Chapter 2 Contemporary Japan

Modern Society

The aftermath of World War II brought great influences for change in Japanese society. Economic growth has been exceedingly rapid and the resulting stresses have led to significant changes in many of the previous patterns of life. Above all, however, it has been the intelligent utilisation of the opportunities available to the nation which has characterised post-War Japan. Shortly before his death the former Prime Minister, Mr Yoshida, summed up these factors when he said: 'It was the diligence, initiative and creative ability of the Japanese people that enabled them to exploit the advantages offered . . . The economic rehabilitation and advance of Japan was due less to political factors than to hard toil and good fortune'.

The decade of the 1960s witnessed an increase in Japan's industrial production of 221 per cent and during 1968 the economy surpassed that of West Germany to become the world's third largest, ranking after the United States and the Soviet Union. Family incomes have increased substantially as a consequence of the growth to an apparently affluent society—if this is judged by material possessions. This affluence has been accompanied by inflation resulting in price increases on such items as food and land, which are so important to family groups. As mentioned in Chapter I, economic growth has been associated with increasing pollution and environmental contamination—to the extent that pollution of the atmosphere now exceeds maximum tolerance levels in more than half of Japan's sixty-six biggest cities. Population pressure on the limited available land has created considerable social problems for Japan. Half of the urban population lives in the metropolitan areas of Tokyo, Osaka and Nagoya and recent figures give the population of the Tokyo metropolis alone as 11,400,000 people.

The Japanese Government has adopted a family planning programme which has achieved a reduction in average family size from 4.52 persons in 1960 to 3.72 persons in 1970. However, population increases still present the authorities with a formidable problem. Recent population projections suggest that Japan's population may reach 124 million by 1985, 130 million by 2000 and 140 million by 2025. Life expectancy is higher than in Australia and is almost comparable with Sweden, which has the highest figures in the world. In Japan, life expectancy at birth for men and women respectively is 69.33 years and 74.71 years, while in Australia the figures are 67.92 years and 74.18 years.

Housing

The human and financial resources devoted to what has been termed Japan's 'economic miracle' have meant that equal emphasis has not been placed on other aspects of the country's social and economic structure.

For example, a housing shortage developed in Japan as a result of war-time destruction, industrialisation and the increase in population. Despite three different policy measures at various times since the end of the War, the shortage has not been overtaken. In the early post-War years subsidies were provided to local authorities to encourage the construction of rental housing for low income earners and in 1950 a Housing Loan Corporation was established to advance long-term loans at low interest rates to individuals wishing to build their own homes. Further measures were considered necessary and in 1955 the Japan Housing Corporation was established to construct multi-storey apartment buildings on a large scale in areas where the shortage was most critical. Despite the construction of a huge total of 13 million dwelling units in the past twenty years, the housing supply has been unable to meet the demand, particularly in city areas. Government estimates forecast a need to construct 30 million units in the next twenty years.

Education and Family Life

The impact of change has not been limited to physical factors, as is evidenced by the effect of modern Japanese society on traditional features of Japanese family life. Although Japan has a long history of official education, including the introduction of a national education system in 1886, two new and important measures were introduced in 1947—the Fundamental Law of Education and the School Education Law. The principal purpose of these laws was to establish equality of educational opportunity and to prohibit discrimination in education. Education is compulsory over a period of nine years of schooling, between the ages of six and fifteen years, and available figures indicate a high rate of conformity with this requirement—in 1968, for example, 99.9 per cent of children between these ages were enrolled in classes.

Evidence was submitted to the Committee on the effects on Japanese society of some erosion in traditional family loyalties. This trend has been more marked in urban areas, where there are indications that the lessening of family ties has given way to the evolution of groups of a social and political nature, which continue to give expression to the fundamental Japanese desire to 'belong'. On the other hand, other evidence suggests that some young Japanese are rejecting many Western influences (especially post-War American influences) and showing a tendency to return to their country's traditional values. Many young people in Japan exhibit a similar antipathy towards contemporary society as is found in most Western countries. The Japanese have shown an ability to absorb much of what is good from the West while periodically rejecting that which is considered bad. Their desire to retain what is good in Japanese culture and values remains a source of strength and unity. Witnesses appearing before the Committee could not predict with certainty that those changes of attitude which have occurred would necessarily be permanent. The reason given for this was the feeling that the Japanese are nationally introspective and that therefore their more fundamental attitudes are unlikely to alter significantly.

Those changes which are occurring in the traditional patterns of

family life have been considered of such importance by the Economic Planning Agency as to warrant investigation and the issue of a White Paper. The factors responsible for these changes have been seen as the country's high rate of economic growth during the sixties; the spread of higher education; the emphasis on the individual rather than the family as the social unit; and the equality granted to women by law. The change in the role of Japanese women has particular significance in considering the present day family. Japanese women gained the right to vote in the first post-War election. They now have equal legal rights in contracting marriage and have equality with their husbands in owning or inheriting property and in the upbringing of their children. The employment of married women has increased to a point where at least half their number is working. Although the average income per family has risen steadily in the past few years to a figure of $A2,800, the strong pressure of inflation is given as the reason for the high proportion of married women in employment.

The development of large apartment projects with limited space per home unit has been an important factor in the breakdown of the past custom of elderly relatives forming part of the family unit. An unfortunate consequence of this is that Japan is following a Western trend in that the aged are often lonely and impecunious.

Social Welfare

Japan has a long history of social welfare which is associated with the close affinity existing between employee and employer. It has been a traditional part of Japan's society for workers to have a strong sense of loyalty to their employers and to remain in the service of the one firm throughout their working lives. In return, the employer has accepted a very high degree of responsibility for the welfare of employees and their families. Since 1927 a medical insurance scheme has been in operation in which employees of private and government enterprises, farmers and self-employed persons can all participate. This scheme covers those who do not share in the rather paternalistic welfare systems of industrial organisations. There is evidence of change in the traditional welfare system as a result of the movement of population from rural areas to cities in search of industrial employment, and the recently evolved tendency for individuals to change their employment in search of higher wages.

The evidence suggests that some Japanese attitudes are changing and people are seeking satisfaction in fields other than material affluence. They feel that greater emphasis should be placed on improving the social infrastructure, particularly in areas relating to the quality of life of the community and social welfare. There are clear signs also that the Government is responding to these developing pressures.

Employment

Employment opportunities have improved to the extent that labour shortages have emerged, particularly in the skilled worker field. Prior to the 1971 down-turn in the Japanese economy, it was reported that

there existed something like five job opportunities for each skilled tradesman. This, of course, has stimulated demands for wage increases, which up to now have not been as great as might have been expected in a rapidly industrialising society. It has been one of the features of the growth of Japan's economy that until recent years productivity increased at a faster rate than wage levels.

The development of trade unions has been rapid in the post-War years, although their influence is still weak by comparison with their counterparts in Western countries. In the past there was little stimulation to trade union growth in view of the traditional lifetime relationship which existed between employee and employer, but the changes in these traditions have provided opportunities for their expansion. Figures provided to the Committee show that out of the Japanese work force of 52 million, 11.2 million are trade unionists. Japanese trade unions are generally based on a single enterprise and embrace workers of several different occupations within that enterprise, rather than embracing workers of the same occupation on an industry-wide basis.

Japanese People

The section of the Committee's report dealing with Japanese society would be incomplete without a reference to some of the more common qualities and attitudes of Japanese people. To a Western person the Japanese are exceedingly complex and no doubt the Japanese feel the same way about Westerners. The Committee was fortunate to receive evidence from a number of persons with long and close association with Japan and many of its people. Some of their comments clearly illustrate the gap between the two cultures and the effort and tolerance required to bridge this gap in even the most elementary way.

One witness said:

> . . . They are a very active, most diligent, highly dedicated and united people, extremely proud of their achievements, particularly in their post-War recovery. They are also a most sensitive and emotional people, prone to violence under stress.
>
> . . . .
>
> Perhaps the biggest problem for Japan is the attitude of the Japanese themselves to the outside world. They are an extremely insular people, convinced of their uniqueness and of their spiritual superiority as a nation. While they have an elaborate code of traditional behaviour for purely Japanese relations within Japan, they have no code of behaviour to follow in relations with foreigners and for situations alien to Japan. While a very sensitive people as Japanese, they seem to display a singular lack of sensitivity for other peoples. This is no doubt the result of over 200 years isolation from the outside world.
>
> . . . .
>
> Another area in which we have to be careful in our dealings with Japan is in our acceptance of them as a people. Although they never suffered the humiliation of colonisation they have for generations experienced difficulties in gaining acceptance as equals by the countries of the West. From the moment they came out of isolation their ambition was to make up as soon as possible the material gap between themselves and the Western countries. To this day the slogan has been to 'catch up with the advanced countries of the West' and to be accepted by them in every way as equals.
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> What may appear to be quite insignificant things can have a profound effect on the Japanese if they see them as a rejection of a Japanese desire to be accepted . . .

Another, referring to an aspect of the well-known Japanese politeness, explained the Japanese attitude in this way:

> Japanese will try to give you the answer they think you want . . . To their mentality it is not lying. The fact is that as far as possible you do not do anything to hurt another's feelings. What they are trying to do is to give you an answer and keep up your good spirits. They have a saying that foreigners—and I am a foreigner in Japan of course—'speak too clearly'. We tend to say what we mean and we say it too bluntly . . .

Finally, in discussing the Japanese concept of obligation, the same witness said:

> With Japan you are dealing with a country with a population which is completely different from Australia's. I think this is a fundamental point . . . For example, the idea of being kind to your neighbour, helping him, to us is automatic I think. Even though we often fail to live up to it, at least we feel we should. If you see someone in trouble, you race round and try to do what you can to help him. Well, that would conflict with a Japanese principle of not being under an obligation to somebody. You must pay your debts . . . in Japan.
>
> I had a case a couple of years ago: I picked up an open canvas bag that someone had dropped, and it had something like $200 to $300 in it, in Japanese money. I knew it belonged to the local milkman who had been round collecting his monthly bills. Now the Japanese law on that is that you take it to the nearest police box, hand it in, and the finder is entitled to 10 per cent of the findings as a reward. So it only took me a couple of minutes to go down to the police box, which was about 100 yards down the street, and I whipped it in to the cop and told him where I picked the bag up. He said: 'Wait', and he got the milkman on the phone and the milkman came round—it was only the delivery man, not the owner of the business—and proceeded to give me $25 reward in front of the cop. I refused it. I felt the delivery man could not afford it out of his wages. To me it was just Christian charity and the right thing to do. But the cop insisted I take it. So I took it and just folded it up and slipped it into the bloke's top pocket and parted company. I had done the wrong thing, because I had left this poor bloke under an obligation to me. That was my instinctive reaction, but I have now been in Japan long enough to know what I really should have done. I should have taken half the money and given him the other half—everything would have been settled then . . . Even though you have lived with them for 20 years, if you still make a snap judgment as an Australian you are going to make the wrong judgment. What happened after that was that I used to see this milkman once or twice a week and every time he saw me he stopped and tried to persuade me to have a bottle of milk at his expense, drink it by the roadside, just to pay back his debt. He was permanently under an obligation to me.

In Chapter VI the Committee deals in greater detail with the related aspect of improving mutual understanding between the people of Australia and Japan.

Political System

One of the post-War Occupation's most significant influences on Japan was the framing in 1946 of a new Constitution which provided a system of responsible government in which the relationship between Cabinet, Parliament and the electorate took a form readily understood by those familiar with the British system of government. It also aimed at the elimination of the armed forces as an independent force in politics.

Constitution

A copy of this Constitution appears as Appendix I, but, briefly, its principal features were to declare the sovereignty of the people symbolised in the person of the Emperor as a constitutional monarch; to

guarantee fundamental human rights to the individual; to renounce war and re-form the Parliament into a House of Representatives and a House of Councillors, all members of which are elected by universal adult suffrage. It is also of interest to note that the rights and duties of the people set out in the Constitution bear a great resemblance to the United Nations Declaration of Human Rights. As an extension of the strongly pacifist aspects of the Constitution, Ministers of State are required to be civilians. The Constitution has gained the acceptance and respect of the Japanese people and there appears little public support for its change, despite the fact that revision of certain aspects is a long-term aim of the governing Liberal-Democratic Party. Opposition parties have maintained a firm stand against any revision. The constitutional requirement for an amendment is a two-thirds majority of both Houses of the Diet plus a majority of the people in a referendum.

The Diet

The Parliament established under the new Constitution (the Diet) comprises two Houses elected by secret ballot under universal adult suffrage. Women were granted a vote at the first post-War election in 1946. The Lower House, the House of Representatives, now contains 491 members and in the Upper House, the House of Councillors, there are 252 members. In anticipation of Okinawa's reversion to Japanese control in May 1972, the numbers of Representatives and Councillors were increased by five and two members respectively in November 1970. Members of the House of Representatives are elected for a four-year term and the House of Councillors for a six-year term with half of the Councillors retiring every three years.

Following the recent Japanese elections, the composition of the Diet is now (January 1973) as follows:

	House of Representatives	*House of Councillors*
Liberal-Democratic Party	284	136
Socialist Party	118	62
Communist Party	39	10
Komeito	29	23
Democratic Socialist Party	20	12
Independents	1	6
Vacancies	..	3
	491	**252**

With the exception of the Komeito, the general philosophy of each of the parties is apparent from its name. The Komeito is an off-shoot of a Buddhist group, Soka Gakkai, whose close-knit, hierarchical organisation and simple values appeal to many who have lost their traditional roots in the villages and are seeking a secure life in the over-crowded cities. The Komeito advocates 'clean politics' and the elimination of corruption, and has placed emphasis on such social problems as rising prices, pollution, the housing shortage and traffic congestion. The party lost a number of seats at the recent elections.

Of interest to the Australian Senate is the emphasis placed on com-

mittees in the operations of the Diet. There are many standing and special committees set up by each House with power to examine and debate legislation and every Diet member must serve on at least one committee but on no more than three.

Governing Party

Throughout the post-War years Japan has been governed by Conservative elements with the exception of a brief period in 1947-48 when coalitions between Socialists and Democrats held office. In 1955 the Conservative groups combined to form the Liberal-Democratic Party and this party has retained office since that time. The multi-member constituency system promotes campaigning by members of the same party against each other. This has been one of the factors which has brought about a conglomerate of party factions within the Liberal-Democratic Party, each with its individual leader. It has been said that the governing party contains ten to twelve factions, rather like parties within parties.

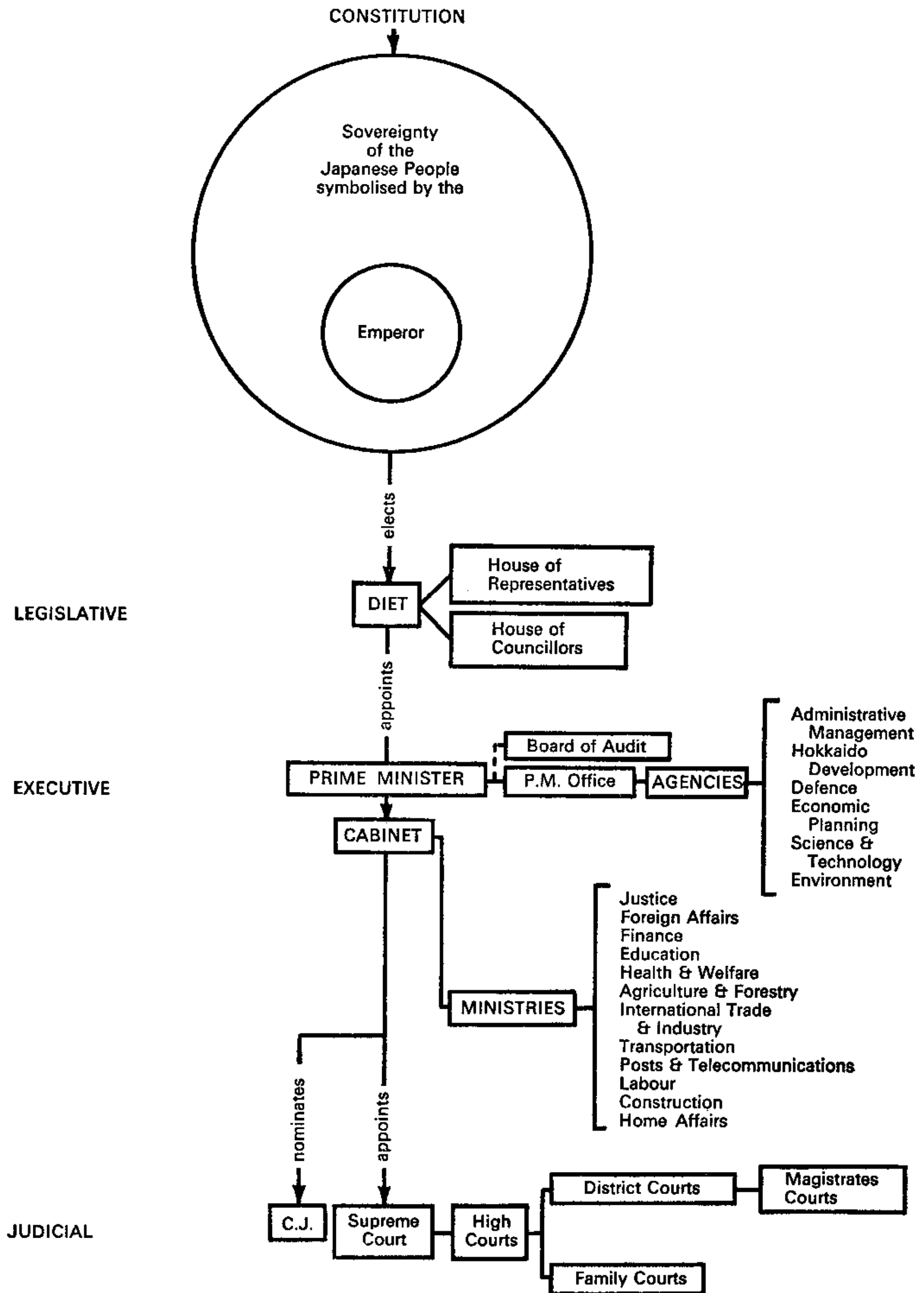
As a result of growing urbanisation and the current demands of the Japanese population, the Government is expected to come under increasing pressure within the next few years for improvements in those factors generally included within the term 'quality of life', and it has indicated that emphasis will be placed on them in the legislative programme. Given the strong position of the Liberal-Democratic Party and the inability of the Opposition parties to co-operate with each other and to put forward alternative policies attractive to the electors, it is difficult to see any real threat to the governing party in the near future.

Decision-making

In discussing the Japanese political system, it is relevant to note two features of the decision-making process which are common to both government and business. These features appear unique to Japan and have been given much of the credit for the country's economic recovery after World War II. The first is the reaching of decisions by 'consensus' in which patient research is a prelude to the consideration of a problem by all interested parties. This consideration is not confined to the policy makers, and before reaching a consensus the parties concerned will have viewed the problem from all angles and made compromises where necessary to reach a corporate decision offering the greatest benefit to the particular company or group concerned. It is, in all probability, the Japanese attribute of loyalty to the 'group' which makes this practice so effective. Secondly, there is the highly developed practice of close association between government, the bureaucracy and industry, in which all contribute their knowledge and expertise to the formulation of policy. One witness, when asked to explain a reference to this system of government-business co-operation in decision making, said:

> But starting from the standpoint that Japan is a free enterprise economy, I think it can be said that among the capitalist economies Japan is the one which exhibits the highest degree of co-ordination between government and business. This does not mean that there is in any sense authoritarian control or direction by government to business; it means rather that there is a very close set of inter-connections between government and business in many fields. One form which these relationships take is the interchangeability of personnel between government and business. You very often find in Japan

Government of Japan



(Courtesy of Professor Joyce Ackroyd)

that senior officials, from the economic ministries in particular, will move after retirement or before retirement into business as company directors, business consultants or advisers on particular aspects of economic affairs. The role of the Japanese Ministry for International Trade and Industry, MITI as it is usually called for short, is quite a key one in this respect. MITI has a number of officers who are actually stationed in the offices and headquarters of the bigger companies to advise them on particular matters. In return, MITI is advised by a whole series of special councils and associations which are made up of business representatives or sometimes have a mixed composition involving representatives of business, officials, and sometimes representatives of research and academic institutions. The Japan Foreign Trade Council is an advisory body which works directly with MITI but has a primarily business composition. There is also the Industrial Structure Council which has a similar advisory role. These various bodies working with MITI, with officials, in this kind of cross-fertilisation process, produce a form of consensus on investment and production targets—matters of that kind. There is also obvious scope for co-ordination of research through the close consultation that goes on between business and the economic ministries. The whole process again is facilitated by the peculiar structure of Japanese industry, which is very closely co-ordinated at all levels, horizontally as well as vertically; by the role of the banks and the relationship of the Government to banking in Japan; and by the existence of many central associations within Japanese business, of which the most important is the Federation of Economic Organisations or Keidanren. There are others, such as the Federation of Employers, the Japan Committee for Economic Development and so on. Finally, there is the special role of the Economic Planning Agency in Japan, which prepares economic plans and is in close and constant touch with both business on the one side and other government departments on the other, and which gets its guidelines from an Economic Deliberation Council which is made up of a very wide cross-section of businessmen, representatives of finance, labour, the universities, the Press and government departments. I can only give this kind of illustrative answer to your question, Mr Chairman, because a complete and comprehensive answer would probably require years of research and a university thesis at the end of it.

Associated with this close co-operation there is also the use of 'administrative guidance'. This is a legal term in Government ordinances, requiring private enterprise to accept 'administrative guidance' in the implementation of economic policy.

The Committee was informed of the strong influence of the bureaucracy in the Liberal-Democratic Party itself. Former senior public servants comprise about one-quarter of the parliamentary party and occupy an even larger proportion of senior positions. All of the post-War predecessors of the Prime Minister, Mr Tanaka, were drawn from the ranks of the bureaucracy. The Liberal-Democratic Party is said to rely heavily on three sources for support—on the bureaucracy for policy advice and implementation, on business interests for funds and on the rural areas for electoral support. In speaking of the influence of the rural vote in support of the Liberal-Democratic Party, another witness went so far as to use a term not unknown in Australia—'the gerrymander'—in referring to the disproportionate weight of electoral support which the Liberal-Democratic Party receives from rural areas.

The Cabinet System

As mentioned earlier, the Constitution has excluded the influence previously wielded by military leaders by requiring that all Ministers of the Government be civilians. The Cabinet system and its lines of control are clearly illustrated by the accompanying diagram. It is interesting to note the use made of agencies for particular areas of

administration. The civilian control of Defence, for example, is safe-guarded by the Defence Agency being responsible through its Director-General (who holds the rank of Cabinet Minister) to the Prime Minister, who in turn is responsible to the Diet.

Foreign Policy

From the signing of the Peace Treaty in San Francisco in 1951 until quite recently, Japan's foreign policy has been cautious and restrained and generally in harmony with the policies of the United States. Reasons suggested to the Committee for this restraint include:

- reaction to their defeat in World War II and the resultant uncertainty and lack of confidence among the leadership;
- the realisation that the early resumption by Japan of an active role in international affairs could produce unfavourable reactions in those countries still hostile to Japan as a result of the War;
- Japan's preoccupation with restoration and development of industrial power;
- the factionalism within the Liberal-Democratic Party preventing a cohesive foreign policy; and
- the comfort Japan found in the shelter of the United States defence umbrella provided by the Treaty of Mutual Security.

The protection afforded as a result of the Mutual Security Treaty enabled more of Japan's financial resources to be directed, with great advantage, towards industrial development. The great United States military bases served the dual purpose of providing security for Japan as well as forming part of the United States' strategic pattern. It is worth recording that in published material available to the Committee the area at one stage occupied by these bases was one per cent of Japan's total land area and the cost of maintaining United States forces in Japan was officially estimated recently at approximately $US490 million per annum.

United States of America

It was to be expected that the close relationship which had developed between Japan and the United States in the post-War period would, in time, undergo change. Early indications of change were the Japanese proposals that the United States should scale down its bases on Japanese territory and the persistence with which negotiations were pursued for the reversion of Okinawa to Japanese control. The strong efforts made by Japan concerning Okinawa resulted in the island once again becoming Japanese territory on 15 May 1972, but with the United States retaining large base areas. These bases extend over more than 12.5 per cent of Okinawa's land area.

In considering the recent evolution of Japan's foreign policy, it is relevant to recall the country's geographical location. In the words of the Prime Minister, Mr Tanaka:

> The fact that this country is situated at the meeting-point of East and West, or, to be more exact, of the United States, the Soviet Union and Mainland

China, constitutes a vitally important factor in formulating the foreign policy of this nation.

Even before any change was apparent in the country's relations with the United States, Japan had taken tentative steps to participate more actively in Asian affairs. For example, in 1963 it offered mediation in the Indonesian-Malaysian dispute; in 1966 it was quick to provide substantial financial assistance to the new Suharto Government in Indonesia; and in 1970 it took a prominent part in the Jakarta Conference on Cambodia. However, it was the announcement in July 1971 of President Nixon's proposed visit to the People's Republic of China that really stimulated Japan to reappraise its foreign policy. The Japanese reaction to this announcement was one of shock. Various witnesses have also claimed it to have been one of anger that no advance consultation should have taken place about an action which constituted such a fundamental change of policy. It is clear that the Japanese also believed that the status of their relationship with the United States assured their right to prior consultation on such issues. While this question is open to debate, the Committee can appreciate that any premature disclosures might have prejudiced the successful conduct of the negotiations leading to the President's visit. However, the point being made in the context of this report is that the incident was one of the factors provoking a reappraisal of Japan's foreign policy.

People's Republic of China

Relations between Japan and the mainland of China have traditionally been close, and, despite the absence of diplomatic relations in recent years, trade has continued at a substantial level. During the past few years, small but active lobbies in Japanese trading and business circles have favoured closer relations with the People's Republic of China. However, it was the United States' new China policy, together with these strong domestic pressures and business hopes for increased trade and investment opportunities, which persuaded the new Japanese Government under Mr Tanaka to move purposefully towards the establishment of normal relationships with Peking, culminating in the September 1972 meetings between the leaders of the two countries. The statement jointly issued by the two leaders on 29 September 1972 has been included as Appendix II of this report but, briefly, the major agreements announced were:

- the state of war which technically still existed between the two countries was effectively terminated;
- the establishment of diplomatic relations from that day; and
- recognition by Japan of the People's Republic of China as the sole legal Government of China.

The terms of the joint statement clearly indicate a strong desire on the part of both countries to reach an amicable agreement and must strengthen the leadership position of the new Japanese Prime Minister.

Soviet Union

There are also signs of progressive improvements in the relations between Japan and the Soviet Union. Some impetus has been given to this by the Russian reaction to President Nixon's visit to Peking

and the apparent hostility between Russia and China. Progress has been made in trade, aviation and cultural relationships, but disagreements over the control of some small northern islands seized from Japan by the Soviet Union in 1945 are stated as significant obstacles to both countries agreeing on the terms of a peace treaty. A joint declaration of termination of the state of war and the re-establishment of diplomatic relations was signed in 1956, but failure to resolve territorial issues and fishing rights have been obstacles to complete restoration of normal relations. Trading relations have increased to the extent that in 1971 Japan's exports to the Soviet Union were valued at $US377 million and imports at $US496 million. A trade agreement signed in 1971 envisaged a substantial increase in two-way trade over the succeeding five years. There have been continuing suggestions of the joint development of Siberian natural resources but with little practical result so far. During 1972, relations between the two countries appear to have improved as a result of the visit to Japan of the Soviet Foreign Minister, Mr Gromyko, and the subsequent visit to Moscow of Japan's Foreign Minister, Mr Ohira. For the first time it appears that the Soviet Union is prepared to discuss the future of the northern Kurile Islands, and evidence suggests that a satisfactory solution of this issue will be important in any long-term settlement between the two countries. Despite the thawing of relations, it must be remembered that many problems remain, not least of which are the historical memories on both sides of past differences.

East and South East Asia

To the non-communist countries of East and South East Asia, Japan's foreign policy has been directed towards the restoration and building up of economic relations and, more recently, to the promotion of regional co-operation. It has taken an important part in the Asian Development Bank.

In pre-War times Asia was Japan's major trading outlet, but the area now takes second place to the United States and in proportionate terms Japan's trade with Asia is only half as important as it was pre-War. There is still evidence in Asian countries of residual bitterness persisting from wartime experiences and this, coupled with the economic aggressiveness shown by Japanese businessmen during the period of economic revival, has provided the basis of criticism of Japan's actions. However, Japanese authorities are aware of these obstacles to better relations and efforts are being made to improve the country's image.

Papua New Guinea

Japan has shown increasing interest in Papua New Guinea and it may be reasonably expected that relations between the two countries will become closer on the latter's achievement of independence. Although formal relationships can exist only through Australia at present, there is a growing association of Japan and Papua New Guinea through regional organisations such as the Economic Commission for Asia and the Far East and the Asian Development Bank. Trade has

been steadily increasing with the balance substantially in Japan's favour, but this situation will change markedly with the development of the Bougainville copper mines. A closer association between the two countries would ideally fit within the framework of Japan's 'resources diplomacy'—a programme aimed at assuring continuity of supply of raw materials so essential for Japan's prosperity. At the present time it is participating in a limited way in Papua New Guinea development projects of fisheries, timber, mining, oil and gas exploration and palm oil.

Aid

Japan has taken an increasing interest in the provision of aid to developing countries and in 1970 this reached a stage where the country's contribution ranked second to the United States among members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development, who provide 90 per cent of free world aid. Nevertheless, criticism has been voiced that Japan's aid is too closely tied to commercial ends, to the promotion of Japanese exports and to the exploitation of raw material sources for Japanese industry. Further, the terms of repayment and interest are sometimes said to be unnecessarily stringent. By contrast, Australian aid has been welcomed and applauded for its 'no strings attached' basis—in most instances it is extended as a gift whether it be in the form of finance, goods or technical services. Japan has announced the intention of increasing its already substantial levels of aid and of improving its terms, for example by emphasising untied aid. With this, there is some recognition of the desirability of reducing the commercial orientation of aid programmes. There has been an instance of Australian technical services joining with a Japanese firm to extend engineering aid and it has been suggested that the Japanese may welcome an extension of joint aid programmes. While the Committee would wholeheartedly support both countries participating in aid programmes financed on a multilateral basis, there appear to be sound reasons for not favouring aid programmes jointly financed by the two countries. Apart from the danger of two affluent countries being regarded as a 'rich man's club', it might also seem unfortunate in the eyes of some developing countries for Australia to be associated with Japan's less generous image as an aid donor.

Although Japan has been facing something of a dilemma in recent years, and has appeared indecisive in determining a foreign policy course, the Committee believes that the recent success of negotiations with China will be an important factor contributing to more positive and confident attitudes being adopted in the future. The bonds between the United States and Japan have been under strain and have suffered some setbacks, but it is expected that a strong, although modified, relationship will continue with Japan demanding greater equality with the United States. Although the Committee believes it will not be the easy unquestioning relationship of the past twenty-five years, it can

nevertheless be expected to remain firm and to operate to the mutual advantage of both countries. It should also be remembered that Japan's confidence in taking new foreign policy initiatives derives in part from the security afforded by its relationship with the United States.

The Committee believes that Japan can be expected to place great emphasis on her own national interests in the development of future foreign policies. Because of the vital place of industry in the Japanese economy, the evidence before the Committee suggests that the principal diplomatic objectives will be:

- the safeguarding of Japan's continued access to sources of raw materials;
- the continued expansion of trade;
- the maintenance of global stability; and
- the improvement of the Japanese image in other countries and recognition of its status as an important world power.

Defence Policy

Any examination of Japan's present military role needs to take into account three factors. The first is the Japanese Constitution adopted in 1946, the Preamble of which gives an indication of attitude with a general statement that '. . . never again shall we be visited with the horrors of war through the action of government . . .'; and which contains a renunciation of war in Article 9. This Article reads:

> Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.
>
> In order to accomplish the aim of the preceding paragraph, land, sea and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

The second factor is the Peace Treaty signed between the Allied Powers and Japan in San Francisco in 1951, which states in Article 5, section (c):

> The Allied Powers for their part recognize that Japan as a sovereign nation possesses the inherent right of individual or collective self-defense referred to in Article 51 of the Charter of the United Nations and that Japan may voluntarily enter into collective security arrangements.

The third factor is the strong attitude of pacifism evident throughout Japanese society today. The evidence suggests that the strength of Japanese feeling for peace stems from reaction to the destruction suffered in World War II, and particularly to the horrors of nuclear devastation which only Japan has experienced.

As mentioned previously, consistent with the strong reaction against earlier militarism, Article 66 of the Japanese Constitution requires the Prime Minister and other Ministers of State to be civilians. The National Defence Agency, although not given the title of a ministerial department, does have an equivalent status and is directly responsible to the Prime Minister.

The establishment of armed forces of any type has been strongly

debated in Japan, generally on the basis that Article 9 of the Constitution prohibits defence preparedness. However, when considered against Article 5 of the Peace Treaty, which is a document subsequently agreed between Japan and the Allied Powers, it is clear that a right exists for a form of organisation purely defensive in its role. In 1950 the occupying powers required Japan to establish a para-military National Police Reserve of 75,000 men and since 1954 there has been a progressive increase in size of the Japan Self-Defence Forces, the title of which is designed to indicate their non-offensive character. It has been consistently and firmly established that these forces will not exceed the role of maintaining internal security and the protection of Japanese territory in a defensive way. Examples of this policy have been Japan's consistent attitude against joining regional defence arrangements and refusal to commit forces outside the confines of the Japanese homeland. Official and public reaction is so sensitive on this question that even following the reversion of Okinawa to Japanese control, there has been only a very limited transfer of members of the Self-Defence Forces to that territory.

Security Arrangements

From the end of the Occupation period Japan has received defence protection from the United States under a mutual security treaty. Evidence placed before the Committee indicates that, contrary to popular belief, the idea of a security treaty did not originate from the American side. Japanese leaders of the day advocated such an arrangement, but initially without any encouraging response from the United States. It was not until the outbreak of the Korean War in 1950 that the United States saw virtue in the formalisation of a treaty of security between the two countries.

Such an agreement was entered into in 1951. In 1960 the treaty was reviewed and a new Treaty of Mutual Co-operation and Security was concluded. This treaty continued to give Japan the comforting protection of the United States nuclear umbrella and to provide United States forces with bases in Japan. It was to remain in force for ten years and in 1970 was extended for a further indefinite period with either party being obliged to give one year's notice of a wish to terminate it.

The original treaty and its periodic renewals have not received universal support in Japan. Originally, much criticism arose from the secrecy surrounding the negotiations for the treaty of 1951. Each occasion of renewal has been marked by political crisis in one form or another, but at the same time it is proper to point out that there has been very little support for completely abandoning the security treaty as the foundation of Japan's defence policy. Some criticisms have been founded on anti-militarist attitudes and support for Japanese neutrality. It is therefore in this atmosphere that Japanese authorities have rejected proposals for regional defence arrangements or participation in other United States military strategies.

Self-Defence Forces

The basic role of the Self-Defence Forces is stated to be one of deterring aggression against Japan itself. Under the United States-Japan Treaty of Mutual Co-operation and Security, the assistance of the United States would only be called on if an attack proved to be beyond the capability of the Japanese forces.

The legal framework for the establishment of the Self-Defence Forces is provided under the 1954 Defence Agency Establishment Law, the Self-Defence Forces Law and the 1956 law relating to the structure of the National Defence Council. Reference was made earlier to the principle of civilian control of the defence forces—a principle which was assured under this legislation. It is worthy of note that, while civilian control of the defence forces is familiar enough in Western countries, it was a genuine innovation for Japan. In pre-War times the Imperial Army and Navy were virtually autonomous entities wielding great influence in both domestic and foreign policy.

In the evidence presented to the Committee, emphasis was placed on the defensive role of the Self-Defence Forces and on the overwhelming support for this limited role amongst the Japanese people. Official attitudes have not changed with the development of the Self-Defence Forces, as is clearly indicated in two quotations—the first is found in a resolution unanimously carried by the Japanese House of Councillors in June 1954, and the second is a statement by the former Prime Minister, Mr Sato, in February 1970. The resolution of the House of Councillors stated:

> On the occasion of the establishment of the Self-Defence Forces this House, in view of the provisions of the present Constitution and the ardent love of the Japanese people for peace, strongly affirms that the Forces will not be sent overseas.

Prime Minister Sato's statement in February 1970 was:

> The duty of the Self-Defence Forces is to protect Japan from aggression. The provisions of the Constitution make overseas service impossible.

This attitude is again reflected in the name given to the forces. Rather than titles such as Navy, Army and Air Forces, the Japanese have established their Maritime Self-Defence Force, Ground Self-Defence Force and Air Self-Defence Force.

Defence planning has been based on a series of five-year 'Defence Buildup Plans' commencing in 1957. Under these plans the forces' capacity and equipment have been progressively increased to a stage where at present Japan maintains a total of 233,000 men under arms, all voluntarily enlisted. On a comparative basis, Japanese forces are approximately half the numbers of British, French, West German or Italian forces, and about equal to those of Czechoslovakia. While only one per cent of the Japanese male population of military age was actually under arms in 1969-70, the comparable figures for several other countries were 3.8 per cent in Britain, 4.7 per cent in France, 3.6 per cent in Italy and 3.5 per cent in Australia.

While a great deal of information was presented to the Committee on the cost of the Defence Buildup Plans, the Committee believes that a table provided by one witness is the most informative. This does

not give actual costs of each programme but is rather a table expressed in constant uninflated prices:

Table A: Japan's Defence Spending

(*at constant* 1967 *prices*)

Period	Amount
Period 1957–61	$A2,252 million
Period 1962–66	$A3,872 million
Period 1967–71	$A5,774 million
Period 1972–76	$A11,811 million

N.B. Fourth Defence Buildup Plan figures do not take account of yen revaluation.

It will be noted that the table indicates an approximate doubling in real costs of expenditure of each defence plan over its predecessor. It is relevant to ask how much of the escalating costs of the successive defence programmes have been due to real expansion. One important factor has been that the generous United States military aid extended to Japan showed a substantial decline between 1958 and 1965, indicating that expansion of the defence forces was not the only reason for the increase in defence costs. Between 1958 and 1960 approximately 31 per cent of Japan's equipment requirements were provided free of charge by the United States. From 1960 to 1965 this figure was reduced to 7.5 per cent, and today such free military aid has been almost completely phased out.

It should, of course, be remembered that the actual costs of defence have risen much more rapidly than the table above suggests, due to the influence of inflation. This has been a major issue in the defence budgets of all countries and it was estimated in the fifth annual report of the United States Arms Control and Disarmament Agency that 60 per cent of the increase in the world's defence spending in 1970 was directly attributable to inflation.

Even before the Nixon Doctrine was expressed as a statement of policy by President Nixon in July 1969, the United States had been endeavouring to persuade Japan—and indeed, many of its other allies — to adopt one of its important principles, namely the acceptance of greater responsibility for their own defence. Again, this would be a contributing factor in the increase in Japanese defence budgets.

It is worthy of note that annual expenditure on the Self-Defence Forces has been consistently less than one per cent of gross national product and, despite modernisation and increased equipment which will be provided under the current Defence Buildup Plan, Japan's armed forces are stated to be inadequate to cope with a major attack on its territory.

The Future

Despite the strong evidence of pacifism in the attitudes expressed by the Japanese people in the post-War period, reservations about Japan's future policies are still prevalent amongst the country's neighbours. Japanese official circles are aware of these reservations, and this is reflected in the statement made by the former Minister and Director-General of the National Defence Agency, Mr Nakasone, on the

occasion of announcing a Defence White Paper in October 1970:

> I have . . . proposed a defense concept as a 'non-nuclear middle class nation'. According to the Western way of thinking, there exists a certain preconceived idea that economically great powers will inevitably become militarily great powers, but we challenge that way of thinking and hereby declare that the nation of Japan will become a great power in an economic sense but never in a military sense.

The fact that Japan is within a minute's range of guided weapons from Soviet and Chinese installations has given cause for argument on the likelihood of the country seeking nuclear weaponry. These fears have been increased by what many people see as Japan's vulnerable strategic position adjacent to two major powers, and bearing in mind such territorial disputes as the sovereignty of the Kurile and Senkaku Islands. The question of the Kuriles was discussed earlier, while the latter are a small group lying approximately 100 miles north-east of Taiwan. They are claimed by Japan, by the Republic of China on Taiwan and by the People's Republic of China. This issue could become more contentious in the event of reported oil deposits in the offshore areas adjacent to the islands being confirmed.

If for any reason Japan decided to develop nuclear armaments, there is little doubt that it could accomplish the task in a very short space of time. One expert witness estimated that Japan could make one bomb and test it within six months, and that the country had the capability to develop a nuclear arsenal in two or three years. On the other hand, the Committee notes that other witnesses were less willing to place an estimate on the time it would take Japan to develop nuclear weapons, but some regarded the figure of six months as unrealistic. Of the considerations of cost, technology and military capability, Japan is already able to meet the first two criteria. The country has made significant advances in the peaceful development of atomic energy for power generation, and it is clear that it intends to reduce current dependence on coal and oil supplies. The advantage is apparent when it is appreciated that one ton of uranium is the equivalent for power generation purposes of two million tons of coal. Atomic stations, either planned or already in operation, will have an output of over six million kilowatts by the end of 1975. Figures published in Japan have given the demand for supplies of uranium oxide up to the turn of the century as 48,000 tons by 1980, 200,000 tons by 1990 and 420,000 tons by 2000.

In addition to this advancing nuclear technology, Japan is developing the technology which could be applied to delivery systems. While the country has already launched its own satellites, it still lacks the sophisticated techniques perfected by the United States and the Soviet Union in, for example, the area of guidance systems. It lacks, too, the numbers of submarines to provide dispersed launching platforms so essential to a country uniquely vulnerable because of small size and concentrated industries.

In any consideration of the likelihood of Japan 'going nuclear', it is necessary to weigh carefully the many arguments advanced against it taking this step. There is no doubt that major public and political

opinion is at present convinced that there is no current need or desirability for Japan to have a nuclear capability. Credence must be given to the strength of the Japanese Constitution, the public utterances of its leaders and the protection afforded by the United States nuclear deterrent under the mutual security treaty. There is overwhelming evidence against such a step being taken in the immediate future and, as one witness stated, the Japanese people have a 'nuclear allergy'. Finally, of course, there is a strong belief in Japan that the country is under no threat.

The Committee accepts that Japan has no immediate plans for developing nuclear weapons, but it also recognises that it has the capacity to do so should circumstances encourage public and official opinion to change. While it believes that the majority of Japanese people do not wish to hold nuclear weapons, this situation could alter if outside influences develop to deny Japan the opportunity for continued economic prosperity, or if the country is given cause to seriously doubt the credibility of the United States nuclear umbrella. The recent United States-China talks have given some real cause for concern on this matter.

In summary, by today's world standards Japan has limited military capability, but it must be accepted that its huge industrial capacity provides it with enormous defence potential.

Economy and Trade

Economic Growth

In the post-War period, major emphasis has been given in Japan to the development and expansion of manufacturing industries, particularly those with high productivity and export potential. Emphasis has also been placed on securing guaranteed supplies of the raw materials on which the country's industrialisation has depended. Priority was given to the rehabilitation and expansion of the iron, steel and shipbuilding industries and to developing heavy and light new industries. The resulting success may be measured by economic growth which, despite some fluctuations, has averaged about 10 per cent per annum in real terms since 1950.

Japanese authorities expected this 10 per cent growth rate to continue, but during the 1971 slow down of the economy the rate was reduced to less than 6 per cent. Japanese predictions envisaged a quick recovery and although improvement is now evident, there is doubt whether the peak levels will recur because of changes of emphasis in national objectives and world trade. As discussed earlier, the Committee believes that the Japanese may be content to allow their rate of economic growth to moderate in order to concentrate greater efforts on achieving new targets in matters relating to social standards and improvements in the country's quality of life.

Japan's gross national product in 1970 was $US196,000 million. To give perspective to this figure, it may be compared with the United States' GNP for the same year ($US974,000 million) and with the Australian figure of $US33,500 million for the financial year 1969-70. On another basis, the extraordinary growth of Japan's national income,

as compared with three other major industrial nations, is shown in Table B, which has been drawn from the United Nations Statistical Yearbook for 1971.

Table B: National Income *(in $US millions)*

	1960	1963	1967	1968	1969	1970
Japan	39,245	60,463	104,888	124,362	144,064	171,385
West Germany . .	65,850	86,702	110,425	120,650	136,954	166,112
United Kingdom . .	66,858	79,521	101,585	95,062	101,376	111,010
United States . .	462,306	540,505	728,886	782,035	838,224	875,379

The record of Japan's economic achievement over the past two decades has been attributed in evidence to the following six basic factors:

- the high level of investment in productive activities;
- a low level of government expenditure, particularly on defence;
- a high degree of government direction and control of the economy;
- a highly motivated and highly educated labour force;
- a traditional eagerness and ability to absorb new technology from abroad; and
- a unique system of gevernment-business co-operation in decision making.

Japan's post-War economic expansion required a large-scale mobilisation of capital, and the bulk of this finance was obtained from domestic sources. This was only possible because of the relatively low rates of consumption in the Japanese economy, associated with high levels of savings and investment. It is only in recent years that Japan has begun to remove the barriers which have hitherto limited foreign investment in new enterprises within the country.

Similarly, until recent times Japan did not favour the investment of domestic funds in overseas enterprises, but this is now changing rapidly. In 1969 the level of Japanese investment overseas was reported to be $US2,700 million and it continues to rise quickly. The Japanese Ministry of International Trade and Industry estimates that by 1974 it will have increased to $US11,500 million. It has been the favourable trend in the balance of payments which has given Japan more scope for flexibility in its use of capital overseas, and investment abroad is also attractive as part of a recently emerged concept in Japan known as 'resources diplomacy'. This concept is discussed in the last section of this chapter.

In discussing Japan's post-War economic growth, it is often presumed that large scale corporations and industries (such as Mitsubishi or Nippon) completely dominate the economic landscape. While this is true of such capital intensive industries as iron and steel and chemicals, it should be noted that small and medium sized enterprises play a significant role in other sectors of the economy. Although productivity in these enterprises tends to be lower than in large companies, the small and medium sized firms accounted for approximately half the output in manufacturing industry in 1969 and were responsible for about 40 per cent of total exports. Of the 640,000 factories in Japan

in 1969, less than 1 per cent of them employed over 300 workers, while 74 per cent had nine employees or less.

Overseas Trade

Since Japan's shores were opened to trade and commerce, the country has progressively and consistently improved its position as a trading nation. During the closing decades of the last century, Japan for the most part imported manufactured goods and exported tea and raw materials. Raw cotton was the principal import during the early part of this century, and the main exports were silk and cotton textiles. By the 1930s, this situation had given way to a trade pattern dominated by mineral imports and the export of machinery. Today, manufactured products constitute over 90 per cent of Japan's exports, while raw materials account for nearly three-quarters of its imports.

Contrary to popular misconception, and despite the enormity of its trading in absolute terms, Japan is a country less dependent proportionately on foreign trade than are countries such as Australia, Britain and West Germany. That is to say, the size of Japan's trade is smaller relative to its gross national product than are the comparable figures for these other countries. To illustrate this point, Japan's exports have a value amounting to slightly less than 10 per cent of its GNP, while the equivalent figure for Australia is 14 per cent and in the case of Britain and West Germany it is 18 per cent. For imports the Japanese figure is slightly less than 10 per cent as compared with 15 per cent for Australia and 16 per cent for Britain and West Germany. This statement does not deny the essential role that foreign trade plays in the Japanese economy, but rather points very clearly to the size and importance of the Japanese domestic market of 105 million people. It should also, however, be remembered that Japan is peculiarly dependent on sea transport for the supply of raw materials.

In absolute terms, Japan is already the fourth largest trading nation in the world, after the United States, West Germany and Britain; and it is expected that its ranking will improve. Between 1960 and 1970 exports grew annually at a rate of about 17 per cent and imports at about 12 per cent. As Table C shows, Japan's exports and imports in 1971 were worth over $A22,000 million and $A18,000 million respectively. This value of trade accounts for approximately 7 per cent of total world trade. The biggest supplier of goods to Japan is the United States which provides about 25 per cent of the country's imports, with Australia in second place supplying 9 per cent of the imports. It is also of interest to note the high level of imports from Middle East countries, reflecting Japan's heavy dependence on this area for oil supplies.

The United States also dominates Japan's export trade, making it by far the country's major trading partner. This is a position which the United States has occupied for almost the whole period since the opening of Japan to Western trade and influence at the middle of the last century. The close trading relationship between the United States

Table C: Japan's Exports and Imports by Country, 1971

Exports	$A'000,000	Per cent	*Imports*	$A'000,000	Per cent
U.S.A.	6,999	31.2	U.S.A.	4,666	25.3
Liberia	927	4.1	Australia	1,637	8.9
Taiwan	861	3.8	Iran	1,275	6.9
Canada	816	3.7	Canada	939	5.1
Korea, Rep. of	799	3.6	Indonesia	798	4.4
Hong Kong	736	3.3	West Germany	569	3.1
Australia	670	3.0	Saudi Arabia	555	3.0
West Germany	612	2.7	Philippines	482	2.6
China, Mainland	539	2.4	U.S.S.R.	464	2.5
Britain	534	2.4	Britain	390	2.1
Singapore	475	2.1	Kuwait	389	2.1
Ryukyu	445	2.0	India	352	1.9
Philippines	433	1.9	China, Mainland	301	1.6
Others	7,559	33.8	Others	5,629	30.5
Total Exports 1971	**22,405**	**100.0**	Total Imports 1971	**18,446**	**100.0**
Regional Summary of Exports			*Regional Summary of Imports*		
North America	7,816	34.9	North America	5,605	30.4
Central and South East Asia	5,379	24.0	Central and South East Asia	3,194	17.3
Western Europe	3,137	14.0	Middle East	2,750	14.9
Africa	1,927	8.6	Western Europe	1,918	10.4
Others	4,146	18.5	Oceania	1,915	10.4
			Others	3,064	16.6
Total	**22,405**	**100.0**	Total	**18,446**	**100.0**

Source: Adapted from Department of Trade and Industry publication *Overseas Trading*, August 1972.

and Japan was intensified by the predominant role played by the former in the Allied Occupation after World War II.

Table D shows Japan's exports and imports by commodity in 1971. As would be expected from comments earlier in the report, machinery and other manufactured products dominate the export scene. Amongst the most important items are electrical machinery, transport equipment, textiles, chemicals and iron and steel. On the import side, mineral fuels, metals, foodstuffs and certain manufactured goods are the major items. It should be noted that the post-War advent of large ships, especially for the bulk carriage of such materials as iron ore and coal, has been of particular importance to Japan in radically improving the economics of transporting raw materials from distant parts of the globe.

In this discussion of Japan's global trading relationships, brief mention should be made of the restrictions the country imposes on trade. Japan was described in evidence before the Committee as a moderate to high tariff economy, with processed goods attracting a greater degree of protection that unprocessed materials. In addition, Japan imposes certain non-tariff barriers, such as import licensing, which are designed to protect particular industries, mainly in the agricultural sector. Finally, the system of administrative guidance

Table D: Japan's Exports and Imports by Commodity, 1971

Exports	$A'000,000	Per cent	*Imports*	$A'000,000	Per cent
Transport equipment	4,907	21.9	Crude Oil	2,841	15.4
Iron and Steel	3,316	14.8	Coal	941	5.1
Electrical machinery	2,689	12.0	Iron Ore	1,254	6.8
Non-electric machinery	2,285	10.2	Lumber	1,383	7.5
Textiles	1,927	8.6	Other Crude Materials and Fuels	3,947	21.4
Chemicals	1,389	6.2	Non-electric machinery	1,199	6.5
Precision Instruments	739	3.3	Chemicals	941	5.1
Other Manufactured Products	3,876	17.3	Non-ferrous metals	664	3.6
Foodstuffs	605	2.7	Non-metal Manufactures	609	3.3
Crude Materials and Fuels	448	2.0	Other Manufactured Products	1,734	9.4
Other	224	1.0	Foodstuffs	2,601	14.1
			Other	332	1.8
Total Exports 1971	**22,405**	**100.0**	Total Imports 1971	**18,446**	**100.0**
Summary of Exports			*Summary of Imports*		
Machinery and Instruments	10,620	47.4	Crude Materials and Fuels	10,367	56.2
Other Manufactures	10,508	46.9	Manufactured Products	5,146	27.9
Non-manufactured Products	1,277	5.7	Foodstuffs and Other Products	2,933	15.9
Total	**22,405**	**100.0**	Total	**18,446**	**100.0**

Source: Adapted from Department of Trade and Industry publication *Overseas Trading*, August 1972.

between government and business, to which reference has already been made, is sometimes used to regulate imports. It should be noted, however, that of recent years Japan has been pursuing a policy of trade liberalisation. Not only have tariffs been reduced on a number of items, but also some non-tariff barriers have been removed. This process is likely to continue, as Japan's ability to continue to expand its level of exports will probably be increasingly linked with improved opportunities for other nations to sell more to Japan. In this situation, it is important that clear understandings be reached between Japan and its trading partners to preserve the basic interests of each. Where inevitable difficulties arise, machinery for discussion and understanding of the problems must be available and this Committee believes that these discussions can be best handled by negotiations within a multilateral framework.

Agriculture

The land reforms of 1946 had a great influence on the structure of Japan's agricultural economy. The tenure of ownership of rural land changed greatly in favour of those whose families had for generations been tenant farmers. The following table, drawn from the Statistical

Handbook of Japan, indicates the substantial changes which occurred over the period 1946-65:

Table E: Farm Households by Nature of Tenure
('000 households)

Year	*Owner*	*Owner-tenant*	*Tenant*
1946 . . .	1,869	2,188	1,637
1950 . . .	3,822	2,001	312
1955 . . .	4,200	1,593	239
1960 . . .	4,552	1,309	178
1965 . . .	4,538	1,014	100

During the decade 1960-70, the farming population declined from 34 million to 26 million, a decline largely due to the movement to the cities arising from Japan's industrial development. Nevertheless, rural production during that decade rose at the rate of 2.2 per cent per annum, principally as a result of improved production methods.

As in most Asian countries, rice production is the main agricultural pursuit and occupies more than half of the agricultural land. Japan is now producing in excess of its own rice requirements. Livestock raising is the second largest agricultural occupation, but the limits of pasture land preclude large increases by grazing means. The increases in meat production which are taking place in Japan are largely as a result of the expansion of intensive feeding methods for cattle, which are usually fed on imported grains. The prospect of increasing agricultural production is hampered by the fact that only 15 per cent of Japan's total land area is arable, and even this percentage is being eroded by the continuing encroachment of urban development into rural areas.

A policy objective of the Government has been to improve agricultural conditions by raising standards of living in farming areas to a position comparable with those of the big cities, and also to reduce the disparity between productivity in agriculture and that in other sectors of the economy. Legislative backing for this policy exists in the Agricultural Basic Law of 1961 which, among other things, sets out the means by which these policy objectives are being pursued. These include price support and stabilisation schemes, attempts to prevent encroachment of development into rural land and efforts to boost productivity. Low interest loans are being provided for the amalgamation and relaxation of the limits on farm size. It is interesting to note that Ministry of Agriculture figures issued in 1970 gave as the average farm size per farmer an area of 2.3 acres.

Other changes have been brought about by departures from the traditional dietary pattern. This has been most marked since the middle 1950s and is a direct result of increasing individual incomes and

greater urbanisation. The most notable changes in this pattern have been:

- a gradual decline in the consumption of rice;
- increased consumption of wheat as a bread grain; and
- substantially increased demands for meat, milk, fats and oils, eggs, fish, fruit, vegetables and sugar.

It is clear that the Government will continue to encourage the expansion of local production in those industries where the application of intensive methods will be most productive. Examples are the livestock, dairy produce, pig meats and poultry industries. As noted earlier, it is from the rural areas that the governing Liberal-Democratic Party draws its main electoral support, which it may be expected to nurture.

Industrialisation, population expansion and changes in taste have brought about an expanded market for foodstuffs. Despite the high degree of protection for domestic agriculture, Japan cannot hope to meet this expanded demand from internal production alone and a movement towards increased imports of agricultural products can be expected. In these circumstances it is important for Australia that it have a fair opportunity to share in the improved access to the Japanese domestic market, rather than Japan negotiating a bilateral agreement with some other trading bloc (such as the E.E.C.) which is seeking a market on which to dump surplus (but highly subsidised) agricultural production.

Balance of Payments and Currency

Japan's international reserves were steady during the early 1960s and then began to increase in the latter part of the decade. The year 1971, however, saw an unprecedented rise in the country's holdings of gold and official reserves, which climbed from less than $US5,000 million at the beginning of the year to over $US15,000 million at the end. In August 1971 a gathering international crisis was brought to a head by the measures announced by President Nixon. The United States economy was running a deficit at that time which could no longer be sustained (in 1971 the deficit rose as high as $US30 billion) while the position of the Japanese yen remained strong, Japan having the largest trade surplus in the world. Japan was particularly affected by President Nixon's imposition of a 10 per cent surcharge on dutiable imports into the United States not subject to mandatory quotas. An estimated 29 per cent of total Japanese exports were subject to the surcharge compared with 10 per cent for the United Kingdom and less than 5 per cent for Australia. The Japanese appear to have been caught unawares by the drastic steps taken by the United States to counter its deteriorating economic situation, although warning had been given that remedial action would become essential unless the position improved. At the time of the economic measures the Japanese were still deeply offended by the failure of the United States to consult them prior to announcing, in July 1971, the proposed visit to Peking of President Nixon. These two major policy decisions by the United States became known in Japan as the 'twin Nixon shocks'.

In the period following President Nixon's announcement, the yen gradually appreciated against the US dollar until the Smithsonian Agreement in Washington in December 1971. As part of this agreement, the United States dollar was devalued by nearly 8 per cent and the Japanese agreed to appreciate the yen in terms of the new US dollar value by approximately 17 per cent. The following table indicates the realignment of major currencies at that time:

Table F: Realignment of Major Currencies December 1971

	Appreciation against U.S. dollar	*Appreciation against gold parity*
	Per cent	Per cent
Italy	7½	−1
Sweden	7½	−1
United Kingdom	8½	nil
France	8½	nil
Belgium	11½	3
Netherlands	11½	3
West Germany	13½	4½
Switzerland	14	5
Japan	17	7½

Compared with the Australian dollar, the yen was appreciated by 9½ per cent in the market.

The yen has remained strong on the international money market and Japan's balance of payments continues in substantial surplus. As a result, it has been suggested in a number of quarters that Japan may have to consider a further revaluation.

Resources Policy

Of recent years there has been a discernible shift in Japan's resources policy, and the emergence of a new concept sometimes known as 'resources diplomacy'. The main impetus to this changing policy has been Japan's awareness of its vulnerability to disruption of industry by the denial or interruption of the supply of raw materials. The degree to which Japan is vulnerable was uncomfortably demonstrated in January 1971 when supplies of crude oil were temporarily affected by complicated price increase negotiations between oil companies and the producing countries which constitute the Organisation of Petroleum Exporting Countries. The majority of OPEC members are Middle East oil producers and it is from the Persian Gulf that Japan currently draws 90 per cent of its oil supplies. Although Indonesia has been a member of OPEC for some years, it is understandable that Japan is showing keen interest in that country as a supplementary source of oil. On a broader scale, it has been estimated that Japan accounted for approximately 10 per cent of the world's total mineral imports in 1966 but that by 1980 the comparable figure may well have risen to over 30 per cent. Figures presented to the Committee show that, even assuming a comparatively modest rate of growth for the Japanese

economy, the country's consumption of many minerals will double during the present decade.

Several elements can be discerned in the resources diplomacy concept. Firstly, it is based on a decision by the Japanese authorities to participate in investment projects overseas designed to supply raw materials for export. Japan has indicated a preference for joint ventures with local equity sharing to a major degree in the projects concerned. Joint ventures lessen the fear of economic domination on the part of the country in which the project is located, and also enable the Japanese to spread their available capital over a greater number of projects.

Japan's interest in joint ventures extends not only to extractive industries. Against a background of domestic labour shortages, rapidly rising wage costs, land shortages, pollution problems and high power costs, there is evidence that the country will place greater emphasis on processing of raw materials overseas. During the early stages of their industrialisation the Japanese were more interested in importing unprocessed raw materials because the 'value added' in processing provided an important part of the country's economic growth. As mentioned earlier, tariff policy has been one means by which Japan has hitherto discouraged the importing of processed or partly processed goods. Nowadays, however, Japan could afford to import a much greater proportion of its raw materials in a processed or semi-processed form but, while intentions have been expressed of doing so, it is not expected that the new policy will be evident for some time. This is said to be because of the substantial adjustments which will have to be made to the country's domestic economy.

The third element in Japan's present resources policy is a continued effort to diversify raw material sources. This effort stems from fears of the country's vulnerability to disruption of raw material imports and its concern that a substantial proportion of the world's known mineral resources are located in a few countries and controlled by comparatively few multinational companies. It is believed that the Japanese are anxious to avoid depending on any one country for more than 40 per cent of their supplies of any one particular resource.

Finally, Japan's dependence on overseas supplies of resources has led it to encourage greater international regulation and rationalisation in the use and consumption of natural resources. An extreme example of this kind of thinking is the as yet unofficial proposal for a 'World Natural Resources Charter', based on the concept that scarce natural resources are the common possession of all peoples regardless of the countries within which they happen to be located.

Closely related to resources policy is the high degree of co-ordination between government and business in Japan. This was discussed earlier in the report, but the following simple example which was given to the Committee in evidence serves to illustrate the ease with which government and business co-operate:—

I can remember on one occasion in Japan when the Government announced

in the Press that too many station waggons were being built, and the production of station waggons was immediately reduced. There was no compulsion; this was co-operation between government and industry.

It has been suggested that this close association places Japanese buyers in an advantageous position in conducting negotiations for the supply of resources from overseas. This is because the association enables the Japanese to pursue a common buying policy, while the overseas suppliers compete with one another for sales. Arising from this situation, some concern has been expressed to the Committee about Japan's recently avowed interest in participating in investment in raw material projects overseas. Basically, this concern relates to the possibility of domestic Japanese companies extending preferences to the overseas suppliers in which Japanese capital is involved. This point will be taken up in greater detail later in the report.

The years ahead are expected to see Japan's demand for raw materials continue to increase, and greater efforts will be made to secure a stable and diversified supply of natural resources. The position may well arise that a percentage of these raw materials may not be imported directly into Japan but to industries relocated in less developed countries but nevertheless controlled in whole or part by Japanese industrialists. In Japan itself the future direction of the country's economic emphasis is likely to be away from heavy industries consuming vast quantities of raw materials towards the so-called 'knowledge-intensive' industries, requiring sophisticated technology and resource-saving methods as their principal inputs. The ultimate objectives of this restructuring of industry will be a reduction in the country's relative dependence on raw material imports and a reduction in pollution, but these can only be regarded as very long-term goals.