late start and has challenged Yasutake in a "women's war." Yamada (other, new) of the National Federation of Marxist Workers' Unions is trying to increase party strength.

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Shiga (1): Mochizuki (LDP, incumbent), who is seeking his second term, is running against Yamada (independent, new), who is backed by a JSP-Komeito-DSP coalition, and the first female JCP candidate, Kiriya (JCP, new). The value of the Shiga formula of the coalition of the JSP, Komeito, the DSP and labor organizations, which is experienced in gubernatorial and mayoral elections, may be considered on a national level.

Nara (1): Aratani (LDP, incumbent), the nation's first candidate for a seventh term, has led from the beginning of the campaign with the support of a broad range of organizations including the prefecture's association of mayors. Sasada (JSP, new) is challenging for the fifth time and is concentrating on a strategy of pairing with lower house candidates. Kitano (JCP, new) is also campaigning with lower house candidates, and is looking for reform and floating votes, including those of other women.

Wakayama (1): In addition to his advantage as the incumbent, Maeda (LDP, incumbent) has an even, conservative base in both urban and rural areas. Teramoto (JSP, new) was late in getting party backing, and is just becoming known in the northern part of the prefecture. To what extent will Kuroki (JCP, new), whose party produced winners in both the first and second districts in the last general election, be able to catch up?

Mie (1): Saito (LDP, incumbent) is well known, and from the start he has spared no effort in strengthening his bases; he has a good lead. No JSP-Komeito-DSP united candidate has materialized, and Takagi (JSP, new), who is running on his own, got a late start; he thus must face a hard battle. Matsuura (JCP, new) is trying to increase support votes.

Shikoku Area

Kagawa (1): In addition to Takashi Hirai (LDP, incumbent), who is seeking his third term, there are three newcomers in this race. Of these, Inozaki (independent, new) may press Hirai hard. Hirai's sister-in-law, Sachiko Hirai (independent, new), hurt his effort by entering the race and exposing internal dissension, but Inozaki was also hurt by the absence of a JSP-Komeito-DSP united front. Cashio (JCP, new) is trying to become better known by pushing his youth. He is 30.

Tokushima (1): When Kujime decided not to run for a third term, this became a head-to-head fight between Naito (LDP, new), who united the conservatives behind him, and Maeda (independent, new), who has the campaign cooperation of the JSP, Komeito and the DSP. Because of the double election, both camps have shifted emphasis to the House of Representatives campaign, support activity has broken down somewhat. Neither Naito nor Maeda is an incumbent, and both have problems of recognition, but with the strength of conservatives' paradise, Naito has a lead. Takehara (JCP, new), is trying to expand his party's forces.

Ehime (1): All three candidates are new. This is a conservatives paradise in which the LDP has monopolized the seat for the last eight elections.

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Because no former LDP Diet members entered the race, for prefectural legislator Nakagawa (LDP, new) decided he would run. He has the support of 374 groups including construction and election circles, and he has made three lecture tours in the prefecture to make himself known at the grassroots level. Local trade unions council chairman Saeki (JSP, new) is making his second challenge. He is campaigning for the support of the 40,000 members of the hundred unions in the local council. Motooka (JCP, new) is diligently attending small rallies and lecture meetings. The JSP-Komeito-DSP coalition is not committed.

Kochi (1): The key to victory for Tanigawa (LDP, new) will be how well he can patch up the splits in the party which resulted from the six-way contest for official backing. He has tried to dig up conservative votes by making a single set of the upper house and lower house elections. The question for Ban (independent, new) is to what extent can he get the JSP, Komeito and the DSP in step behind him. He is catching up with Tanigawa to make it a two-way race. Wada (JCP, new) is making a good effort to expand his support base.

#### Kyushu Area

Fukuoka (3): Kuwana (Komeito, incumbent) and Koyanagi (JSP, incumbent) got off to a strong, strong start, and are almost sure of victory. Behind them, Kurauchi (LDP, new) and Motomura (LDP, new) are locked in a fierce battle; the outcome cannot be predicted. They are followed by Arima (JCP, new), a last-minute replacement for Ozawa, who switched to the lower house race. Arima is ahead, however, on the point of recognition. Masaki (other, new) is also making a good fight.

Oita (1): The race is formally between Goto (LDP, incumbent) and Hori (JCP, new) but Goto is actually out by himself. Hori decided to enter the race at a later date, to fill the shoes of a candidate who switched to the lower house race.

Saga (1): Fukuoka (LDP, incumbent) has the support of over 90 groups--including the agricultural policy council which is Saga's largest organization, the fishermen's league, the medical association and so on--and is fully organized. His goal is to go from the 276,000 votes he received last time up to 300,000 votes. Because of missteps in deciding on a candidate, Numata (JSP, new) got a very late start, but even so, support is beginning to swell in connection with the lower house elections. Hirabayashi (JCP, new) hopes to recover from his poor showing in the lower house elections last year.

Nagasaki (1): Hatsumura (LDP, incumbent) is in a strong position as a local man with a good reputation and as an energetic campaigner. At first he had aimed for 400,000 votes, but the simultaneous elections are expected to increase voter participation, and that figure has been revised to 450,000. Tatta (JSP, former) is developing support centered on the unions which belong to the prefectural labor council, but he may be affected by problems

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that arose within the party organization in connection with his candidacy. Furuki (JCP, new) has adopted a "fishnet" campaign strategy, energetically visiting plants and neighborhood associations.

Niyazaki (1): Kamiyo (LDP, incumbent) has a strong advantage in that his constituency is highly conservative to start with, and he has received the support of the prefectural league of agricultural cooperatives (membership 150,000). Kiyomizu (JSP, new) and Kodama (JCP, new) are far behind, and Kamiyo will soon be out of reach. Not having obtained the cooperation of Komeito or the DSP, Kiyomizu is sure to have a difficult struggle. Kodama replaces a candidate who switched to the lower house election, and is far from the winner's circle.

Kumamoto (2): The LDP took both seats in the last election. Sonoda (LDP, incumbent) is making the most of his prestige as Director General of the National Land Agency. Tashiro (LDP, incumbent) has gained a foothold with the various agricultural and public welfare groups. For the first time the prefectural agricultural policy federation, a "vote-gathering machine," has decided to endorse both incumbents, but there may be some adverse effect from internal disputes the LDP's prefectural organization has experienced since last fall. Uogae (JSP, new) is gathering the labor vote and trying to create discord within the LDP. Awata (JCP, new) is trying to build party strength.

Kagoshima (2): While the LDP wants to take both seats with Inoue (LDP, incumbent) and Kawahara (LDP, new), the JSP and Kubota (JSP, incumbent) plans to hold one seat at all costs. The LDP had divided the constituency into two areas following the lines of the lower house districts, but with the double elections this division is no longer accepted. Kubota has developed a strategy of liaison with the lower house candidates. Since becoming a candidate in the last general election, Kameda (JCP, new) has followed an independent policy of making himself known.

Okinawa (1): This is a reform-conservative race between (Kiokubu) (other, incumbent), who was nominated by a reform united front conference composed of the JSP, the JCP, the Okinawa socialist populists, and the labor unions, and who is supported separately by the Komeito, and on the conservative side, Ohama (independent, new), who is nominated by the LDP and supported by the NLC. (Kiokubu) has been elected twice previously and is well known. But the reform united front conference is in disarray because of the problem of the concept of the authority of the JSP-Komeito coalition, and remedying that will be a key point. Ohama is well known in a limited area, but he is making himself recognized throughout the prefecture, and is catching up with the help of Okinawa's conservative boom.

## National Constituency

## LDP (14 seats at risk)

The LDP has 23 candidates, and wants to secure at least 18 to 20 seats. Since it has more celebrity candidates than the other parties, the increased turnout of voters due to the double elections is thought to be an advantage. Individual candidates have gone through the full cycle, making use of candidates in House of Representatives and the House of Councillors local constituencies. The top rank of those elected will probably include incumbents like Hatoyama, who has the support of groups of liquor merchants and tobacco growers and of Buddhist memorial associations, Okada, who is backed by military pensioners, Nagata, who has almost all the post office votes, Miyata, who is recommended by Toyota automobile distributors, and Saito of the cosmetics industry. Newcomers expecting to be in the top rank are Murakami of Seicho no Ie and Tazawa of Shoko Seikai. Construction's Sakano (incumbent) and Inoue (new) share the same base, but are still in a strong position. Land reformer Okabe (new) has lost some voters to former Vice Minister of Agriculture and Forestry Okawara (new), but both have a firm hold on a number of votes. Transportation's Kajiwara (new) is also in good shape, as is Matsuura (new), who has the support of education and firefighting circles, governors and old hands at the Ministry of Home Affairs. The campaign of Eto (incumbent), who is competing with Kajiwara for transportation votes, may be affected by his hospitalization after he collapsed during a speech. The Hitachi Group's Yamato (incumbent) is making the most of the recognition factor. Marushige (incumbent) who was expected to finish in the first rank of those elected, is still showing the effect of the unpleasantness in the Japan Medical Association presidential election; reconciliation with Association President Takemi will be the key factor. Yamaguchi (incumbent) had a slow start, but now Kyushu Electric Power Co. has gotten involved and her momentum is building. Itagaki (new) of the bereaved families association faces a hard fight because of the candidacy of Otani (independent, incumbent). Senda (incumbent) will also have a hard fight without self-defense force votes.

Sekiguchi (new) of the Dental Association has attracted part of the Medical Association's anti-Marushige vote, and has since relaxed a bit. Social welfare proponent and former Diet member Tanaka (new) and the nursing federation's Teranuma do adequate vote bases, and are anxiously trying to catch up. Salvationist Nagatoma (new) is a dark horse.

## JSP (10 seats at risk)

The party has endorsed 10 candidates, and all were expected to be elected. However, the labor organizations on which the JSP relies have put their energy into the lower house elections, and the individual candidates are sparing no efforts. Of these, Noda (incumbent) and Wada (incumbent) of the prefectural and municipal workers' union, Katayama (incumbent) whose base is the telecommunications workers' union, Fukuma (incumbent) of the

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federation of machine workers' unions, and Matsuki (incumbent) of Burakumin liberation have developed vigorous campaigns. Akune (incumbent) of the private labor unions organization hopes to overcome the composite households and is making himself known in Hokkaido and the Tohoku area. Kasuya (incumbent), to whom the Japan Teachers' Union has given eastern Japan, is the only woman among the JSP's national constituency candidates, but there may be some effect from the decision of the Tokyo Federation of Metropolitan Workers' Unions, which is JCP-oriented, in a united gathering of unions. Yasunaga (incumbent), whose base is the western area of the Japan Teachers' Union, is compelled to fight against encroachment from JCP sources. Meguro (incumbent) of the railway locomotive engineers' union is concerned about the weakening of his organization. Suzuki (new) has been an independent candidate of the monopoly corporation workers' union for 12 years but she may not be able to make up for her low degree of recognition.

## Komeito (9 seats at risk)

The absolute goal is election of all nine candidates, but there is growing concern that "it will be difficult with increased voter turnout for the double elections" (Komeito Election Strategy Headquarters). Of the nine, Osaka-based Mineyama (incumbent), Shikoku-based Ninomiya (incumbent), Shioide (incumbent) whose strength is in the Chugoku region, and Suzuki (incumbent) of Kanagawa and Saitama all have good records and are in stable positions. Fujiwara of Hokkaido and the Tohoku area is making advances, but not enough. Aichi prefecture, the base for Ota (incumbent) has put much of its effort into the campaign for the local constituency candidate. Okawa (new) who has made every effort in Tokyo and Tsuruoka (new) whose base is Chiba and Ibaragi have made some inroads, but Nakano (new) in Kyushu is not well enough known.

## JCP (6 seats at risk)

The party considers it necessary to win all six seats. Komaki (incumbent) of the Osaka area and Yamanaka (incumbent), whose base is Kanagawa, Chiba and Aichi, are relatively strong. Tachigi (incumbent) has an active campaign in Hokkaido and the Tohoku area. Watanabe (incumbent) is putting every effort into a broad area covering the Chugoku, Shikoku and Kyushu areas. Naito (incumbent), who has Tokyo and the three Kanto area prefectures may or may not get the votes he expects in Tokyo. Kondo (former), who wants to make a comeback in Kyoto and Hyogo, still isn't moving fast enough.

## DSP (3 seats at risk)

The party aims to have all four candidates elected, and is depending on its organizational ability to make inroads in the various areas. Tabuchi (incumbent) and Karatani (incumbent) are in stable positions, being backed by the federation of automobile workers' unions and the federation of textile

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workers' unions respectively. The organization of the electric power workers' unions federation has become fully active in behalf of Mukai (incumbent) a major force. Ito (new) got a late start and is hurt by not being well known, but he is backed by such organizations as the shipbuilding and engineering unions, the seamen's union and the railway workers' union, and he is making every effort to firm up votes.

Others

The eye of the storm is Minobe (independent, new) who drew the first ballot position. The JSP and others are afraid that he will attract a large part of the progressive floating vote, and thus deal a blow to the opposition parties and the celebrities. Hata (SLC, incumbent), who is making his last stand, takes the view that the double election will increase voter turnout and oblige the other parties to divide up their vote, and he is campaigning vigorously. The Ninsei Club's Ichikawa (independent, incumbent), Aokima (independent, incumbent) and Columbia Toppu (independent, incumbent) have a united front with such an idealistic campaign that they are not putting up posters; Ichikawa in particular plans to finish in the top rank of those elected. Tei Eikan (independent, new), who has the recommendation of the LDP, is still far from sure of election, and Nakazawa (NLC, new) also got off to a late start. The United Progressive Liberals Nakayama (other, new) and Aoki (independent, new) of the salarymen's league are both unknown quantities. Kajino (other, new) of the Marxist workers' federation has been campaigning together with nine candidates in the local constituencies.

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[Table] Number of Candidates by Party  
(126 seats up for reelection)

	LDP	JSP	Komeito	JCP	DSP	NCL	SCL	Others	(a) Ind.	Total
<b>National Constituency</b>										
Total Candidates	23	10	9	6	4	1	1	4	35	93
Incumbents	11	9	6	5	3	0	1	0	4	39
Former Members	0	0	0	1	0	0	0	0	0	1
New	12	1	3	0	1	1	0	4	31	53
Seats at Risk	14	10	9	6	3	0	1	0	3	50(b)
<b>Local Constituency</b>										
Total Candidates	54	39	5	46	7	1	0	19	21	192
Incumbents	37	14	5	5	1	0	0	1	1	64
Former Members	0	3	0	0	0	0	0	0	0	3
New	17	22	0	41	6	1	0	18	20	125
Seats at Risk	44	17	5	5	1	0	0	1	2	76(c)
Seats Now Held	124	52	28	16	10	2	3	1	10	252(d)

(a) Includes 10 from National Federation of Marxist Workers' Unions

(b) 4 vacancies

(c) 1 vacancy

(d) 6 vacancies

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LDP's Last Moment Election

Tokyo NIHON KEIZAI SHIMBUN in Japanese 2 Jun 80 p 2

[Text] Another "Critical Election" for the LDP

Will concurrent elections actually be to the advantage of the LDP? Those who consider it the deciding factor in checking the decline of party fortunes include not only the mainstream factions, but also anti-mainstream people like Ichiro Nakagawa. What both these sides share, however, is the premise that last fall's general election was the nadir and the number of seats cannot go any lower. That is, for many LDP Diet members their individual support groups serve as the foundation in the general elections, and the strength of the charges of financial influence corruption which buffet the LDP is seen as having no great effect on the election of "our leader," except for those directly involved in the charges and candidates from urban and suburban districts.

Such a view is persuasive to a certain extent. For example, in the last general election the LDP received 400,000 more votes than in the election before last, and the proportion of votes received was up 2.71 points. But this was because of an increase in votes in the agricultural areas. This is plainly expressed in the fact that in the general election before last the LDP received over 70 percent of the vote in three locations, but in the last general election this number increased five-fold to fifteen locations. This probably resulted from activity by personal support organizations of Diet members with a sense of crisis regarding increased taxes and the JRCC incident.

The weak point of the LDP is that the increase of votes in the agricultural areas is not tied to an increase in seats for the party as a whole. The major factor in the decline of the LDP is the loss of bases in the major cities and their suburbs; this is continuing unabated, and it has held down any increase in party strength. While there was certainly an increase in the proportion of votes received by the LDP in the last general election (44.59 percent), this increase was not attained in 57 electoral districts, over four-tenths of the 130 districts across the country. The number of districts in which the LDP did not hold half the seats, including two empty districts, rose from 55 (from 51 in the election before last). There is no way for the LDP to increase its number of seats except by growing stronger in the urban and suburban districts. But to speak realistically, a series of unfortunate incidents has made criticism of the LDP sharper than ever in these areas. And this time the proportion of votes received even in the reliable agricultural areas is expected to drop back to the level of the election before last.

One more argument for placing hope in the concurrent elections is that, "the LDP produced 54 runners-up in the last general election, and there is a chance that in this election, when the share of votes received is expected

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"to be up, many of the runners-up will be returned." Of course one reason that the JCP had better-than-expected success in the last general election is that a large number of its runners-up in the election before last were returned. Following this line, it is reasonable that the LDP have hopes for its runners-up.

But from a slightly different point of view, this argument cannot be given much credence. It is true that the LDP, with 54, had the largest number of runners-up, but this is almost the same number as the 55 members who were elected in the lowest rank and about half of these locations, 25, are "cannibal districts" where both the lowest-ranked member elected and the runner-up were LDP candidates. In 17 districts the lowest-ranked was JSP and the runner-up was LDP so there is some chance of increasing the number of seats, but overconfidence won't do because there were also 20 districts where the lowest-ranked was LDP and the runner-up was JSP. There are three prerequisites for the runner-up to be elected: (1) the strength of the party as a whole must increase; (2) undecided or sympathy votes must be available; and (3) there must be skillful coordination among the candidates. In any case, this general election is not a very good environment for the LDP.

From this point of view, it is not possible to state precisely calculated figures for this election as some have done. There is a delicate balance between the view that, "concurrent elections will be hard to read; there is no great change from the election seven months ago and this one may well end up about the same" (former Prime Minister Fukuda), and the view that, "there is a good chance the LDP will lose its majority" (NLC representative Tagawa), but there is no change in the reality that the LDP has again been forced into another critical election to maintain a bare majority.

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#### Double Elections Analyzed

Tokyo SHUKAN ASAHI in Japanese 30 May 80 pp 25-28

[Article by Chikashi Anabuki and Atsushi Takeuchi: "Bold Prediction of Results of Confusing Double Elections"]

[Summary of comments by Kotaro Tawara: "Ohira-Tanaka Mainstream and Nakasone Faction Up--Miki and Fukuda Factions Down"]

[Text] Tawara thinks that basically there won't be a great change in the number of seats. The makeup of the electorate has not changed since the last general elections in October 1979, and the voters should "write the same names they wrote a few months earlier." There was a similar case in the Yoshida era when a general election was held in April 1953, right after that in October 1952. The same trend appeared at that time:

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ultimately there was not much change in the strengths of the parties or factions.

It did happen, however, that individuals who suffered defeat in the 1952 election were restored in 1953 and that those who chanced to be elected in the first failed in the second. Thus his interpretation is that, "many were hurt by the drop in votes caused by the heavy rains last year; such persons will be brought back." Those who were hurt were in the LDP, especially the Ohira, Tanaka and Nakasone factions and their hangers-on, and in that sense it will be an element of growth for the mainstream factions of the LDP. Of these, the factions with a good chance for growth would be the Ohira faction, with many candidates who lost out last time, and the Nakasone faction, which has the strength to enter new candidates.

The Miki and Fukuda factions, by contrast, "unfortunately does not have too many who lost out, but rather those who did well for themselves."

There is one other situation which must be considered serious for the Fukuda faction. This faction has grown as a right-wing entity within the LDP, but the Afghanistan problem and other tense domestic and foreign situations have been the occasion for agitation in concert with the opposition parties, and this tends to draw opposition from the faction's supporters. In any case there is the diagnosis that a decline in the strength of the Miki and Fukuda factions is inevitable: "The two factions may get 70 seats between them."

The JSP, which in many cases made the mistake of entering two candidates in a district to defeat each other, won't lose that much this time. The JCP is in the happy state of "waging a campaign by striking out in all directions;" and should be able to maintain its present number of seats. It is Komeito and the DSP that will suffer.

Because the election is to be quick and decisive, each party has been making attacks on the others that are just short of slander. The Komeito, which has prided itself on cleanliness, will hardly be helped by what the mass media have written about Secretary Yano's "Mahjong gambling incident." The DSP has poured all its talent and money into the House of Councilors election. The NLC and SCL can be expected to gain strength, but in absolute terms they will still be few in number.

#### Chances for Ohira, Nakasone or Asukata Governments

If, after all the activity among the LDP factions and among the opposition parties, there is no change in the totals of the government party and the opposition parties, three possibilities can be considered for the government after the elections:

Case 1--Ohira still wants to be designated prime minister. As for cooperation among the opposition parties, the most that can be expected is a

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Komeito-DSP united candidate for that position. The addition of the JSP's Asukata will make it a three-way race. The Miki-Fukuda factions, which have been well-behaved in the early stage of the campaign, may rebel and put forward their own candidate, but even if they did, he would not have the strength of either the Komeito-DSP or the Socialist candidate. It is safe to say they would not go so far as to support the Komeito-DSP or JSP candidates.

Ultimately it would be a contest between Ohira and Asukata, and if the Miki-Fukuda factions abstained, Ohira would remain in power with a relative majority.

Case 2--If the LDP does not take a majority of seats in the general election there will be calls for Ohira's withdrawal; Ohira himself, seeing that two general elections didn't help him, will pass the baton to Nakasone. At that time Nakasone will be faced with the problem of whether to call back Miki and Fukuda, restore what looks like the old LDP and become prime minister, or to call in certain opposition parties on the assumption that the LDP is different from that in the Ohira era.

Case 3--The Miki and Fukuda factions, in desperation, entice the Komeito and DSP to support the JSP's Asukata, or else conspire with the JSP to support a Komeito-DSP united candidate. A JSP-Komeito-DSP-Miki-Fukuda grand coalition government would thus come into being.

Iijima predicts that the LDP and the JSP are going to lose seats. Not only did the LDP lose seats in the 1979 general election, but in the 130 electoral districts across the country, 53 LDP candidates were in the last rank of those elected. For the JSP this number was 39, which is unusually large.

Looking at the example of the general elections in 1952 and 1953, we see that of the 70 runners-up in the first election who stood again in the second, more than 75 percent--54 individuals--were elected. This shows the danger of being in the last rank of those returned.

When the time between elections is short, the incumbents do not have time to build their strength, and the defeated still have the sympathy accorded losers. This time the timing is such that, "while the winners are breathing a sigh of relief and neglecting to offer their thanks to local supporters, the losers are making the rounds of supporters to apologize for their mistakes." And because those who are not elected were not embroiled in the present struggle, it appears that over 70 percent of the runners-up who stand for election again will be elected.

Relative Strength of Miki-Fukuda and Komeito-DSP Is Key to New Government

The LDP has 54 runners-up, which is well-balanced with the last rank of those elected. But "this is a surprisingly painful figure," and it is

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conceivable that the number of recognized candidates elected will drop to about 240.

The JSP has 27 runners-up, which is not balanced with the last rank of those elected. Figuring in other negative factors like a misstep regarding JSP-Komeito-DSP cooperation, the JSP is likely to drop below 100 seats.

The Komeito has nine elected in the last rank and four runners-up, and the DSP has 12 in the last rank and seven runners-up; both can expect a difficult struggle in that regard. Iijima thinks the parties with bright prospects are the JCP, with 12 in the last rank and 19 runners-up, and the NLC, with 10 runners-up.

The keys to the new government will be the extent to which the Miki and Fukuda factions maintain their strength, and whether the Komeito-DSP forces can reach three digits and change places with the JSP.

He says that, "although Komeito supports the JSP now, its attitude will change if Komeito and the DSP get more seats than the JSP; it will begin to think about cooperation with the conservatives then." It is conceivable that in that event, if the Miki and Fukuda factions number fewer than 70, Komeito and the DSP will join hands with the LDP mainstream. If there are 100 Komeito-DSP seats and 170 LDP mainstream seats, the total would be a stable majority of 270.

Unless the Miki and Fukuda factions become considerably stronger, they cannot reach the number one position even by joining with Komeito and the DSP. Rather, the Komeito and DSP forces will be able to choose stability by joining with the Ohira-Tanaka-Nakasone group.

A coalition government including Komeito, DSP, Miki, Fukuda and JSP forces is hopeless: "Policy differences are too great between the JSP and the Fukuda faction, not to mention the JSP and the Miki faction."

[Summary of comments by Toshiyuki Takabatake: "LDP Declines, Komeito and JCP Benefit, JSP and DSP May Hold Present Strength"]

With the growth of the middle class it becomes difficult to accept a simple classification into capitalists and workers. Organization of the voters into interest groups goes forward and political parties multiply. This is a basic principle. But thinking on the present national elections is based on the awareness that none of the parties have definite platforms and the independent vote has nowhere to go.

Neither the DSP nor Komeito is set up to obtain many independent votes from outside its own basic organization. And both the NLC and the SCL, despite the declarations with which they started, keep the same old system. Reflecting this situation, the independent vote in last year's general

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election went mostly to the LDP and the JSP, with some going back to the JCP.

But since then, the LDP has had half a year of bad press--the 40-day resistance, the KDD incident, Hamada's gambling, and this dramatic split in the party--and there is a chance it will drop to about 240 seats this time.

#### Socialist Government Possible--For Six Months

The short time before the election is said to be a disadvantage: "There is no pre-campaign infiltration, and the money doesn't circulate well."

The parties that will profit from the short period are the Komeito and the JCP, which gather votes by command. The Komeito gained strength in the last election, but this is a time in which it has momentum as the axis of the JSP-Komeito-DSP middle-of-the-road coalition. The JCP switched, in the last election, from an emphasis on urban electoral districts to the idea of rapid progress by the party as a whole. These two parties should do unexpectedly well.

It doesn't appear that the JSP of the DSP will lose too much strength. If the JSP cooperates with the Komeito in districts where there is no Komeito-DSP cooperation, it is not entirely impossible that it can borrow votes from the Komeito. The JSP may well have a surprisingly easy time of it.

Iijima assumes there is no possibility that the LDP will put forth a single candidate for prime minister after the election, but even if it does back a candidate it may not control a majority of the House of Representatives, so selection of the prime minister by ballot is inevitable.

"In that case it is possible that Asukata, as the united candidate of the JSP, Komeito and the DSP, may come in first with a relative majority of about 200 votes." But could an Asukata government create a stable situation? There is no chance of that: "it would stagger along for about half a year and there would be another general election. This process would keep repeating itself."

#### Synthesis of Remarks by Tawara, Iijima and Takabatake: "First Double Election to Benefit Communists and Celebrity Candidates"]

This is the first time that balloting for lower and upper house elections has been carried out at one time. This will probably work most to the advantage of the JCP. Tawara points out that, "by backing just the two candidates in each electoral district, the JCP is waging the most efficient campaign, because the LDP and the JSP-Komeito-DSP candidates are fighting against each other."

Similarly, Takabatake says: "a multiplier effect can be expected."

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Iijima's view is that there may be cases like in the last election where the JCP took seats in "unexpected places" such as Wakayama (two districts), Shimane and Nara.

In Tawara's view, though, the JCP had 440,000 party members at the 15th Party Congress this February and 3,530,000 readers of AKAHATA, but in April there were calls to restore AKAHATA to the level of the Party Congress; the base isn't all that firm." He predicts the districts taken this time will include four in Hokkaido, and that there won't be many of them.

All three agree that, "it is the candidates of the JSP, Komeito and the DSP that will have a really hard time," but Tawara feels that, "The JSP won't be effected that much; it's Komeito and the DSP that will lose out."

It is Takabatake's analysis, however, that "if the JCP takes an unusual number of votes in the agricultural villages, which it had abandoned from the beginning, it will be thrown into competition with the JSP." Tawara agrees: "It is possible that even if they increase their votes the JCP will not gain seats; in competition with the JSP they will defeat each other."

Iijima's view of the LDP is that, "There may well be candidates who sought the upper house but have switched to run for the lower house," but Tawara says curtly that, "there is no telling (what effects the double election will bring) until the results are in."

What effect will there be for the independent celebrity candidates that characterize the upper house election? As the party politicians struggle fiercely for leadership in the double election and unification against the enemy, the influence of the celebrities will naturally be very slight.

Takabatake: "Of course, there is the possibility that such persons will be weak. But as the voting rate goes up in the paired elections and there are only unknown party candidates in the national constituency, the chance of the independent celebrity candidates rising to the top is good."

Iijima: "(Chinatsu) (Nakayama) could be elected."

Tawara: "And if (Chinatsu) why not (Yukio) Aojima? Both of them may be elected."

It will be a different matter if, as in the previous election, heavy rain-fall literally dampens enthusiasm for the election, but if the voltage remains high, the chances of the celebrities to win approval will not be bad.

Then there is the view that this election will be the occasion for the political world to enter a period of confusion. The process for



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reorganization is dissolution and general elections. Tawara: "In the first half of the 1980's there will be five national elections (two for the upper house, three for the lower house) including the two this time."

Takabatake: "With the state of stalemate since the 1970's, the shares of votes received have only gone up or down a few percent so there have only been small changes in numbers of seats held. This has taken the steam out of the electorate."

Takabatake again: "It would be best for a new wind to blow through politics, but what worries me most is what sort of wind will blow through Japan's Diet politics in a time of perpetual Italian-style confusion, when governments only last six months and (party) coalitions are formed for their own sake without any new ideas."

And again: "Although I have hope, in that the chance has come for the political world to change, I have no vision at all as to the direction in which it will change."

Thus attention is turned toward the dangerous pitfalls hidden in the political parties' game of choosing up sides.

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FINANCIAL LEADERS' DEFENSE STRATEGY IN 80'S ANALYZED

Tokyo SEKAI in Japanese Jun 80 pp 118-128

[Article by Yu Takaoka, Journalist: "Financial Leaders' Defense Strategy in the Decade of the Eighties"]

[Text] With the advent of the 1980's, defense debates are beginning to heat up in financial circles. On 7 February at the 18th financial seminar in Kyoto, Hosai Hiuga, chairman, Kansai Economic Federation [Kansai Keizai Rengokai], cited a need to study the conscription system and double the ratio of defense spending against the gross national product to 1.9 percent, while Shigeo Nagano, chairman of the Japan Chamber of Commerce and Industry [Nihon Shoko Kaigisho], proposed before its 51st general convention on 19 March, a lifting of the ban on arms exports. On 7 April, Tadashi Sesaki, chairman of the Board of Trustees, Japan Committee for Economic Development [Keizai Doyukai], espoused during a press conference an "independent stance for defense." Then, the next day on the 8th, Toshio Doko, chairman, Japan Federation of Employers Associations [Keidranren], likewise spoke on the defense problem to newsmen. While Chairman Doko spoke in a somewhat critical tone compared to the positive statements by the other three, they summed up the views of all the financial leaders in the Kanto and Kansai regions.

Are these recent defense debates in financial circles simply an emotional outburst inspired by the Soviet invasion of Afghanistan last year end, or are they based on a strategic point of view to ride out the crises and turbulence of the 1980's? For an understanding of this point, it would be necessary to retrace the postwar defense debates in financial circles.

Three Currents

The defense debates in financial circles until the end of the 1970's can be classified broadly into three phases. The first phase is from the end of the Korean Conflict to the mid-1960's. During this period, special military procurements served to revive Japan's arms production, and then came the first defense program (1958-1960), followed by the second defense program (1962-1966), leading to gradual expansion of the arms industry.

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As is already known, the Japan-U.S. Security Treaty and the Peace Treaty was concluded in September 1951 and became effective April 1952. Around that time in March, GHQ (General Headquarters, Allied Forces) granted permission for Japan to engage in arms production and in August that year the Security Agency, now the Defense Agency, came into being.

It was around this time that Ichiro Ishikawa, chairman, Japan Federation of Employers Associations, cited before the Federation's 11th general convention, "the need for Japan to maintain a defense force" and called for the revival of arms production.

As a result of the famed Ikeda-Robertson parley of October 1953, a joint declaration was made to the effect that "an agreement of views had been reached on the need for Japan to bolster her defense power in order to alleviate the U.S. burden for Japan's defense."

In other words, the financial circles and the government, in joint harmony, moved toward rearmament and renewed arms production. Kogoro Uemura, then vice chairman of the Japan Federation of Employers Associations, discussed the significance of the arms industry to Japan's economy in the "Keidanren Geppo" [Keidanren Monthly], [February 1955 edition] as follows:

"As for the defense industry, it is needless to say that after a decision is reached on its level, domestic arms production will become necessary. There are skeptical views regarding the need for a defense industry, but defense power without an industrial base would pose a danger like a house standing on sand. Moreover, it must be argued that, from the standpoint of industrial production, the establishment of a defense industry will tie-in closely to the advancement of technological level of industries in general as the highest level of technology such as in aircraft and electronic weapons is demanded in defense nowadays."

In short, it was a rebuttal against arguments opposing the arms industry, emphasizing the importance of strengthening the foundation of the defense industry from the point of technological development. That represented the views of financial circles at the time.

And prior to the decision on the second defense program, the Japan Federation of Employers Associations and Japan Arms Industry Association jointly prepared and submitted to the then Ikeda Cabinet, their "desires on the long-term, comprehensive contract formula for arms."

It stressed that "in order to introduce, without contradiction, the production of the defense-related sector having relatively little flexibility on demands into a production process operating under a long-term, comprehensive management program, a procurement based on long-term, planned system would be a basic requirement." The reasons given were: (1) The requisition system under a fiscal year contract basis would disturb the private demand sector, (2) as a high level of technology is needed in

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designs, materials and processing in defense production, there would be a need to establish permanent exclusive facilities for such purposes, (3) arms production will require outstanding technicians and highly-skilled workers; under the old system, such technicians would have to be transferred, and (4) a long-term, comprehensive contract formula would allow a cost reduction and quality improvement and insure an ample supply of parts.

In response to such desires of financial circles, the long-term, comprehensive contract formula for arms was instituted beginning with the second defense program, and arms production came to be viewed as part of the restructure of Japan's industrial production.

In parallel with this, arms exports came to be the subject of controversy. For example, in July 1956, the Arms Production Council (an advisory organ to the Minister of International Trade and Industry) submitted a recommendation to the minister on "measures to aid the weapons industry," citing the "need to promote exports to Southeast Asia owing to decreased U.S. military procurements." And in July 1959, the Defense Production Committee of Japan Federation of Employers Associations formed a "Market Measures Committee" with the aim of promoting arms exports systematically. Later in August 1962, the "Defense Armament Domestic Production Council (Naka Funada, chairman), composed of representatives from the Liberal-Democratic Party, the Ministry of Finance, the Defense Agency and Japan Federation of Employers Associations' Defense Production Committee, submitted a "statement of opinions on arms exports" centered on foreign exchange acquisition, arms cost reduction and defense industry development to the then Prime Minister Ikeda.

In any event, defense debates in financial circles around this time primarily concerned the renewal and advancement of arms production and the notion that arms exports would help insure a stable arms production.

But with respect to arms exports, the government, later in April 1967, adopted three principles on arms export ban, (1) The Communist bloc, (2) countries like South Africa and Rhodesia which fell under the United Nations ban, and (3) the ban on arms exports, in principle, to parties to a dispute, and decided to halt all arms exports.

The second phase was around the time of the "1970 Security Treaty." From the second half of the 1960's, lively debates surfaced concerning the so-called 1970's problems, the period when the 10-year Japan-U.S. Security Treaty was scheduled to terminate, and student movements grew in intensity. Meanwhile, in Vietnam, there were mounting indications of U.S. defeat, and the withdrawal of U.S. Forces from Asia came to be considered inevitable. Amid such situation, defense debates in financial circles became increasingly lively.

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Firing the initial salvo was the Japan Employers Federation [Japan Federation of Employers Associations; Takeshi Sakurada, representative executive director]. At the Federation's general convention in October 1968, novelist Yukio Mishima [deceased] delivered a special lecture titled "My Theory on Independent Defense," while Representative Sakurada touched on the student movement and tried to provoke the employers on the defense question by adding, "although defense, public security and educational issues are national affairs, the political approach toward them raises a suspicion. If industrialists can come up with a positive suggestion, that would be the only way to cope." At the 22nd general convention in April 1969, Representative Sakurada spoke more positively and stressed the need for greater independent defense capability, saying, "the government has neglected to inform the people of the harsh international, military situation. How much capability has Japan to maintain peace?"

In step with the Japan Employers Federation, the Japan Federation of Employers Associations, the financial circles' headquarters, convened its 30th regular general convention in May the same year where Chairman Uemura stated, "With the advancement of peace in Vietnam and the pullout of British forces from Southeast Asia, the issues of peace and safety of Southeast Asia have become crucial, and the question of security of Japan itself has loomed. Our country has an obligation to contribute toward peace in the Far East under a collective security system through continued adherence to the security structure and gradual strengthening of an independent defense capability."

Prior to this, Kazutaka Kikawada, chairman of the Board of Trustees, Japan Committee for Economic Development, at its regular general meeting in April, addressed the issue of defending overseas trade routes from the standpoint of protection of resources supply, saying, "For Japan which lacks resources and is dependent on the whole world for resources and markets, the safety and stability of overseas trade routes is vital in that they determine the fate of Japan's economy. Thus, Japan, as an Asian-Pacific nation, should fully consider the future of Southeast Asia with Japan-U.S. relations as the axis." That signalled the beginning of the theory of defense of Malacca Straits, occupying a key position in oil transport between the Middle East and Japan.

Takeshi Sakurada, representative of Japan Federation of Employers Associations, speaking at a high-level management seminar in Fuji-Yoshida City in August the same year, stressed the need to strengthen the independent defense capability, saying, "Japan is a half-nation in terms of defense, public security and education." In other words, he meant that the defense capability was not up to par as a nation and was wholly deficient. He continued, "there is a need to efficiently strengthen the defense capability to the extent it does not have an adverse effect on economic growth." Concretely, he called for increased defense spending, up to 1.5 percent of the GNP. At the special general convention of the Federation in October that year, Sakurada went further and stated, "If Japan is to

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seriously consider independent defense, there would be the question of whether Article 9 of the Constitution should be left as is. For any future collective defense concept, that is likely to become a menace." Thus defense arguments in financial circles escalated to the point of open advocacy of a constitutional amendment.

Along with heated defense debates, arguments in favor of arms exports resurfaced. At its general convention in May 1969, the Japan Arms Industry Association (Kenzo Ohkubo, chairman, and president, Mitsubishi Electric), an organization of influential arms manufacturers, decided on an operational policy to (1) promote and bolster the arms industry, and (2) realize arms exports to Southeast Asia. Further, following the general meeting of the Japan Arms Industry Association in May 1971, Keizo Tamaoki, vice president of Toshiba, newly installed as its chairman, revealed in a press interview his intentions to "request the government for flexibility in the application of the three principles on the arms export ban," thereby giving an insight to the tenacity of arms manufacturers for arms exports.

Amid such hawkish remarks by financial circles over defense, the Japan Federation of Employers Associations' Defense Production Committee [Kogoro Uemura, chairman] came up in August 1970 with a report, "Our views on the defense capability issue for next term." The views held that "regarding the question of security, there is a need to consider not only military defense capability, but to include, from an overall standpoint, politics, economy, diplomacy and public welfare, and to pursue them based on national consensus, international understanding and trust," and called on the government for domestic arms production, greater research and development and for the creation of a new "national security council" to replace the old "Defense Council."

It was then a period of transition from the third defense program [1967-1971] to the fourth defense program [1972-1976]. These views not only covered desires for the fourth defense program but also touched on how Japan's security structure should be; in short, they were the first of financial circles' argument for a comprehensive security.

Be that as it may, the focus of defense debates in the second phase was on strengthening independent defense, including the subject of amending Article 9 of the Constitution. Moreover, it must not be overlooked that two domestic and external conditions detrimental to the proponents of the system were escalating the independent defense arguments.

One was the fear that the "nuclear umbrella" over Asia may not fully function because of the defeat of U.S. forces in Vietnam, simultaneously creating a crack in the Japan-U.S. security structure. It cannot be denied that the "1970 Security Treaty" intensified such fears of business circles.

The second point was the fear of collapse of the LDP-dominated government. At the high-level management seminar [1969] where the theory about Japan

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being half-nation originated, the concensus was that "if things remain as now, the possibility of the current conservative party being unable to singlehandedly assume the rein of government cannot be dismissed. Should the political climate become unstable, it would mean the anti-structural movement in the areas of politics, economy, society and culture." In other words, to beef up the weak conservative structure that earned the term half-nation, it was concluded that a greater independent defense was of utmost necessity.

Broadly speaking, the third phase came after the first oil shock of 1973.

In January 1975, before departing for the first summit conference at (Lanbuie) outside Paris, Prime Minister Miki sought out the opinions of influential financial leaders. Bunichiro Tabé, president, Mitsubishi Corporation, championed the arms export theory, saying, "Aside from genuine arms, objects close to being arms and having a competitive capability should be exported." And in January 1976, Shigeo Nagano, chairman, Japan Chamber of Commerce and Industry, a press conference called for a relaxation of arms export control, stating, "To enhance the country's economy, things that others wish to purchase should be sold to them."

The background for the renewed interest in the arms export argument by financial leaders was: (1) entry into a recessionary phase due to the oil shock, (2) stepped up arms sales to Mideast nations by the East and West as a strategy toward the Middle East following the oil shock, and (3) resumption of arms exports by West Germany in 1975 after 30 years. Arms exports to Mideast countries intensified, with world trade in arms reaching 18 billion dollars [58 billion dollars over a 10-year period from 1964 to 1973], the bulk destined for the Middle East. Therefore, it was not unusual for financial circles to be concerned about Japan being left behind.

However, the financial circles' scheme for arms exports ultimately led to further tightening of the three principles on the export ban.

In February 1976, the government, on pressue from the opposition forces, was forced to adopt more stringent, three new principles: (1) non-recognition of exports to banned destinations designated by the old, three principles, (2) restriction of exports to areas other than those cited, and (3) treatment of arms manufacturing machinery as weapons.

From the financial circles' point of view, it came as a surprise, like a snake crawling out after the thicket was poked. To this, Mitsubishi Corporation President Tabé, who ignited the matter, said in a press conference in July 1977, "To say that Japan should not become involved in arms export as it is a peaceful nation is a childish argument." He thus made a scathing comment and espoused the arms export argument, saying, "By making the export portion, cheaper and better quality goods can be produced by mass production, and if an arms costdown can be effected, the people will be able to save on taxes, accordingly."

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Further, in February 1978, the Japan Chamber of Commerce and Industry [Shigeo Nagano, chairman] passed a resolution on "desires with respect to the recession in the shipbuilding industry" which included a request for an actual relaxation of arms export controls. Initiated by Mr Nagano as chairman of the Shipbuilding Rationalization Council, it called for arms export relaxation centered on vessels as a means to help the shipbuilding industry surmount the long recession which had resulted in a 35 percent reduction of facilities.

In such a way, the arms export argument in the third phase urged the government to relax the three principles on the export ban, a major characteristic being that its aim was densely colored as an anti-recession measure.

#### Arms Export and Increased Independent Defense Capability

When viewed in this manner, it may be said that the debates up until now have been based on the two pillars of independent defense and arms exports. The latest fourth defense program also has as axis the financial circles' debates over arms exports and greater independent defense capability. Hiuga's comments which evoked much repercussion as being in support of the conscription system also stressed, "Our own defense efforts must be strengthened." Chairman Sasaki, Board of Trustees, Japan Committee for Economic Development, likewise pointed to the need for "one's own power." Mr Nagano is trying to realize the principle of arms exports in his own ways. Could it be that the current disputes are simply a revival of the old defense arguments? My impression is that compared to the days of the 1970 Security Treaty, the debates have been lively but the content is moderate because an open advocacy of constitutional amendment as noted in the past Sakurada statement is yet to come from the financial circles.

However, it can be conclusively stated that recent defense debates in financial circles are not based on casual emotions or a rehash of old debates. The fact that they are positioned as a vital pillar in the strategy of survival in the 1980's cannot be ignored.

Compared to 10 years ago in the days of the 1970 Security Treaty, there have been enormous changes, both externally and internally.

The first has to do with the decline of U.S. influence and power in global politics. In the days of the 1970 Security Treaty, the inferiority of U.S. forces in Vietnam was undeniable, but the downfall of Saigon was not on the agenda. Now, the United States has lost Vietnam and has even turned Iran against her. Meanwhile, the Soviet Union has expanded its sphere of influence as symbolized by the invasion of Afghanistan. And as for U.S.-Soviet military balance, the United States has lost its former superiority while Soviet military strength has increased.

Against this background, this year's U.S. report on defense stresses the need for joint defensive efforts of the U.S., Western Europe and Japan to

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cope with the Soviet military build-up. The same report also touches for the first time on the concrete concept of the SWING strategy [strategy on emergency deployment units]. Under the SWING strategy, U.S. military forces in the Western Pacific would be rushed in to defend, for example, the Persian Gulf and the Indian Ocean. The aim of the recent U.S. request to Japan to bolster its defense capability is to have Japan fill in the vacuum created in the Western Pacific.

Thus, there has been a growing sense of fear in financial circles that Japan can no longer sit idly under a heteronomous nuclear umbrella.

Second, there is the issue of free ride under the Security Treaty against a background of declining U.S. economic power. This argument maintains that Japan-U.S. friction is created because Japan has the United States shouldering the military costs and that the amount saved is being used exclusively for economic growth and strengthening its competitive capability.

The United States submitted a report titled, "A Restudy of Structural Characteristics of America and Japan," authored by Klein, a University of Pennsylvania professor and considered a brain in the Carter administration, to the Japan-U.S. financial leaders' conference of June 1978. The report states that "defense constitutes one of the great burdens for the United States. It is no accident that Germany and Japan, while maintaining a nominal defense burden in comparison with us, has emerged as strong trading nations." The report further states that "if Japan increases her share of the pecuniary costs for the defense of the Pacific, it would serve to lessen America's defense spendings and thus cut back on the federal budgetary expenditures."

As can be seen later, recent arguments on Japan-U.S. economic friction are invariably tied in with Japan's low defense costs, and Japan-U.S. economic relations can no longer be addressed without touching on the defense problem.

That which clearly demonstrated the waning of the U.S. position in international economy was the dollar devaluation and yen appreciation during the Nixon shock of 15 August 1971. Around that time, there was an English language report, a required reading among ranking economic bureaucrats of Kasumigaseki. Compiled by Mr Peterson [in charge of international economic affairs], an assistant to then President Nixon, the report frankly stated, "15 August 1971 ushers in a new period of postwar international economy, and the United States alone does not have the power to manage international economy," and "a new international economic system should be characterized by joint assumption of leadership and responsibility."

Now 10 years later, the United States is pressing Japan to share in defense costs. This year, the Japan-U.S. financial leaders' conference will be held in Tokyo in June. But at a joint management committee meeting held earlier in San Francisco from the end of February to early March, U.S.

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Pacific Forces Commander Long lectured to a group of Japan-U.S. financial leaders on defense and asked for Japan's cooperation after saying, "It is well that Japan is now able to debate on defense issues." A decision was reached to formally discuss for the first time the "problem of security" in the June meeting of Japan-U.S. financial leaders. While Japan has no intention to restrict the talks to economic security problems on food and energy, financial circles feel that a discussion of the defense problem by the United States will be unavoidable.

Third, there is the issue of securing adequate oil resources of the Middle East. As U.S. President Carter indicated in his State of the Union address this year, the revolution in Iran and the Soviet invasion of Afghanistan have "threatened the supply of oil from the Mideast." U.S. Secretary of Defense Brown, on 6 March, touched on the oil issue at a speech before the Diplomatic Council and talked in strong terms as follows:

"Oil is the blood of modern industrial society. The Middle East region accounts for 60 percent of the world's oil imports. By country, the United States imports approximately 13 percent of oil consumed from this region, West Germany, 45 percent, and France and Japan, 75 percent. The loss of this oil would deal a mortal blow to the West's economy. If the oil supply from the Persian Gulf comes to a complete halt, our allies will suffer irreparable damage. If the Soviet Union should dominate this region, many leading and developing countries will be forced to become the Soviet's economically subservient countries.

#### Arms Export Argument Relative to Security of Resources

Although a resources nationalism in developing countries was already evident around the time of the 1970 Security Treaty, even financial circles had not foreseen this until the first oil shock of 1973 and the second oil crisis sparked by Iran's revolution in 1979.

Thus, defense arguments then dealing with the security of resources merely addressed the issue of security of sea lanes. It was because of this that the defense of Malacca Straits once became a topic of conversation. However, with the oil producing countries beginning to desert the Western camp, the nature of resources security arguments obviously had to change.

What must be done is to lessen the excessive dependence on oil from the middle East and shift the relative weight of dependence for energy resources to the Pacific region. Recently, financial circles, in conjunction with the government, have been looking toward the establishment of a Pacific economic sphere. And with Japan-U.S. relations as the axis, they are urgently approaching Pacific-rimmed nations such as Canada, Australia, New Zealand, Mexico and China. The aim is to secure the resources centered on energy. Financial circles, therefore, have shown a great interest, not only in defending the sea lanes linking Japan with the Middle East, but also securing the diverse resources transport routes in the Pacific region. In this sense, they watched with interest the outcome of the anti-submarine

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operations during the recent Rimpac exercises [Pan-Pacific joint maneuvers]. They could not remain aloof of the outcome because, for Japan's Maritime Self-Defense Force, it was their first participation in a full scale exercise with other countries such as the United States, Canada, Australia and New Zealand. A financial person commented, "Through that realistic exercise, it was proved that modern warfare is indeed an electronic warfare."

Another point has to do with assurance of oil supply through arms exports to the Middle East. The recent arms exports argument as exemplified by Mr Nagano takes up the subject as a direct material for negotiations to secure the oil supply. The recent trip of French President Giscard D'Estaing, who pursues an independent foreign policy line, to the Middle East partly to sell arms has spurred the arms exports relaxation argument in Japan.

The fourth major transformation is the trend of the opposition forces, as noted in the concept of government coalition by Socialist, Komeito and Social Democratic parties, their swing to the right and the Communist Party's isolation. In the past, financial circles strongly tended to believe that the 1970 Security Treaty would lead to the collapse of the LDP dominated government or a crisis for the capitalist structure. The reason was that conservative middle-of-the-road parties were still immature and unable to replace the LDP. But the agreement reached last year end on the concept of a coalition government by Socialist, Komeito and Social-Democratic parties have served to free the financial circles from a sense of crisis. The coalition concept of (1) expulsion of the Communist Party and (2) recognition of the Japan-U.S. Security Treaty as its basic line means, for financial circles, a realization of "revitalization of opposition parties" cherished since the 1950's, and the birth of conservative, middle-of-the-road forces which can fill in for the LDP. Therefore, it becomes unnecessary to be overly concerned about the collapse of a LDP-dominated government jeopardizing the capitalist structure. And relief from anxiety over criticisms by the opposition parties--due to their swing to the right--has given impetus to defense debates of financial circles. It can be said that a change in the political situation allowing for establishment of a special committee on security in the Lower House was the background which lead financial circles to pick the security issue as the primary theme for the 1980's.

Against such a background of enormous changes during the past 10 years, what kind of strategy do financial circles have in mind for the 1980's? In short, they hope for establishment of an Asian-Pacific military power and are stealthily looking toward a constitutional amendment.

Under the Asian-Pacific military power concept, participation will be limited to the Asian-Pacific region [the United States, Canada, Australia, New Zealand, Mexico, ASEAN countries, China and South Korea], primarily the so-called survival bloc with resources and markets, and any

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political voice in that region would have the backing of some military strength.

Needless to say, behind the recent arguments for bolstering defense is the United States' fervent requests for such. But rather than taking them passively, we can consider them from a slightly more active point of view.

For example, in a speech before the Japan-U.S.-Europe Committee held in London last March, ex-Foreign Minister Kiichi Miyazawa spoke on the creation of a new Western alliance. He explained Japan's position of pursuing its own national interests, saying, "Up until now, the United States was in a position to determine the national interests of the allies, but that is no longer the case. Surely, there are national interests among the allies which can co-exist, and the United States should recognize that." The text of his speech is reportedly highly sought after by influential figures in the United States and other countries.

From "Major Economic Power" to "Major Political Power"

Meanwhile, in financial circles, Minoru Yamada, president of Daikin Kogyo, an arms manufacturer, in an article titled "The Free Economic Structure and Politics" in "Keidanren Geppo" [Keidanren Monthly], asked, "Why do economic organizations take up the security problem? The basic thinking can be attributed to a sense of fear of the liberal structure which holds that unless Japan, as a member of the free nations' bloc, seriously undertakes the adjustment of the security system and performs its share of the role and responsibility to establish world peace and new order, Japan will be unable to sustain a free and stable way of living." In such a way, views that Japan should positively share in the defense burden commensurate to the extent as a major economic power have come to assume the form of a most important commitment by the financial circles in facing the 1980's.

The construction of a second Panama Canal, promoted jointly with the United States by influential financial leaders such as Mr Nagano, in reality, characterizes an integral part of Japan-U.S. military cooperation in the Pacific region. That is, the existing Panama Canal cannot accommodate large aircraft carriers, but the new one would provide a free access. In short, the second Panama Canal will assume a military, strategic importance when, under the SWING strategy, it becomes necessary to move large carriers from the Western Pacific to the Pacific. Japan's financial circles, in pushing for construction of the new canal, have fully taken this into consideration.

As have been noted, Ikawada, chairman of Board of Trustees, Japan Committee for Economic Development, advocated the "Asian-Pacific Nations Theory" at the end of the 1960's, while Sakurada, representative executive director Japan Employers Federation, urged an "escape from a half-nation status."

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In those days, they were merely regarded as a prefatory, but today, after 10 years, the fact that financial circles are attempting to proceed, consciously and meticulously, on the path toward an Asian-Pacific military power combining both the above cannot be overlooked.

Meanwhile, the subject of constitutional amendment has not yet been openly advocated by financial circles, but is under active discussion within the group. The important point is that the discussion goes beyond the revision of Article 9 of the Constitution in order to bolster independent defense and takes a broader view of the revision. The intent is to restrict the rights of the people now protected by the Constitution, while increasing their duties. The plan is to reorganize, at minimum, the democratic order guaranteed by the Constitution for the past 30 postwar years.

Last January, the Japan Committee for Economic Development released its "Views for 1980" titled, "The 1980's: Seeking New Responses in Face of Turbulence." The report advocated the formation of a consensus on security, contending, "The establishment of a comprehensive security policy is urgently required. With respect to the defense problem, an integral part, efforts also should be made to stir up debates widely as a national topic of the 1980's to reach a consensus." It also requested of politics that (1) leadership of the prime minister be strengthened, and (2) small election district system be instituted. Behind such requests toward politics lies an intent to effect a constitutional amendment, an extremely dangerous move, especially in view of the recent swing to the right by opposition parties and the proposed emergency legislation.

Even if the recent defense debates in financial circles were never intended to create a major military power, they signify a move toward becoming an Asian-Pacific military power as a major political power befitting the title of a major economic power. Viewing the arguments for arms exports or increased defense spending as being founded on economic animal impulse is bound to lead to the mistake of looking at a tree but not the woods.

As for whether such a strategy by financial circles for the 1980's can succeed, there is no assurance of its success.

This is because, above all, there is doubt as to whether the gunboat diplomacy type concept of bolstering military capability to secure resources can be effective. Recent arguments on increased defense capability lack an understanding of the historic current where even the U.S. military presence could not stem the revolution in Iran.

Next, as can be seen, for example, from the mixed reaction within the financial circles to Hiuga's statement in support of a conscription system, there may be an agreement on the need for defense debates, but it does not mean a unity of views on more positive matters. An indication of this is the critical statement by Chairman Doko of Japan Federation Employers Associations, throwing cold water on the recent defense debates.

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Moreover, with respect to increased defense spending, a thick wall exists because of financial difficulties caused by a number of red-ink national debentures. In short, that is because the inner system itself contains countless contradictions and lacks the crisis management ability to insure that the survival strategy for the 1980's function according to program, just as the opposition camp experiences a great fissure and lacks the attributes of a reformist force.

[In quoting the remarks of business leaders, references were made to news reports of those times. Yu Takaoka, journalist.]

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ECONOMIC

EXPERT ANALYZES IMPACT OF IRANIAN OIL CUTOFF TO JAPAN

Tokyo ASAHI JANARU in Japanese 16 May 80 pp 91-96

[Interview with Takao Tomitate, chief of the Research Division, Japan Energy/Economic Research Institute, by ASAHI JANARU writer Akihiro Takase: "Iranian Oil Cutoff to Japan: What Is in the Future?"]

[Text] [Question] About a half month after the halt in Iranian crude oil loading for Japan and the United Kingdom, Iran's nationalized petroleum company toughened its attitude: "Unless Japan and England accept the new price of \$35 a barrel in their long-term crude oil contracts, the possibility of contract abrogations cannot be discounted."

We feel that a cutoff of deliveries or an abrogation of contract, if effected over a long period of time, will have serious consequences for Japan, which depends on Iran for over 10 percent of its total crude imports. In the fact of increasing tensions in the Iranian situation, there are concerns being expressed as to the adequacy of Japan's petroleum supplies.

[Tomitate] As a starter, we must define the problem areas and put them in proper perspective relative to the bit picture, so that the overall situation can be accurately understood.

The first point is that the 530,000 barrels of DD crude (crude oil under direct delivery contracts between the nationalized Iranian oil corporation and Japanese commercial houses and oil companies) which had been imported from Iran daily have been cut to zero. This brings up two points: the duration factor--how long this cutoff will last--and, in the event that imports are resumed at some future date, what shape the new deals will assume. We believe that these are the two problem factors.

The second point involved the potential of obtaining additional supplies of oil from oil-producing countries other than Iran to fill the gap left by Iran, in the event the Japanese-Iranian negotiations break down.

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Although these are the two main points in the supply problem, if future developments cause Iran to prolong its cutoff or to resume exports but in insufficient volume, point three as described below would arise.

Base Price Increases Begin; Aimed at June Conference

[Continuation of answer] In that event, to what extent can the advanced nations, particularly the International Energy Alliance (IEA) and our allies, assist Japan? Can the IEA's "petroleum emergency cooperation system" be effectively activated? How will the United States, which is responsible for the Iran problem, give direct assistance to Japan? These are the questions.

Point four has pertinence to the domestic structure. In a crisis, how will the 95-day reserve which is said to be stockpiled by government and civil sectors be tapped and distributed? In the context of the activation of the IEA's oil emergency relief measures referred to above, various administrative steps and guidance, such as oil consumption controls and ration stamp measures, will naturally be implemented. The problems that they will present cannot be ignored.

Point five has to do with how Japan's oil requirements will be affected in the future; this is the other side of the coin to the point brought up in the preceding paragraph. On this connection, a fact which cannot be overlooked is that since the Tokyo summit last year, the IEA has been revising oil import allocations to the various countries on a much stricter basis. Japan must consider how to cope in the event import target quotas are lowered either on a short- or long-term basis.

[Question] This pertains to your point one, having to do with duration of oil cutoff by Iran. Toward the end of April, Iran toughened its stance from a loading stoppage to the voiding of long-term contracts.

[Answer] Until then, Japan's position was that the official price of \$35 a barrel was absolutely unacceptable; Japan had assumed that Iran's dissatisfaction with this stand might lead to a loading stoppage, but that it would be no more than a temporary disruption of commercial negotiations, not a voidance of contract. Cutting off imports as a political sanction was not a move advantageous to Japan; it was better to have Iran stop loadings because the economics-based negotiations had broken down. In the latter case, satisfactory terms could be agreed to in 2 or 3 months and imports could be resumed. The Foreign Ministry and the Ministry of International Trade and Industry [MITI] had deemed that this was the best strategy for Japan, and for that reason had put it into effect. But when Iran moved to void existing contracts, it turned out to be a miscalculation and the ministries concerned are now feverishly considering ways of coping with that threat.



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We think that Iran had been saving this contract abrogation move as a tool or a weapon to be used at the right time in a changing situation. We base this conclusion on the fact that changes such as the following were becoming inevitable: consumers, including Japan, were going to have to get additional supplies from Kuwait and other sources; while Iran was going to have to increase exports to Eastern European countries, its rate of production was dropping; if new price levels are to be established at the regular OPEC meeting in June, Iran would have to renegotiate contracts anyhow. In the light of those circumstances, the move to void contracts need not be viewed as a shattering development.

On the other hand, we cannot minimize its effect on Japan. Of the greatest concern to OPEC is the extent of increase in the price level of crude that will be established at the meeting to be held in June. World attention is centered on what sort of compromise can be effected through the moderating efforts of Saudi Arabia. It is important to note that Iran's move is acting as a catalyst in a reversal the downward trend in spot market prices, although not as sharp as last year's.

[Question] What is the outlook for obtaining additional supplies as referred to in your second point-- from sources other than Iran?

[Answer] Japan has succeeded in contracting for additional DD crude from Kuwait and Abu Dhabi and supplementary supplies from Indonesia. The problem is the purchase price, which in all instances is at the official rate but with a few additional dollars as a premium. In the case of Kuwait, for example, the price including the premium has been upped to \$35.50 a barrel, which is considerably higher than the previous price.

OPEC is concerned with the system of multiple pricing--i.e., the official price, the official price with premiums added, and the spot market price. The average of those becomes OPEC's real income. Should spot prices soar, as they did last year, an increasing number of producing countries would dump large volumes on the spot market; should the spot market slump, as has been the trend this year, producer nations would turn to adding maximum premiums; and if those steps prove to be too difficult, the official prices will be raised. Iran's recent demand for a price increase gives real impetus to the frenzied behind-the-scenes activity to increase gross revenue.

For example, the latest quote on Kuwait's crude, which is of lower grade than the Saudis', is \$35.50 including premium, bringing the overall average to over \$30. This foretells the probability that \$30 will be the basis for price discussions, and loath to have the meeting come to a close without a unified agreement on a price scale, as happened at the Caracas meeting, the Saudis will have to fall in line after recommending raising the price from \$26 to about \$28.30.

Strategy Encompassing Both Japan and Europe

[Question] The prevailing talk within Japan nowadays seems to be centered on the quantitative aspect and expresses optimism that additional procurement of crude from Kuwait and Abu Dhabi will supplant the flow of crude from Iran. It is my opinion that our requirements starting this autumn will make it impossible to ignore the Iran problem in the price factor.

[Answer] In view of the consensus that there will be a deepening of the economic recession, the price problem will probably have a major impact on Japan's economy.

Supplementary amounts of DD crude from Kuwait, Abu Dhabi, and other sources are 140,000 barrels a day, which equates to about a quarter or a third of the 530,000 barrels that Iran stopped supplying. Although additional quantities have been contracted for, with Kuwait implementing a reduced production policy, it is still problematical whether it will increase production to supply Japan. Abu Dhabi's capability for upping its production is very limited, so not much additional supply can be hoped for from that source. In any event, whatever supplementary amounts are made available to us will have to come out of amounts which had been going to the majors through spot markets and resold to the world, which means that the majors, who handle about half of the deliveries to Japan, would have to cut their deliveries to Japan. So if we think that our total import figures will be increased by the supplements, we are fooling ourselves.

Furthermore, although Saudi Arabia and others say that DD crude will be increased, such increases are bonuses tied in with domestic petrochemical and refinery construction projects, and therefore they are not supplies which are immediately forthcoming. The situation with Mexico is similar: tied in with various projects conditional on assistance from Japan, it is said that additional deliveries of 100,000 barrels starting this fall and 300,000 barrels next year and the year after will be made. But these do not replace the gap left by Iran's stoppage now. Neither can we anticipate that China's increase in production will enhance its export capacity this year.

Viewing the situation realistically from the standpoint of the oil-producing countries, which are currently implementing a program of reducing the gluts in preparation for a broad price increase in the fall, we cannot expect production hikes to satisfy increased needs. Although some quarters are demanding that the United States up its Alaskan crude production to supply Japan, there are reasons which prevent this from being an easy solution. First, obtaining export permits for domestically produced crude from the United States is an exceedingly complex undertaking. A circuitous solution would be to have the United States increase its Alaskan production, enabling it to reduce its need for OPEC crude. The catch is that Alaskan crude is of the heavy variety and, moreover, can be piped only to the West Coast. Glutting the West Coast, which has a high requirement for light grade oil, with heavy grade oil could create a repeat of last year's gasoline panic.

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[Question] All of this seems to indicate that Japan is dependent on Iranian crude, and the crux of the matter becomes the timing of the resumption of crude deliveries to Japan.

[Answer] In thinking about the timing of a resumption of crude oil deliveries from Iran to Japan, there are several basic factors which have to be considered. One which has pertinence only to petroleum revolves around news of price negotiations being conducted in secrecy between Iran's nationalized oil corporation (NIOC) and the U.K.'s British Petroleum (BP) and Shell. The outcome of those negotiations holds one important answer to future developments.

As you know, Iran used to export about 300,000 barrels per day to Europe, most of it handled through BP and Shell. BP and Shell have long histories of relations with Iran. In the recent crisis, although they are classed among the majors, they wasted no time in rushing into DD crude purchases. With this situation in mind, there are those who say that the covert price negotiations being conducted between NIOC and BP or Shell are deeply related to Iran's claim that it doesn't mind voiding the long-term crude oil contracts with Japan.

If that is so, it is possible that Iran is playing Europe and Japan against each other in order to obtain the most advantageous terms. It is also possible that BP and Shell haven't reached a point of agreement as yet but are in the process of presenting terms which might lead to agreements.

#### Oil Shortage During Autumn Period of Need Feared

[Continuation of answer] If the flow of crude from Iran to West Europe is one factor, another factor is the recently much-discussed Iranian exports to Eastern Europe. It is certain that the additional production rate of Soviet crude has recently been falling rapidly, and it is estimated that sooner or later, its ability to export to Eastern Europe will be curtailed. So it may be that Eastern Europe will be pressed to increase its imports from Africa and the Middle East--i.e., from Libya and Iraq. The Iran problem came up in this atmosphere, so not only Eastern Europe but the USSR wants to seize the opportunity to make Iranian crude oil purchases a pretext to get a foothold in Iran.

In that event, trade for the most part will be conducted not in international hard currencies such as dollars but on a barter basis including weapons. The East European countries' shortage of dollar holdings will be no drawback in such an arrangement, and since trading will be in goods, the official price could still be maintained at \$35. However, we do not think that there will be much of an increase in exports to Eastern Europe under those conditions.

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The remaining factor is that as long as Iran continues its threat to block the Straits of Hormuz and burn down the entire Persian Gulf area if the United States escalates political and moral sanctions into some type of military action beyond the level of the recent attempt to free the hostages, it is impossible to make any estimate as to when petroleum shipments to Japan will be resumed. Assuming that the United States heeds the urgings of West Europe and Japan to exercise restraint against resorting to military action, we have a feeling that contracts in some form or ship loadings will be reactivated in July--after the OPEC meeting--at the earliest and if late, by about September, in time to meet the period of heavy demand for oil.

Of course, we must be forewarned that even if matters proceed smoothly, exports to Japan will be lower, since the USSR and Eastern Europe will have taken a bite out of the total. We estimate that it may drop to the neighborhood of 400,000 barrels. A safe guess would be that insofar as the flow of crude is concerned, the supplemental volumes from Kuwait, Abu Dhabi, and Indonesia will just about make up for the decrease from Iran.

[Question] Would it be correct to assume that the flow from Iran to West Europe through BP and Shell pipelines will continue at about the same rate as before?

[Answer] I believe that pipe connections will function as before. Outwardly, the United Kingdom gives the appearance of being the most faithful political ally of the United States and has announced some of the stiffest economic sanctions against Iran. However, the multinational BP and Shell, which are in the forefront of the majors, have mountains and oceans of experience, and by treading rather softly in the Iran tangle they have managed to keep several fingers in the pie. Of course, the British Government is perfectly aware of these machinations, and maybe we can assume that their official criticism is merely a coverup front. We say this because if the status quo is maintained, the majors involved will not be able to service even their own chains under the terms of the old contracts. They are frantically trying to get their hands on Iran's DD crude.

[Question] In our country, MITI and others are saying that, unlike the time of the first oil crisis, there is now a 95-day stockpiled reserve, so we are safe for the time being. But looking forward to the autumn high demand season, are we really in good shape?

[Answer] Iran's crude production is now at about 2.5 million barrels a day, of which about 1.3 to 1.7 million barrels are being earmarked for export. Production is on a downward trend, and the export ceiling probably will be around 1.3 million barrels, which will include some shipments to the USSR and Eastern Europe. Since neither Kuwait nor Abu Dhabi plans to increase production and Saudi Arabia may lower its production, I feel that the situation will become fairly tight this autumn.

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Admittedly, Europe has stockpiled reserves of 112 days and Japan 95, but in the next several months some inroads will have to be made into those. If so, it will be impossible to meet the autumn season with full reserves, which from established patterns is a necessity. Unless uncertainty as to future stability, which has been the mood ever since the Iran revolution, brings on an economic recession resulting in an unexpectedly high curtailment in wintertime consumption increases, there will be a temporary jump in requirements again this fall, creating a critical oil situation.

Some Firms Feel Pinch From 3-Month Cutoff

[Question] Is there something backstage or some bright calculation which permits MITI and others to act optimistic?

[Answer] From figures alone, it is true that the private sector has 88 days of reserves stockpiled and the official sector 7 days. The rate of consumption this year has been almost flat--if there has been an increase, it certainly is not over 1 percent. The loss of Iranian imports accounts for a 10-percent drop in overall imports; assuming that the stoppage lasts for 6 months, the deficiency would amount to 365 days divided by 2, or 180 days, and 10 percent of the would only be 18 days. So based on simple arithmetic, it would seem that the 95-day stockpile need be reduced by only 18 days.

Realistically, however, several things have to be taken into consideration. In breaking down the private sector's 88-day supply, considerable variations show up in the holdings by the several oil companies involved; there are some which have above average holdings while others have below average. In general, the below average stockpilers were those who were more dependent on Iran's crude and had been forced to buy higher priced DD crude. Restating the case, the firms which have the least reserves are the ones which are taking the brunt of decreased supplies and will be the ones whose stockpiles will be depleted the soonest. For them, the pinch would be felt with a delivery stoppage of only 3 months, not the 6 months being talked about.

In such a situation, what will the government do? It says that the nation's reserves stockpiled in tankers will not be touched, and that intraprivate sector deals will have to be made. Whether such deals can be made is a big question. When the government assures the populace to rest easy because there are ample reserves stockpiled, it should be able to clearly guarantee that there will be arrangements for mutual assistance in the private sector and that national reserves will be made available but will be replenished during the course of subsequent years. There is some haziness in the government's thinking in this context which makes for another problem area.

The second point to be considered involves the situation in which the stoppage from Iran continues over a long period, or in the unfortunate event that the Iran crisis escalates into a conflict. We would have to

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implement rationing and other emergency measures in a crisis control posture. In that situation, we would seek assistance by activating the IEA's emergency cooperation system. But this has never been tried yet. It is a system which was founded immediately following the first oil crisis, when the majors had ample crude supplies and transportation and shipping facilities presented no problems; the IEA was built on the assumption that those would remain stable. When these factors are reduced, as in these couple of years, the question arises as to whether cooperation and the system can function smoothly as planned. Even the government is beginning to see a danger in depending on plans which rely on that system.

Thirdly, as a domestic measure, more stringent consumption controls and a restructuring of the stockpile distribution system to bring reserves into the rationing system are being considered. Whether they can be accomplished remains a question. With regard to involving stricter consumption restrictions, legislation was drawn up during the first oil crisis to the extent of guidance, but no definitive percentage figures applicable to the various areas of consumption have as yet been established.

As for rationing, coupons have been printed, but there has been nothing concrete in the way of organization, personnel, or budget involved in the implementation, nor has a concept been formulated. Under such circumstances, we will have to prepare ourselves for a considerable period of confusion and chaos from the time of implementation until the program gets on track.

[Question] With the House of Councilors election coming up in June, it is probably safe to assume that not only the Liberal Democratic Party, the party in power, but the government and involved bureaus in MITI will avoid mentioning such controversial subjects as rationing and consumption restrictions. But is Iran's posture--that it would not necessarily stop short of voiding contracts--in the scenario of estimates of the government organs concerned and of the oil industry?

[Answer] As I mentioned earlier, Iran's refusal to load ships when the commercial negotiations broke down on 21 April was undoubtedly in the scenario of estimates before the fact. However, I think Japanese estimates of developments had been along the following line: currently, there is a 95-day reserve stockpiled; if tough commercial negotiations last even 3 months, that would eat up only 9 days' worth of reserves; during that time, the hostage question will have been resolved and the presidential election process in the United States will have shaped up. In reality, however, there was the unsuccessful attempt to free the hostages by Carter, which was followed by the unexpectedly tough threat by Iran to void contracts. Thus there have been double and triple miscalculations.

If that happen, the one thing which should be avoided by probably can't be is psychological panic among the populace. The reason for the outward calm in both government and industry over the Iran problem is not because the crisis control system is operating normally but because psychological panic hasn't taken over yet.

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Price Increase Accelerates Slump and Inflation

[Question] This is somewhat off the track, but it is difficult to understand why in such critical times, oil-related stock prices haven't ceased but are holding at relatively high price levels.

[Answer] That is an oddity. We can only say that stock prices are not truly reflecting the uneasiness being felt. Although I'm not an expert on the stock market, it seems probably that institutional experts are investing at opportune moments for the short term, forcing prices up to artificial highs. Admittedly, with their highly valued large inventories, the oil companies are making considerable profits right now. Rumors of successful test drills on the Japan-Korea continental shelf signaled an opportunity to buy Nisseki [Nippon Oil Company, Ltd]. But if the situation develops in the manner described above, some companies should be in the red by autumn.

In any event, the extraordinarily high quotes on energy resource securities, causing investments to be made on an opportunistic basis, is not related to the objective outlook on the international situation; from the standpoint of overall distribution of economic resources to the populace, the picture is bleak.

[Question] If the Iranian hostage problem were to drag on and the United States were to resort to military force, we would imagine that the conflict would not be confined to Iran but would expand to all of the various countries on the Arabian [Persian] Gulf. If, unfortunately, that should occur, what would become of the oil situation in Japan?

[Answer] Should the United States threaten to embroil the Gulf countries into a conflict, its allies would naturally turn away from it, so unless there is some completely unforeseeable event, we do not see the matter developing to that extent. However, even without such an escalation, it is possible that the confusions within Iran will be multiplied, and if those develop into a civil war, it could result in a government which is anti-U.S., anti-West Europe, and pro-USSR. Should that come about, there would be a great upheaval in the world's crude supply structure, and this would no longer be a matter of how Japan alone would fare.

[Question] Conversely, assuming that matters do not worsen and oil imports are resumed in 3 or 4 months, as estimated by the government, wouldn't Japan's economy still be deeply affected by price, if not by quantity?

[Answer] Assuming that no unexpected untoward incident takes place, we would like to think that the problem will find a point of resolution by fall. Even so, there will have been one or two price increase steps which will tend to deepen Japan's slump and simultaneously escalate inflation. It is imperative, therefore, that we be concerned not only with assurances of quantitative considerations but also with reactions to higher prices. There is also the problem of broadened differential within the

oil industry; we must not overlook the probability that even among the majors, Shell, BP, and Gulf will be among those who will be subjected to a gradual pinch, while Caltex, Mobil, and Esso will be comparatively unaffected.

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ECONOMIC

JAPAN-IRAN PETROCHEMICAL PROJECT: PLOT OF MITSUI GROUP REVEALED

Tokyo SHUKAN SHINCHO in Japanese 15 May 80 pp 140-143

[Text] Mitsui & Co., Ltd.'s Iran Petrochemical Plant Project--"a key operation for the future of the firm"--has been elevated to the status of a "national project." Presently, amid the continued confusion of the Iranian Revolution, construction has been suspended. Now the Iranian side is threatening to "void the contract unless there is some show of earnestness." But Mitsui appears unperturbed. It is rumored that should the plan be scrapped, Mitsui will be able to extricate itself from a quagmire situation which has an uncertain economic future, and the attendant loss will be covered by export insurance. Dissolution of the contractual agreement [with Iran] would suit Mitsui just fine.

"Despite Iran's declaration to void the contract, we have no thought of suspending the Iran Petrochemical Project," says Mitsui's executive director, Masami Ishii. "There are nearly 1 trillion yen in Japanese assets in Iran. What do you think would be the outcome if Japanese-Iranian economic relations were severed altogether? Japan would lose all that. That would be catastrophic. In order to avoid such an outcome, our firm is negotiating with Iran. We are upholding the Japanese national interest."

However, at its inception, this Iran Petrochemical Project was not a patriotic undertaking. The project got its start in 1968 when Mitsui's then president, Sueyuki Wakasugi (now deceased), was flying over Iran's Ahwaz Region and surveyed the burning flames of the gasfield below. He commented: "What a waste. Isn't there some way to utilize this?"

Thus the petrochemical project was launched from a purely "entrepreneurial standpoint."

But the rumor among the major commercial firms is that this project had problems even from an "entrepreneurial standpoint." "Those who did the

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feasibility study within Mitsui after Mr. Wakasugi saw the [Ahwaz] flames opposed the project, but their opposition was ignored and unilateral decision from the top sealed the issue."

The total projected cost was over 200 billion yen. As an overseas project, its scope was "medium range." But the plan went wrong. The petroleum crisis of 1968 caused the total construction cost to mushroom to 550 billion yen, and the "flaming gas field" project became an operation upon which the fortunes of the company depended.

Perhaps we should say that Mitsui's secret plot to repackage the "gas field flame" plan into a "national project" began to take shape about this time.

In 1976, in order to get 550 billion yen in total construction cost financing, Mitsui worked on then Minister of International Trade and Industry Toshio Kawamoto. Minister Kawamoto visited Iran, and a financial loan from Export Bank was arranged. In 1977, Hideaki Yamashita, the former MITI vice minister, was ushered in.

Then in November 1978, Chikara Wada was appointed ambassador to Iran. It is said that Mitsui influenced this appointment as well. Ambassador Wada was named as a cooperative representative to the Petrochemical Plant Project.

Next came the Iranian crisis. It is well known that since then, the Iranian political situation under the leadership of Khomeyni has been extremely unstable; but Mitsui Group with its partner--a nation holding a live bomb in its hands--was successful in obtaining a seal of approval for its Petrochemical Plant Project. It became a "national project."

A certain executive of a large trading house commented as follows: "Last fall, a delegation headed by MITI deliberative officer [shingi-kan] Naohiro Amaya went to Iran to determine whether or not Mitsui's plan ought to be made a national project. It received assurances from the then Iranian premier, Bazargan, that "in the event of project completion, oil supply to Japan will be guaranteed." The delegation came home delighted. In the meantime, Ambassador Wada had reported that Bazargan and Khomeyni were two sides of the same coin. Thus the Japanese Government decided to adopt Mitsui's project as a national endeavor. It is commonly assumed that the former MITI vice minister, Yamashita, had an active hand in bringing the matter to fruition."

Mitsui worked hard to make its Iran Petrochemical Plant Project into a national project. But now, the Iranian side is talking of "voiding the contract." Mitsui President Yatazu states, "There is talk of voiding the contract all the time. Nothing can be affirmed without reciprocal discussions. After all, the other side is 10,000 kilometers away." Thus ICDC President Yamashita (a Mitsui & Co. Ltd. executive) flew to Tehran in haste. "The other side will understand, once we have our talk. This project is like

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a large ship operation. The other side had experienced an unfortunate incident (revolution), and the project had to be temporarily suspended. It will take time to start it back up and carry it forward."

#### Mitsui Will Not Go Bankrupt

According to the accounting records, the total construction cost thus far has been 730 billion yen. Of this amount, the Japanese capital output was 430 billion yen--20 billion in direct government financing, and 170 billion yen in the form of a loan to the Iranian Finance Ministry by the Export Bank. Of the remaining 240 billion yen, Mitsui's contribution has been about half. The rest was shouldered by various Mitsui Group enterprises. Even if Iran "voids the contract" on plant construction, the arrangement is that 90 percent of the capital investment is recoverable by export insurance.

But economic journalist Yasunobu Misato says that the reality is somewhat different from the accounting book figures. "Though direct governmental financing was recorded as 20 billion yen, the actual expenditure was 28 billion yen. Mitsui, meanwhile, has poured in 150 billion yen, only 90 billion of which is recoverable through insurance.

"Thus Mitsui's loss would be 60 billion yen. But the book price for securities which can be liquidated is 182.1 billion yen. Therefore Mitsui would not go bankrupt." Consequently, the consensus among the aforementioned major trading house executives is that "Mitsui's real concern is to hold the loss at about the current level."

"If the Iranian side is serious about 'voiding the contract,' then Mitsui can get to the export insurance money, and it will be quite relieved. Not even the Jews would handle the Iranians. They are a double- and triple-faced lot. European countries that have had dealings with Iran for 100 years--especially France and Germany--refuse to enter into joint ventures with her.

Moreover, the Petrochemical Plant Project itself is stagnating because of the stopping of the water utilization project which is essential to the resumption of construction; the US firm in charge of supplying the necessary gas to the LPG plant (the easy part of the project) had been ousted from Iran.

"MITI says that the LPG value is three times what it used to be. Thus, once the operation gets under way, there will be a profit. But the situation is not quite so simple. There will be obstacles, accidents; events within Iran are unpredictable. There is a question whether 50 percent capacity operation [gowari sogyo] can be managed. Loss is a certainty; and in short, the outlook is very bleak. Mitsui, too, may be enthusiastic in talking about it but will probably be slow to act. It would like to get out of the whole affair if it can.

If this partnership with Iran is prolonged, monetary liability will continue to pile up. At best, they will be subject to frequent requests for more

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money. Rather than face that future, Mitsui would prefer to get its hands on the export insurance money and leave the Iranian desert behind.

If Iran would "void the contract," that would suit Mitsui perfectly.

Fruitless To Put Hopes on Khomeyni

There might be a second or third surprise raid attempt by Carter to rescue the hostages. And if economic sanctions by the Western states are intensified, the domestic situation in Iran will become even more chaotic. Then, stable construction operation will become impossible.

But can Mitsui really get out of this predicament?

One construction firm executive connected with the project commented, "Iran says that in the event the contract with Japan is voided, the operation, which is 85 percent complete, will be awarded to Hungary. But this would be impossible. That project is based on a minutely detailed Japanese design, and East European technology is not capable of taking the project over."

In essence, the Iranian declaration "to void the contract if..." is a bluff designed to gain the upper hand. And since the bluffer is an oil producing nation, the Japanese Government is striving not to offend, even though it is fully aware that the declaration is a bluff.

The Finance Ministry administrators that had initially opposed this national project are saying: "If the contract is voided and we pull out, then the issue becomes the export insurance. The accumulated sum is a little over 100 billion yen, which would not be nearly enough. The deficient amount must be transferred from the general amounts. Also, allocating export insurance money means that the other side (the partner country) would be treated as a bankrupt, and it signifies near cessation of economic transactions and severance of state ties. But should we really sign off Iranian oil altogether?"

After all, the reason Japan approved the 20 billion yen direct investment and made the Petrochemical Plant Project a national project was because we wanted the oil. But the then Premier Bazargan, who promised "oil supply," has been ousted....

"The oil supply question is currently in the 'pending' file," says a MITI administrator.

"But the Petrochemical Plant Project is the lifeline of the Japanese-Iranian relationship. In the long run, the project is the way to secure our oil supply.

But now that, too, is an empty prayer...to Khomeyni. A comment by an executive of a certain major trading house's petroleum division:

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"Since the Iranian political situation is becoming increasingly unstable, the logic of countersupply--the Petrochemical Plant Project in exchange for oil--becomes less convincing. For example, the March 1979 Iranian crude oil export/DD contract allocated to Japan showed that Mitsubishi Shoki (Mitsubishi Corporation) was to receive the largest share and Mitsui was in the second position. In this past January's contract, Mitsui's secondary position was supplanted by C. Itoh and Co., Ltd. If the Petrochemical Plant Project is of such high value, such events should never have occurred."

Thus it is not improbable that Mitsui is anxious to pull out of Iran.

#### Entrepreneurial Responsibility Questioned

A certain petroleum economist points out, "In actuality, the oil question and this project are essentially unrealized."

"In short, when the price hike was refused, the supply was cut off. Just because the construction project is resumed, there is no guarantee that the oil supply will resume. Moreover, Japan's dependence on Iranian oil is a mere 10 percent [of the total Japanese import of oil]. MITI states that the situation is grave, but Japan's petroleum consumption decreased by approximately 10 percent last year compared to 1973 figures. And if we make up our mind to do it, we can curtail the consumption rate even further. Besides, we have been buying over half of Iran's petroleum export. We have been Iran's foremost customer, and so we are really in a position of strength. As for the Petrochemical Plant Project, Iran will be in difficulty without help from Japan, and there is no need to be fainthearted before Iranian bluffs and threats. The Japanese Government ought to abandon that project. That way, the loss can be minimized. Mitsui is hopeful for a word from the government to 'scrap the project; never mind a severance of ties.'"

Indeed, there doesn't seem to be any further need to placate the likes of Khomeyni. Yet, severance of relations would be playing into Mitsui's hands... Besides, the Japanese Government is incapable of taking such an independent diplomatic line... It is inevitable that there will be public criticism regarding wasting a government investment of 2.8 billion yen and not getting a drop of petroleum for the effort.

So the government has adopted a wait-and-see policy, and the Iran Petrochemical Plant Project has become bogged down. Yet Mitsui will not go bankrupt. As a national project, governmental assistance is assured, in case the worst comes true. Mitsui & Co., Ltd. plotted to reshape a private enterprise into a national project and succeeded. Where then is the entrepreneurial responsibility of a private business?

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ECONOMIC

BUSINESS ATTITUDES TOWARD INVESTMENT IN PRC

Tokyo JIJI in English 14, 21 Jun 80

[Part I, 14 Jun, 1355 GMT]

[Text] Tokyo (JIJI press)--Following is the text of a survey report on "Japanese Business Attitudes Toward Investment in China" recently released in English by the long-term credit Bank of Japan (to be carried in two installments):

(Begin text)

1. Purpose of the Survey

At the invitation of the Chinese Academy of Social Sciences, the long-term credit Bank of Japan sent a delegation to China in August last year to lecture and exchange views on the processes and mechanisms of economic growth in postwar Japan. During the visit, the Chinese side expressed an interest in sending a team to Japan and as a result we hosted a reciprocal visit by a Chinese study mission in December. This mission, led by Xue Baoding of the academy's Institute of Industrial Economics and composed of members of the Academy of Social Sciences and the China International Trust and Investment Corporation, examined the state of Japan's medium and small enterprises and exchanged views with officials of government organizations and businessmen.

Since Jing Shuping, director of the properties division of the International Trust and Investment Corporation was accompanying the mission as an adviser, we invited him to lecture our client companies in Tokyo and Osaka on China's joint venture law. Those attending the lectures also met and exchanged views with Jing and other members of the mission.

The Chinese also indicated that they would like to hear from a still broader cross section of Japanese businessmen whose opinions would be of assistance when establishing future Sino-Japanese joint ventures through the offices of the China International Trust and Investment Corporation. In response to their request, this survey was conducted, principally among the long-term credit bank's clients.

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The survey was not limited to the problems of China's joint venture law. A wide range of issues was covered, among them an assessment of investing in China vis-a-vis investing elsewhere overseas and the views of firms on China as a prospective customer or joint venture partner.

Unlike the foreign investment laws of other socialist countries (for example, East Europe or Vietnam) or many developing countries, China's joint venture law does not impose a ceiling on the share of equity participation by foreign companies. The joint venture laws of East European countries as a rule set a ceiling on foreign equity participation, and as a sine-qua-non stipulate that more than half of all shares must be held by the host country. While the Chinese joint venture law is supposed to have been drawn up on the East European model, the absence of a limit on the percentage of foreign equity participation is itself an indication of the importance China attaches in its modernization policies to the introduction of foreign capital under the joint venture system.

Since the enactment of the joint venture law, there have been a number of specific proposals for joint ventures, the majority originating from Japanese businesses. But a number of problems which confront business and government remain to be cleared up before any joint ventures can get under way, and it is hoped that this survey may help resolve some of them.

II. Contents and Targets of the Survey

1. Contents

This survey can be divided into three sections:

- A. Current overseas investment activities of the businesses surveyed and their attitudes toward future foreign investment (for example, regions invested in, percentage of equity participation, reasons for investment).
- B. How China is viewed as a business partner (for example, previous transactions, the possibility of future transactions).
- C. The degree of interest in joint ventures in China and problems in getting joint ventures started.

2. Date on Survey

Information in the survey is current as of January 31, 1980.

3. Survey Targets

Copies of the questionnaire were mailed to 448 companies, principally clients of the long-term credit bank, and responses were received from 240 companies, 235 of which gave responses which could be used in this survey. The effective response rate was 53 percent.

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III. Collation of Survey Results

1. Promising Regions for Investment

A. The Asian region, excluding Taiwan, the Republic of Korea and Hong Kong, ranked as the most promising area for future investment overseas (18 percent), followed by China (17 percent) and North America (16.7 percent). China is thus viewed as an important country for investment.

B. Almost all industries, most notably wholesale, retail, chemicals and machinery (except electrical), view China as a promising country for investment.

2. Present and Future Transactions With China

A. There is currently a considerable amount of business transacted with China, mainly in export and import items. As many as 70 percent of the companies surveyed responded that they wished to continue transactions in the future or open up business dealings.

B. Next to export and import trade, technical cooperation is numerically the second most important type of transaction conducted with China. This trend is prevalent in almost all areas of manufacturing. The active nature of technological exchanges becomes apparent in the number of technology explanation meetings and the amount of technological advice proffered--what might be termed steps preliminary to technical cooperation.

C. Trade is expected to continue as the mainstay of future transactions with China (55 percent). However, possibilities for growth in processing on a contractual basis and investment, relatively new fields, were each mentioned in 10 percent of responses.

3. China's Economic Potential

A. Japanese industries generally give high marks to China's economic potential, including the quality of its labor force. This is particularly true for companies which see China as a future target for investment.

B. It should be noted that when investing in developing countries Japanese firms view graduation from junior high school, or its equivalent, as the minimum educational standard required for factory workers.

C. As many as 44 percent of the firms view the quality of the Chinese labor force as equivalent to that of the Republic of Korea.

D. Some 40 percent of companies feel that China's economic potential is such that the economy will take off earlier than expected (for example, in 5-10 years' time) if the introduction of technology and capital from abroad continues.



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4. Incentives for Investing in China

A. Although more than half of the responding firms hold the view that a joint venture with China will depend on how the rest of the industry reacts, 27 percent (63 companies) expressed great interest.

B. The greatest incentive for investment in China is the size of the market, followed by the availability of cheap labor and raw materials.

5. Obstacles to Investing in China

A. The problem of whether the present open economic policy will continue is given as the major obstacle to investment in China. Others are a rigid bureaucracy, the absence of legal institutions, and the lack of infrastructure.

B. The infrastructural item seen as most in need of improvement is electric power, followed by the internal transport network and port facilities.

C. Recently, nationalization has been a major obstacle to investment overseas. The predominant view (37 percent) was that sudden nationalization due to changes in economic policy is possible. However, 26 percent of businesses took the view that compensation would be available in case of nationalization provided there is explicit legal provision for such compensation. A large number of these companies view China as a target for contract processing or investment.

[Part II, 21 Jun 80, 1302 GMT]

[Text] Tokyo (JIJI Press)--Following is the second and last part of the text of a survey report on "Japanese business attitudes toward investment in China" recently released in English by long-term credit Bank of Japan:

6. Types of Joint Venture Desired

A. Assuming investment in China, the most popular region is the Shanghai area, partly because:

- 1) it is an industrially advanced region.
- 2) there are related industries there.
- 3) it has good port facilities.

The second region is Beijing because:

- 1) it is the political and economic center.
- 2) information is readily available.

The third region is the Guangdong and Fujian area, for such reasons as:

- 1) the area has close links with Hong Kong and expatriate Chinese.
- 2) it is economically autonomous.

B. Respondents were asked to list the three industries they deemed most suited, from an objective viewpoint, for investment in China. Those most frequently mentioned were textiles, mining, agriculture, forestry and fisheries. Also frequently listed in first place were: foodstuffs, chemicals, steel, nonferrous metals, general and electrical machinery, transportation equipment, construction and hotels.

C. The desired equity participation ratio for investing in China is almost identical with that sought in other areas overseas: 42 percent wanted a majority holding of 51 percent or more. However, a tendency for a lower share when investing in China could also be perceived.

D. Assuming investment in China:

- 1) Japan was seen as an export market for foodstuffs; timber, paper and pulp; agricultural, fisheries and mining products; and the wholesaling and retailing, transportation and power industries.
- 2) Southeast Asia was seen as an export market for chemicals, ceramics and other clay or stone products, metals, general and electrical machinery and transportation equipment.
- 3) Europe and the United States were seen as export markets for textiles.

E. Assuming they began a joint venture in China, 53 percent of the respondents said that they would start with small plants which made one or two related products. A high percentage of those companies which replied that they would build mass production plants from the start, were in the textile and the ceramics and clay and stone products industries. Other common responses were that companies would start by improving existing plants and their products, or that they would commence operations after a trial period.

F. As for the timing of joint ventures in China, 18 companies responded that joint ventures were already under study, and 15 declared their interest in giving the matter immediate study. A further 20 companies stated that they wanted to study the matter within the next year or two, while 32 said three to five years. Including the 26 which responded that they wanted to undertake joint ventures after 1985, 78 out of the 235 companies expressed interest in participating in joint ventures with China.

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7. Requests to the Japanese Government

The majority of companies (55 percent) hope the Japanese Government will conclude a bilateral agreement for promotion and protection of investment. The next most common request (18 percent) is that overseas investment insurance be made to apply in the case of investment in China. The third request is that loans be granted at favorable terms (13 percent).

IV. Some Proposals

From the results of the survey, it is clear that although many Japanese companies are greatly interested in joint ventures in China, they are also somewhat uncertain as to whether such ventures will succeed. Japanese companies are already engaged in joint ventures in Southeast Asia and indeed in just about every country of the world.

There are also strong calls not only by the resource-rich countries of the Middle East and Latin America and other developing countries, but also by the United States and the countries of Europe, for Japanese companies to establish joint ventures or to locate plants in their countries. Japanese companies will decide whether or not to participate in joint ventures after comparing China's conditions for such ventures with those in other countries.

By undertaking joint ventures in China which are based on the principles of reciprocity and equality, Japanese companies would not only be assisting China's modernization but also be benefiting Japan as well. Their participation would also contribute greatly to a lasting peaceful relationship between Japan and China. Through a process of close bilateral exchange, encouragement can be given to joint ventures if the problems perceived by Japanese companies are reconciled with the positions taken by China.

First, many Japanese companies believe that the political risk involved in investment in China is too great. Since China's government today is stable, this would seem to be an unnecessary fear. However, the "gang of four" period has left a strong impression on Japanese businesses, which fear a sudden shift in policy might bring rejection of foreign investment. A considerable amount of time may have to elapse before a large number of companies become confident that China's current foreign investment policies are permanent. This problem might effectively be eliminated by a bilateral agreement guaranteeing investments or by explicit provisions in the joint venture law or elsewhere for compensation in case of nationalization.

Second, occasional on-the-spot confusion and delays in decision-making arise because communication among those involved on the Chinese side is not always good. The same kind of problems also exist in Japan, of course. Both countries must work to eliminate unnecessary red tape and make sure that information flows smoothly between top and working levels, and among all the government offices and companies involved.

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Efforts should also be made to ensure that decision-making is coherent. It should be noted, perhaps, that while decision-making in Japanese companies is slow, it does not suffer from excessive red tape.

Third, Japanese companies doubt that China fully understands modern management techniques. Joint ventures in China are appraised more for their large volume of production than for their low costs, and Japanese companies fear that joint ventures will eventually lose their export competitiveness. Low wages are the only weapon available which latecomers to industrialization have to expand their exports and gain foreign currency. However, there are fears that the products of joint ventures might be cost-expensive in international terms because those operating the plants will demand wages--usually high--which are on a par with those received elsewhere overseas.

Fourth, there is a shortage of basic data with which to assess whether a joint venture will work smoothly or not. For example, in order for a company to predict factory construction costs and production costs after a project's completion, basic data on such factors as electric power, railways, road transport, ports, industrial water supplies, wages, and land costs are needed. Companies conduct feasibility studies based on these data before deciding to embark on a joint venture. If these data become available only after a decision has been made, companies will be very hesitant to invest. Details of laws and regulations involved are also necessary for feasibility studies.

Some of these problems will be difficult to solve because they arise, in part, from differences in the social systems of the two countries. Many of the problems can be solved, however, if mutual understanding is improved through bilateral exchanges and as a result of a large number of Chinese technical trainees coming to Japan. When this happens, both countries should be able to expand their mutual interests despite differing social systems.

This will, of course, take a lot of time. If China wishes to increase the number of joint ventures with Japan and other industrial countries as quickly as possible, it may be necessary to adopt a variety of incentives to attract foreign investment. If such measures are taken, overseas investors will begin competing with one another to start up joint ventures. The success of those ventures will mean that even if incentives are abolished after a while, the number of overseas companies wanting to take part in joint ventures will continue to increase, thereby putting China in a very strong bargaining position.

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END

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