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**THE JAPANESE BUREAUCRACY AND SPECIAL STATUS
CORPORATIONS: CONTINUING BARRIERS TO REFORM?**

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Declaration

The work in this thesis is the author's and has not been used for submission for any previous study.

ABSTRACT

Japan's Prime Minister Koizumi Junichiro is proposing extensive reforms of the state sector in an effort to reduce public debt, which was 130% of the GDP in 2001 and is expected to rise to 140% of the GDP in 2002. The reforms include the streamlining of Special Status Corporations and public corporations along with the downsizing of the Fiscal Investment Loan Program and the privatization of the Postal Account Agency, the two bodies that fund public works projects, Special Status Corporations and public corporations.

Since the 1930s Japan's ministries have been establishing public corporations related to the sectors they administrate. As the Japanese economy has grown so have the number of these organizations. According to government's tally there are over 13,000. The ministries originally established Special Status Corporations after the Second World War to aid in the reconstruction of infrastructure and businesses. The government has formally recognized 163 Special Status Corporations.

Japan's prolonged recession and mounting public debt have brought about public concern that the ministries are using their corporations to perpetuate their own interests. Opposition parties are demanding the elimination or privatization of Special Status Corporations and public corporations for the following reasons: 1) corporations offer postretirement positions to bureaucrats who receive retirement benefits from their ministries in conjunction with salaries earned as staff in corporations, 2) corporations serve as a means to expand territorial jurisdiction, 3) bureaucrats are sent to branch offices of these corporations to monitor local government policy.

Koizumi's proposed reforms are facing stiff opposition from the ministries as well as from members of his own party, the Liberal Democrats, who are determined to continue public corporations because of vested interests. The efforts to eliminate some of the corporations began in 1995 but by 1999 the number had decreased by only fourteen. Although public opinion polls reveal that the Japanese would like to see the elimination

of public corporations and the practice of ex-bureaucrats taking postretirement positions in both public and private corporations, it is doubtful that extensive reforms will proceed smoothly.

The thesis proposes the hypothesis that despite Prime Minister Koizumi's commitment to implement the reform of Special Status Corporations and public corporations, the ministries, which are in charge of administering reforms, will certainly continue operating their organizations over the long term.

The thesis shows that elements inherent in Japan's political economy function to inhibit the movement for structural reforms thus allowing the ministries to maintain the status quo.

As an example of how the ministries can use their Special Status Corporations the thesis examines the Japan External Trade Organization, a Special Status Corporation managed by the Ministry of International Trade and Industry (MITI), and how it serves the ministry for postretirement positions, for expanding jurisdiction and for monitoring local government policy. Despite the fact that the corporation has received harsh criticism in the Japanese press for no longer serving its original purpose MITI has continuously re-orchestrated its functions in order to keep the organization thriving.

Although some of the commentators cited in the thesis point to corruption in the bureaucracy, the thesis does not seek to judge bureaucrats. They are products of a system that can no longer support an economy that must adapt to internal and external pressures in order to survive in the global economy.

The research by Western scholars regarding Special Status Corporations and public corporations in Japan has been minimal. It is hoped that this thesis will stimulate further study of the subject.

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Chapter 1

Structure, Content and Research

Structure

The thesis seeks to explain how the Japanese political economy is dominated by the bureaucracy and, in particular, how ministries use their Special Status Corporations. It identifies the factors that promote the continuation of Special Status Corporations despite political moves to streamline them. The chapters are organized to demonstrate why the bureaucracy has been able to dominate, why it has have been able to resist efforts to streamline or eliminate Special Status Corporations and why the system will continue as before despite the fact that the government machine has been unable to deal with Japan's economic stagnation since 1990.

Content

There are two main themes; 1) the power of the bureaucracy and 2) the ossification of the Japanese political economy that inhibits structural reform. Chapter two and three define the role of the bureaucracy in Japan's political economy and its source of power. Chapter 2 reviews literature of Western and Japanese commentators, who point to the bureaucracy as being the dominant power in Japan's governing system. Chapter three examines the sources of bureaucratic power and the attitudes of bureaucrats from an historical perspective. It examines some of the factors within the Japanese socio-political system that have given the bureaucracy the power to continue their Special Status Corporations and to resist reforms.

Chapter four discusses the functions of the Ministry of International Trade and Industry and the character and background of MITI elite officials. The chapter analyses MITI's role in terms of the extent of control over industrial sectors to illustrate the power of the ministry and the interpersonal network running between business and the bureaucracy.

MITI manages twelve Special Status Corporations and over 900 other public corporations and associations, second only to the Ministry of Education.

Chapter 5 defines Special Status Corporations and discusses how they serve their patron ministries and how proposed structural reforms might effect their future operations.

Chapter 6 discusses how a combination of factors unique to Japan's political economy continues to perpetuate a system of dependency between the Japanese and the manner in which they are governed.

Chapter 7 considers the Japan External Trade Organization, one of MITI's primary Special Status Corporations to illustrate how ministries can use Special Status Corporations and why they are highly motivated to continue their existence.

The Conclusion looks at the current state of Japan's economic condition and predicts when structural reforms will be successfully implemented.

Sources of Materials

The interviews and case studies used in the thesis are results of field research conducted continuously from 1988 to 2001.

Interviews

The writer worked for almost seven years at the Japan External Trade Organization, one of MITI's Special Status Corporations where MITI officers are posted. The interviews cited in the thesis were conducted from 1994-1995 with MITI officers and officers from local governments who had been posted at JETRO New York for longer than two years. The writer wanted to know their impressions of the United States before they arrived and if these impressions had changed during their tour of duty. The interviews took one to two hours and the one hundred questions covered their background, education,

language and communication difficulties, economics, political views, social values and racial issues.

Studies

The studies given in the thesis are results of research conducted from 1988, the peak of the “bubble economy” to 2001, the depth of Japan’s economic recession. The study in chapter 3 of Mercian, Inc is the result of research conducted from 1988-1991 at Mercian, Inc. where the writer worked for three years as a marketer of imported spirits and wine.

The study of a medium-sized chemical company in chapter 6 was the result of research conducted in Japan in 1999, 2000 and 2001 about how small businesses were coping with the recession. Officers from the Japan Finance Corporation for Small Business, a MITI Special Status Corporation, facilitated the initial visits to small businesses.

The study of Ehime Prefecture in chapter 6 was the result of research conducted in Ehime in 1998 and 2000 where officers of the Ehime Prefectural government assisted the writer.

CHAPTER 2

Part 1: JAPAN'S POLITICAL ECONOMY: THE PERCEPTIONS OF WESTERN COMMENTATORS

Part 2: JAPAN'S BUREAUCRACY and *AMAKUDARI*: JAPANESE COMMENTARIES

Introduction

PART 1

The first part of this chapter examines the perceptions of western commentators about the Japanese political economy, specifically the bureaucracy as the dominant power in Japan's governing system. Their work is used in the thesis to identify and define certain elements in the Japanese socio-political system that, together, portray the rigidity of the political system which is defying efforts by government to implement structural reforms. All of the commentators agreed that the Japanese bureaucracy has dominated Japan's governing system historically since the 1890s and with the exception of one commentator they showed the more positive aspects of bureaucratic rule and the strengths of the bureaucracy in terms of planning Japan's economic achievements. Even after the bursting of Japan's "bubble economy" and the consistent delay of implementation of policies that would trigger recovery, commentaries about Japan's bureaucrats in general were positive.

The commentators whose work on *amakudari* is reviewed here define the system correctly and show how the system operates. Some essays suggested that the system provided a built-in security system for Japanese industries. On the other hand, there was little indication that the system also served the ministries as a natural control mechanism over industry and that *amakudari* was a major stumbling block to the implementation of structural reforms.

A recurring theme throughout is that the Japanese socio-political environment is not as transparent as Europe's and America's and, therefore, in order to access reliable

information, to gain a balanced perspective of Japan's political economic system and, consequently, to be able to analyse the affects of the elements defined in the commentaries it is necessary to do empirical research by becoming a player in the system.

PART 2

The second part of this chapter begins with a review of a book by a Japanese commentator written before 1990 when Japan's economy was still on track to illustrate that the majority of Japanese viewed bureaucrats in a positive light and accepted *amakudari* as a part of the civil service system. The section continues with reviews of books written after 1992 about Special Status Corporations, public corporations and *amakudari* when Japan was in recession to illustrate that Japanese had become disenchanted with bureaucratic guidance and had recognized the need to reform the civil service system and *amakudari*.

Generally Special Status Corporations and public corporations received little attention before Japan's recessions began because the Japanese were satisfied with ministerial management. However, Japan's economic crisis combined with the disclosure of scandals involving various ministries and the political movement to initiate structural reforms in 1992 and 1993 encouraged commentators to feel less pressure to conform to popular sentiment and write more openly about such issues as *amakudari* and how the ministries utilize their Special Status Corporations and public corporations.

Nevertheless, there is a reticence to cite sources. Sources are not referred to by their names but described by job title and place of employment. In addition, although such well-known publications as *Shukan Bunshu*, a weekly magazine, and *Sentaku*, a monthly magazine, have done objective reporting of scandals in the ministries, often the writers are identified merely as "staff writers." Many journals prefer not to divulge sources, which raises the question of reliability.

PART 1: Japan's Political Economy: The Perception of Western Commentators

Japan's Post-war Economy: Too Good To Be True?

Japan's post-war industrial rebirth and rapid economic growth and its challenge to American industries in global markets inspired economists and scholars alike to look with wonder at what had come to be known as Japan's "economic miracle." Even in 1992, although Japan was in a recession and clearly beset with grave economic problems, Japan commentators remained very positive about future developments because Japan still had the second largest economy in the world. Professor Joseph S. Nye, Jr. of the Center of International Affairs at Harvard University wrote in 1992 that many Americans were concerned that Japan would surpass the United States economically by the 21st century:

"...the impressive fact is that Japan tripled its share of world product in three decades. Japan has become the world's largest creditor and the largest exporter of manufactured goods. It is the acknowledged leader in many areas of technology...While some of Japan's economic power is exaggerated by the unique circumstances that led to inflation of the stock market and real estate in the 1980s, strong savings, investments, and technology mean that Japan's rise was based on real factors." (Nye,1992, p.98)

Nye felt that Japan would indeed grow stronger economically claiming:

"As Japan's strength increases, it will grow and resent dependency, and American pressure will stimulate nationalism in Japanese domestic politics." (p. 97)

He warned that Americans had to: "...decide how to respond to Japan's rising power." Nye was alluding in part to the growing popularity of the Japanese nationalist movement in the late 1980s but it could be argued that the current nationalistic sentiment may be a reaction to Japan's serious depression and not to the strength of the economy.

In his December 20, 2001 article for the Far Eastern Economic Review¹ Eugene A. Matthews, a senior fellow at the Council on Foreign Relations (New York), agrees with Nye that these nationalists whom he calls “new nationalists” resent American pressures to keep American military forces in Japan and to house nuclear submarines in Japanese ports.

“The nationalists also favor amending the constitution to allow a “true army” instead of the current self-defense force, a mockery of a military.” Matthews describes the new nationalists as young corporate executives and entrepreneurs, who are intent on reforming the economy and more forward-looking than bureaucrats.

“They want to change the way Japan views itself and the way the rest of the world views the country.” (p. ?)

Nye was not alone in his estimation of Japan’s continuous economic growth. Indeed he was in the majority of commentators, who were led to believe by spokesmen for the Japanese government that economic restructuring, stimulus packages and deregulation would put the economy back on track. Peter Drucker wrote extensively on Japanese management techniques in the 1970s and 1980s and has visited Japan yearly since 1959. When he was interviewed in November 1994 by Management Accounting Drucker contended that economic recovery would occur after several years but that drastic reforms would have to be implemented.

“The Japanese have an incredible capacity, unparalleled in any other country, to face up to reality and to make tough radical decisions, but not always the right ones. I think that they are getting to that point slowly. However, there is an enormous job left cleaning up Japan’s financial institutions, banks insurance companies. You may see some fairly drastic measures in the next few years.”²

Seven years have passed since the interview and the “drastic measures” which Drucker had hoped for have yet to be implemented. On the other hand, there was one

¹ www.feer.com/articles/2001/0112

² <http://web6.infotrac.London.galegroup.com>

commentator who has a more realistic perception of the Japanese political economic environment.

Yamamura Kozo, a professor of economics at the University of Washington has written prolifically on the Japanese political economy, particularly about industrial policy and the role of MITI in Japan's economic growth. In 1997, Yamamura predicted that the ministries would maintain a firm grip on the regulation of industries and that despite domestic and foreign pressures to deregulate and open markets, the ministries would continue to plan protectionist policies. (Yamamura K.,1997, p. 325)

Yamamura, who received his higher education in the United States, taught at Tokyo, Hitotsubashi and Aoyama universities. His interpretation of the Japanese economic environment has been insightful, especially his estimation of the weaknesses in the Japanese system. In the 1980s, when influential academics were praising the Japanese system and crediting the intimate relationship between business and government for producing a solid economy and MITI for planning effective policy, he wrote "Success that Soured: Administrative Guidance and Cartels in Japan" (1982 Policy and Trade Issues of the Japanese Economy University of Washington Press). He stated that foreign commentators praised the Japan model because they saw only the superficial aspects.

Yamamura wrote that Japan's economy during its period of rapid growth was heavily controlled by the two economic ministries, MITI and the Ministry of Finance (MOF)³, marked by huge capital investments, acquisition of cheap technology, and a pro-cartel policy that nurtured Japan's rapid industrial growth. Taking advantage of new technologies, Japanese firms tried to maximize their production and, hence, profits. However, too many firms were maximizing production and supplies exceeded domestic demand. In order to allow smaller firms to compete with larger firms in domestic

³ It is generally recognized that the Ministry of Finance (MOF) and the Ministry of International Trade and Industry (MITI) played the most influential role in Japan's economic development. However, since this thesis is concerned with MITI and its Special Status Corporations in regards to bureaucratic controls and not directly to Japan's economic development, MOF's role will not be discussed.

markets, MITI guided companies to rationalize production in order to form effective domestic and export cartels. Yamamura claimed that the number of cartels rose from 162 in 1955 to over 1000 in the late sixties and early seventies. MITI created eleven laws that allowed the formation of cartels, among them the “Rationalization cartels, under the Antimonopoly Law,” the “Emergency Act for the promotion of the machine-tool industry,” and the “Law concerning the organization of trade associations of small-medium enterprises” MITI used the policy instrument of “administrative guidance” to implement the formation of cartels and ex-bureaucrats from MITI, who had migrated to upper management positions in private corporations whose industries were under MITI’s authority, usually complied with guidance because of their loyalty to their former ministry. Yamamura claimed that there were illegal cartels as well. (p. 80) Cartels reduced competition between firms in domestic markets through fixed prices and fixed production and they also protected industries from imports.

By 1965, Japan’s industrial output had recovered to the same levels of industrialisation that Japan had achieved by 1935 and by 1970 the annual growth rate had reached an average of ten percent. It was generally believed that Japan’s economy was very secure and that MITI seemed to be in control but Yamamura claimed that weaknesses in the economy were becoming visible because the character of the economy was changing. Japanese consumers were beginning to complain about cartels and fixed prices. The price differential between domestic and imported goods such as television sets angered many. They were not sharing the new wealth. Also, the industries that had caught up with Western industries were seeing that large investments in equipment and technologies did not necessarily raise production efficiency and, indeed, promoted over capacity. They also realized that Japan could not reasonably sustain growth by increasing industrial capacity at fifteen percent annually. (1982, p.98) In addition, industrial pollution had become a problem. The Smithsonian Agreement in 1971 ended the era of the undervalued yen and introduced the flexible exchange rate. MITI was starting to lose control:

“ ...the honeymoon ended. The conditions that were necessary for the continued success of the MITI policy began to disappear in the mid-sixties” (Yamamura K. 1982, p103)

Nonetheless, MITI continued its pro-cartel policies, the larger companies being the main beneficiaries.

The Oil Shock and the four-year recession that followed impacted severely on the energy intensive industries on which MITI had focused its long-term policy. MITI was besieged with bad publicity. In particular its image was tarnished because the media had divulged that MITI and the petroleum companies had engaged in price-fixing on a large scale in 1973 (p 99).

Yamamura stated that it had become apparent to MITI critics that:

“...the policies of coordinating investment and reducing risks of investment by cartels had become counterproductive.” (p.99)

Even though new policy was necessary to induce competition between businesses, MITI could not change its policies because they were deeply imbedded in the institution. MITI continued to issue guidance to form cartels to protect the energy-intensive industries and sunset industries (textiles, paper, leather, etc.) Yamamura admitted that MITI's policies had effectively guided investment to increase production, industrial capacity and exports but that the continuation of cartels and the protection of markets were no longer appropriate to Japan's economy where industries should compete among themselves as well as with foreign manufacturers. Indeed, healthy economic growth depended upon a freer market place where domestic demand could be cultivated by the reduction of prices. Yamamura advised the discontinuation of cartels and administrative guidance. (p.107)

Richard Katz, senior editor of “The Oriental Economist” lauded Yamamura's paper in his book Japan, the System that Soured (M.E. Sharpe) as **“One of the most far-sighted works”** in

this field. (1998 p.306) He claimed that cartel-like policies still protect domestic markets even though government claims that many of the import barriers, including tariffs are gone:

"And yet the numbers show a nation that uniquely imports very little in the way of competing goods." (p.45).

He suggested that this phenomenon could be attributed to the continuation of the cartel theme through members of industrial associations such as petroleum, who collude to fix prices while the Japan Fair Trade Commission pretends not to notice. Some trade associations such as ones related to the concrete industry will agree to purchase only from other members or government may instruct industries like textiles through informal "guidance" to cut back production. (p.45) Katz's conclusions are strengthened by the mechanisms of MITI retirees assuming posts as directors in these associations and also assuming postretirement positions in industries managed by MITI, making cooperation among industries almost a certainty.

As Japan's recession continues for the thirteenth year, scholars are pointing to the corruption in government and weaknesses in the Japanese political economy that now are being seen as at the root of Japan's economic woes. Commentators, both Japanese and foreign, are expostulating on what must be done by the Japanese government to put the economy right. The Japanese government emphasizes that major political and economic reforms will take years. The Cabinet of Ministers wrote pamphlets in 2001 that examined the elements involved in restructuring the Japanese political economy. The most important of these was "The First Steps In Changing Times." Honda Etsuro, Chief Representative of MOF and Deputy Council General of Japan in New York City, presented excerpts in his lecture at the Japan Society of New York on December 5, 2001. The paper describes Japan in its present state:

“1) Deep negativity about the social and economic outlook and pessimism about the aging population and consequent decline in the labor force. 2) Debt overhang, inefficiency, high cost structure and ‘sheep mentality’ of firms and industries. 3) Tendency of the loss of distinctiveness and vitality of regions. 4) Waste and unfair burdens in the areas of social security.”

MOF includes six programs in his blueprint of reforms. 1) Privatisation /regulatory reform 2) The ‘support challengers’ program 3) Strengthening welfare and insurance 4) Doubling our knowledge stock 5) Lifestyle revolution 6) Local independence and revitalization

MOF preaches that the outcome of economic and fiscal structural reform will result in:

- 1) “Creation of a society in which the private sector is free to engage in many kinds of economic activity. 2) Creation of a social system that reward effort and perseverance. 3) Creation of a streamlined and efficient government in sync with the 21st century.**

Honda claims that “structural reform of Public Administration” will culminate in: **“Radical reallocation of roles and responsibilities to local governments to allocate tasks that can be achieved locally.”** MOF’s prescription for structural reform for Japanese society is: 1) **Creation of a society in which people can lead safe and secure lives 2) Creation of a powerhouse in terms of science, technology, and human resources.”**⁴

The Democratic Party of Japan’s platform in 1998 called for a decentralized society, limiting central government’s role to foreign relations, defence, judiciary, and pensions. Local governments would administrate services and bear responsibility for local policy. There would be fiscal resources for each local government and the role of central government would entail no more than coordinating finances between regions **“based on clear, firm rules.”** (April 27, 1998)⁵

⁴ See appendix 6 for “Current Fiscal Conditions In Japan

⁵ “Our Basic Philosophy and Policies” April 27, 1998

To speed up the process, money from the state would be transferred immediately to local governments. The decentralization of government would be a positive force for strengthening Japan's economy because the prefectures could plan policy according to the needs of their residents and business development would take place at the local level and would not be subsidized and controlled by the ministries. This in itself would instill a healthy competitiveness within local economies. Nevertheless, the time frame for substantial reform to come about is difficult to predict because the ministries do not want to part with authority over local government.

On the other hand, foreign commentators and Japanese as well look at the short-term and predict that Japan will face economic disaster if government immediately does not implement reforms. Hosokawa Ruichiro, a former managing editor of the *Mainichi Shimbun* and a political commentator, wrote in his article for the November 16, 2001 edition of *The Japan Times* that the economy would fail if reforms were not initiated. He focused on Japan's public debt that has reached 666 trillion yen. Hosokawa reminded readers that the government had started issuing bonds twenty-five years ago to finance the construction of infrastructure work such as roads and bridges. Prior to that time, public work construction was covered by tax revenue, which was generated by Japan's economic expansion. He claimed that in 1976 Japan was enjoying a stable economy and Japanese tolerated the government borrowing money. However, despite the fact that Japan's economy today was in a recession, both central and local governments have continued to borrow based on this acquiescence. Hosokawa contended that in the current budget tax revenue accounted for 50 trillion yen and amounts up to 30 trillion yen is being financed by deficit-covering bonds:

“If this trend continues, the government will have to finance half its budget with such bonds, leading the nation into bankruptcy.”⁶

⁶ Ryuichiro Hosokawa (November 16, 2001), *The Japan Times Online* www.japantimes.co.jp

He pointed to Prime Minister Koizumi's intentions for structural reform, which includes the reform and elimination of some special status corporations such as the debt-ridden Japan Highway Corporation, which had used public funds indiscriminately to finance public works construction. Hosokawa placed the blame for the corporation's debts squarely on top management who were formerly bureaucrats from the Ministry of Construction. He cautioned that although Koizumi is intent on reforms, there is stiff opposition from many LDP politicians, who fear that if the corporation, which handles the bids from construction firms, is dissolved, the network of highway currently under construction in Japan will be discontinued. Although Koizumi has paid lip service to the reform of special status corporations, so far there has been little evidence to confirm any real move in that direction.

American commentator Richard Katz analysed the political reasons for Koizumi's impotence as a reformer in his article in the September/October 2001 issue of The International Economy titled "Koizumi is Blowing It.":

"The LDP's social base is badly divided between those who would benefit from reform and those who would hurt it." He maintains that Koizumi has chosen the wrong road to reform: "Koizumi has chosen the budget. This is the wrong choice. The private economy cannot achieve self-sustaining recovery while it remains tied down by bad debt and bad debtors." (p.38)

In the September/October 2001 issue of Foreign Affairs Leonard J. Shoppa, Associate Professor of Government and Foreign Affairs at the University of Virginia, put forth that the reason why the Japanese are not doing anything substantial to right the economy is not only political but social:

"The answer lies, ironically, in Japan's very success. For the first time in the country's history individuals and firms now have the wealth and freedom necessary to pursue private solutions to their economic problems—solutions that make perfect sense from an individual or corporate perspective but, that actually aggravate economic problems at the national level." (Shoppa L., 2001, p.77)

However, the very nature of Japan's society is group oriented and individuals still defer to group pressures to conform to the will of the majority. Also, numerous government regulations control start-up companies and corporate expansion, which stifle entrepreneurship.

Edward J Lincoln, a Senior Fellow at the Brookings Institution, wrote about the reasons for Japan's stagnant economy and why the Japanese cannot seem to move on reform. In his article "Arthritic Japan: The Slow Pace of Economic Reform" (October 2001 Japan Policy Research Institute) he contended that even though Japan had been in recession since 1990 the Japanese still believed in their system because as individuals they had not felt the effect of the recession. (p. 2) He explained that the change of a few elements in the system was not sufficient to promote reform because of the character of the system as a whole, which he called "interconnected." Lincoln also claimed that the vested interests in the system itself included most of the population and that the process of deregulation and reform was being controlled by the administrators (i.e. bureaucrats) rather than by a political process and that corporate restructuring focused on down sizing and merging and not on structural reforms. (pp. 5-6)

He identified the most significant reason why the Japanese seem unable to move on reform: social conformity and the reluctance of the Japanese to part with the values in their system. Lincoln maintained that these factors are interrelated and that together they will affect the way the Japanese implement change. (p.2)

What You See Is Not What You Get

As Japan's economy grew so did the number of academics and journalists who wrote commentaries and books that focused on defining the elements that comprised the Japan 'model', a recipe for economic success. The Western world wanted to know why the Japanese were so successful and to grasp the secret. Everybody wanted to know a third way to generate money as an alternative model to capitalism and communism.

Unfortunately, most commentators did not temper their enthusiasm for Japan's 'model' with a word of caution that Japan's seemingly unstoppable economic growth was directly related to a system which was comprised of traditional institutions specific to the Japanese political economy and institutions that had been established precisely for Japan's industrial resuscitation that are discussed in chapter four. The business environment in Japan was exceptionally positive for nurturing undeveloped industries for the short-term but unsustainable for businesses in countries where industries had matured. Nevertheless, Americans wanted to believe that there was a perfect formula. Yamamura wrote in 1982:

“Consultants, business writers, and even some business school professors are quick to realize what the businessmen like to read and hear, and are now seemingly even more anxious to extend the virtues of Japanese policies, practices, and institutions. Mass media and after-dinner speakers are only half a step behind the ‘experts’ and are almost always ready to promise a healthier bottom line if only the Japanese model were adopted. However, if one carefully examines this recent outpouring of printed and spoken words praising the Japanese economy, one quickly discovers that most of it is replete with overgeneralizations, selected half-truths, hefty doses of misinformation, psuedoanalyses sprinkled with Japanese phrases, and generous servings of clichés.” (Yamamura K. 1982 p.77)

Yamamura took exception to the analysis of MITI by one of the leading 'experts' from Harvard University, Ezra Vogel who, in 1979, wrote glowingly about MITI in his book Japan is Number One Lessons for America. He stated that the tight relationship between business and government was a primary reason for Japan's economic power and that administrative guidance and voluntary cooperation from business was MITI recipe for success. He explained how MITI cultivated the cooperation from business:

“In the first place, companies know that MITI is primarily interested in the welfare of companies in the respective industrial sectors. Second, MITI provides superior information and analysis. Third, within a given industrial sector MITI bureaucrats and company officials at a variety of levels met constantly, formally and informally, and develop mutual understanding.” (Vogel E., 1979, pp. 73-74)

However, Vogel contradicted his first statement that businesses voluntarily cooperated with MITI's guidance when he added that companies understood that MITI was more receptive to the applications for licenses, permits, and tax breaks from companies that had cooperated with guidance than from companies that had not cooperated: **“Even if MITI eventually grants the necessary permission to an uncooperative company, the harassing tactics of delaying, requesting more information, raising new questions, and creating uncertainties are ordinarily enough to inspire companies to be more cooperative. (pp.73-74)**

Yamamura, claiming that Vogel advocated the formation of an American MITI, called Vogel's views misconceived and naïve:

“Vogel only described the positive effects seen during the fifties and sixties and ignored the serious and already visible consequences of addiction to guidance and cartels.” (1982, p.104)

In the 1970s and 80s in order to take advantage of the growing interest in the Japanese model and anticipating a substantial profit from a higher student population, universities established centres for the study of Japanese and Japanese culture, business schools added Japanese –related curriculum and, students, believing that there were careers awaiting them in Japanese-related fields, studied the difficult Japanese language, travelled to Japan through government-sponsored exchange programs to see what they were allowed to see of the Japanese system. Some of the most famous universities such as Stanford, Harvard, John Hopkins and Georgetown University received substantial grants from Japanese corporations and state-run government organizations. Japanese corporations and government agencies also sent staff to receive MBA or Law degrees from these universities and to build formal and informal networks with academics. A generation of academics were nourished in these institutions and they learned about Japan's system from educators, whose perceptions of Japan's economic and social conditions were influenced by what they saw as outside observers of the system and by the data released to them by government, corporations and their respective spokesmen.

Chalmers Johnson's Legacy

MITI and The Japanese "Miracle" The Growth of Industrial Policy 1925-1975 (1982 Stanford University Press)

Japan's economic "miracle" inspired western scholars to examine extensively the Japanese political economy. Scholars such as Chalmers Johnson and Karel van Wolferen wrote books that had significant influence on how westerners perceived Japan. Johnson's book on MITI generally is recognized by scholars as one of the finest accounts of Ministry of International Trade and Industry in the English language. The work, which can be called an encyclopaedia of MITI before 1975, explained how the ministry functioned, the conditions of the elite bureaucrats who made policy and their development within the ministry. His definitions of elements that are specific to Japan's political economy such as *amakudari*, *habatsu*, *keibatsu*, *gakubatsu*, etc. have become textbook definitions. Johnson also illustrated the political struggles within the ministry and the struggles over jurisdictional authority between MITI and other ministries.

Johnson reviewed his book in his article "Japanese Capitalism Revisited" for the Japan Policy Research Institute(JPRI):

"The primary focus of my work was the evolution and powers of the Japanese state's bureaucratic apparatus for implementing 'industrial policy.' I emphasized the state's importance because until that time there had been no serious research on this subject." (Johnson C., 2001, p.1)

Johnson gave the reader an historical perspective of the bureaucracy from the Meiji Restoration and showed that pre-war Japan's bureaucracy was kept fairly intact after the war by the Supreme Command because of the threat of Communist expansion in the Pacific. He documented the development of industrial policy, providing an overall perspective of the functions of MITI. He discussed in great detail the structure of the organization and the backgrounds of the civil servants who served in the ministry. He devoted several pages to the Japan External Trade Organization (JETRO) one of MITI's Special Status Corporations, which is discussed in chapter seven. Johnson chronicled its beginnings, pointing to MITI's use of JETRO's overseas offices as surveillance stations,

as locations for temporary posting (*shukko*), (p.62) and lobbying for government policy (p. 231). However, since his book ends at 1975, he could not assess the subsequent revision of JETRO's functions as export promoter to import promoter nor the effectiveness of JETRO as a promoter of international economic cooperation. He also could not analyse JETRO's import promotion programmes or MITI's possible objectives for expanding operations.

Johnson could be considered the pioneer in presenting to Western readers a detailed commentary on the ministry he felt played a crucial role during Japan's economic success. Johnson inspired other scholars to conduct further research and to write about the subject.

In "The Practice of *Amakudari* Within the Japanese Employment System" ("Asian Survey" p. 311) Tuvia Blumenthal touted Johnson as being a pioneer in 1974 when he wrote about the *amakudari* system in "The Reemployment of Retired Government Bureaucrats in Japanese Big Business" for the November 1974 issue of Asia Survey.

Johnson, who was a professor of political science at the University of California, Berkeley until his retirement in 1992, founded the Japan Policy Research Institute with Samuel Clemons in 1994. The institute gives scholars a platform for their research papers and encourages further study on East Asian social, political and economic issues. The members of the board come from diverse backgrounds and include such fine commentators on Japan as John Dower whose book Embracing Defeat: Japan in the Wake of World War II won the Pulitzer Prize, the Bancroft Prize and the National Book Award in 2000.

Johnson claimed that the Japanese had labelled him the "Godfather of revisionism" because his book on MITI established a foundation for the "revisionist" school of writers on Japan. (2001, p. 2) Scholars of the "revisionist" school claim that although Japan's political economy cannot be understood within the same context of Western political

economies it should not be treated as unique and different in the global political arena. In other words, the differences should be understood but Japan should not be given preferential treatment in such instances as trade negotiations nor should the United States be soft on Japan because of its importance as a military base for US troops.

Johnson's incentive for taking on this monumental task was to show Americans the political economy of a country that was their closest ally in East Asia and that had become its chief competitor in global markets. In his JPRI article he gives due credit for Japan's rapid economic development to America's willingness to accept large quantities of exports because it needed to maintain Japan as a safe haven for its military. He writes:

“Japan also enjoyed privileged access to the American market because it was the United States primary military political and military satellite in East Asia—an aspect of the relationship that was taboo to discuss.” (p. 2)

However, as the US trade deficit with Japan grew so did American demands in the early 1980s that Japan end protectionist policies and deregulate markets.

Johnson believed that Japan's rapid economic growth hinged on bureaucratic guidance by the economic ministries, namely the Ministry of Finance (MOF), MITI with its Economic Planning Agency (EPA) and a very strong industrial policy. He argued that the Japanese economy was neither a plan-rational market nor socialistic nor Anglo-American but was in the process of developing into a capitalistic economy or 'developmental state' (CDS).⁷

⁷ **“One view, championed by economists like Hugh Patrick, portrays Japan as essentially a free-market economy, not unlike the United States...At the opposite pole stands Chalmers Johnson. He sees postwar Japan like its prewar predecessor, as a ‘developmental’ state in which bureaucrats rule and all other interests are subordinated to national economic development,”** Richard Katz (1998), JapanThe System That Soured p. 81

Yamamura Kozo defines the term “developmentalism”: “I refer to a political-economic system in which institutions are shaped by the belief that a developing economy can best achieve its goals of becoming a developed economy (‘catching up’) by adopting a wide range of industrial policies that will enable its manufacturing firms to adopt successfully new technology as rapidly as possible in order to increase, over time, their productive capacity and efficiency.” (February 23, 1997 p.296)

Johnson believed that Japan was not unique because South Korea and Taiwan followed similar paths and accomplishing similar results.

Johnson contended that although exchange rates did affect prices, Japan’s competitive edge in the 1960s and 1970s was:

“...not primarily in prices. Japan’s trade surpluses and the worries they created in the United States was caused by its developmental state—easy access to capital for exporters in designated strategic industries, research and development consortia, the blocking of foreign investment and sales in Japan, governmental efforts to separate foreign technology ownership rights, and other industrial policy measures.” (p. 2)

In other words, MITI was protecting Japanese industries by using heavy protectionist measures in an effort to develop the economy.

In his article for JPRI Johnson quoted a telegram from the American Embassy in Japan that was sent to the U.S. Department of State on June 24, 1960:

“Our economic policy accorded Japan a fair and reasonable share of our market as premise and precondition for U.S.-Japan relationships in political and security fields and has led to substantial expansion of Japanese exports, making possible Japan’s present economic prosperity.” (p.4)

Johnson contended that the policy still stands and that 43,000 American troops (as of 2001) were stationed in Japan:

“Japan still takes its due privileged access to the American economy and protectionist barriers against American sales and investment in the Japanese markets.” (p.4)

The United States trade policy with Japan is influenced by its perceived need to keep military bases open in Japan. This policy includes sales of military hardware to Japan for its armed forces.

Johnson introduced an interesting premise regarding the reasons for Japan’s economic downward spiral. In his book he pointed to the growing power of the Liberal Democratic Party as the bureaucracy began to weaken after Japan’s rapid growth period ended. In his JPRI paper he blamed Japan’s recession on too little bureaucratic control rather than too much regulation. He pointed to the problems in the late 1980s when MOF failed to adequately supervise bank lending to chief clients thus leading to careless speculation:

“Japan’s subsequent failure was not caused by the economic bureaucracy’s intervention in the economy but by the economic bureaucracy’s loss of autonomy to implement policies in the face of vested interests.” (p.9)

He also put the responsibility on the shoulders of the LDP, which he maintained was artificially put into power in 1955 and still continues to rule due to the continuation of U.S. policy.

Johnson disagreed with the current consensus that deregulation is vital for bringing Japan out of a depression, contending that more bureaucratic regulation not less is necessary to control Japan’s developmental economy. (2001 p. 9) However, providing the ministries with more power to regulate the economy implies that the ministries will also have the power to continue to inhibit the process of implementing such structural reforms as the streamlining of Special Status Corporations and public corporations.

Japan's political and economic system can be described as a bi-product of the Cold War, an economy, which has been manipulated by both the United States and Japan to serve mutual vested interests. It is suggested that reforms could be initiated politically if certain conditions existed: 1) the end to the domination by the LDP, the party that has sanctioned bureaucratic policy since 1955, 2) the United States withdraw all troops from Japan, leaving the Japanese free to assume their own military responsibilities, including footing the bill for all military spending, 3) the United States Trade Representative (USTR) treats Japan under the same conditions as its other trading partners.

Japanese in government and academia were strongly critical of Johnson and proponents of his 'revisionist' theory, calling them "Japan-bashers." The term "Japan Bashing" originated in the early 1980s when Detroit automobile workers, incensed with the success of Japanese automobile imports to the American market and fearing future job losses, bashed and burned a Toyota in midtown Detroit. In the 1980s, the United States tried to deal with Japanese trade surpluses through agreements based on rules and regulations or Voluntary Export Restrictions (VERs) rather than demanding numerical quotas. As the trade surplus grew and Japan failed to open its markets to insurance, securities, construction material, etc. the United States began to approach Japan in a more realistic fashion. Johnson explained the change in attitude in his JPRI article:

"The new idea coming from the U.S. that Japan, in fact, constituted a different kind of economy and that the focus of negotiations be on results rather than rules (as in trading relations with command economies) constituted a threat to Japan's continued surplus. The idea that Japan was different had to be discredited." (p. 2)

The Executive Director of Research and Planning at the New York branch of the Japan External Trade Organization⁸ (JETRO New York) and Executive Editor of the publication "Inside/Outside Japan", Washio Tomoharu, objected to the attitude of the USTR towards Japan at trade talks in February 1994. He wrote a letter to the editor of

⁸ The Japan External Trade Organization is one of MITI's primary organizations. It is said to be a promoter of exports and international economic cooperation and is discussed in detail in the final chapter

the New York Times and it is an appropriate example of the Japanese government defence against USTR demands. It began:

“The ‘failure’ of the latest round of United States-Japanese trade talks shows the simplistic and self-centered approach of the United States often takes towards the ‘most important’ international trading partner: unrealistic demands such as numerical targets, failure to obtain agreement or fulfillment, followed by threats to retaliate or a retaliatory action. Watching these spectacles, now too familiar, one wonders if United States negotiators understand the complexity of economic mechanisms and the workings of Japanese society. The overall impression is that the United States is good at working out a conceptual image of, let’s say, Japan; it then takes the image to be reality. When it finds out that reality differs from an image so conceived, instead of changing the image, it vents frustration.”⁹

Washio was angry about the fact that the USTR avoided negotiating with MITI officials and had taken its case directly to the Japanese foreign minister. He claimed that this action illustrated one “administration official’s” contention that the Japanese bureaucracy was the “enemy” of the United States. Washio maintained his government’s line that Japan was intending to implement political reforms but that the Japanese society is complex and that changes take time. He then took the offensive with the line that his government often used to defend its position; America must reduce its budget deficit.

In his paper for JPRI in 2001 Johnson claimed that in comparison with the other industrialized powers Japan’s bureaucracy was more powerful than the other two entities of the “ruling triad,” business and parliament. He denied that in MITI and the Japanese Miracle he had indicated that the bureaucracy was the only influential player in the economy but that he wanted to emphasize that elite civil servants took on major responsibilities in managing Japan’s economy. He achieved this in his book through explaining in great detail the elite bureaucrats’ lives inside the ministry, including internal political struggles as well. He provided the resumes of two famous MITI vice-

⁹ (February 28, 1994) “U.S. Trade Delegates, Alas, Oversimplify Japan” *Letters/ The New York Times*

ministers, Imai Zenei (1963-1964) and Sahashi Shigeru (1964-1966) (pp.339-340) and cited former vice-ministers throughout the book. He was not entirely swayed by their opinions. He tempered the comments by elite officials about the reasons for Japan's rapid economic development by adding his own. For example, when discussing how certain elements ("institutions") specific to the Japanese political economy acted together to induce Japan's rapid economic development he referred to what Japanese call "the three treasures"—lifetime employment system, the seniority wage system and enterprise unionism. He cited two former MITI vice-ministers:

"Amaya Naohiro of MITI, for example, cites these three institutions as the essence of what he terms Japan's *uchiwa* (all in the family) economic system; the former MITI vice-minister Ojimi Yoshihisa referred to various 'typically Japanese phenomena' that had helped Japan to obtain its high-speed growth—the phenomenon again being the three sacred treasures." (p.11)

Johnson stated that their view was simplistic and that the "three treasures" were not the only "special institutions" and, indeed, not the most "sacred." Johnson included the personal savings system, *amakudari*, *keiretsu* and state-run financial institutions such as the Development Bank of Japan and the Fiscal Investment and Loan Plan (FILP)¹⁰ as institutions that also aided Japan's economic development before 1975.

Johnson, who still favours strong ministerial controls, credited MITI elite like Sahashi Shigeru, who entered the ministry in 1937 and retired as vice-minister in 1966, for engineering Japan's industrial rebirth. Sahashi was an influential vice-minister and was called "Mr. MITI." He was a devoted fan of his own ministry. Johnson tried to illustrate Sahashi's moral values by pointing to Sahashi's resistance to the normal *amakudari* track taken by most retired vice-ministers. He refused to enter private enterprise because long-time employees would resent him if they should be passed over for promotion. He was disillusioned with politics and he did not want to enter a state-run corporation because he did not want to receive orders from other vice-ministers.

¹⁰ FILP's functions are defined in chapter 5, p 154

Sahashi opted to bide his time and write books on economics for six years but finally decided to enter the Leisure Development Center, an association managed by MITI. Johnson described his meeting with him:

“When I met him in 1974, he was the very model of an international tourist executive: ensconced in an office surrounded with tropical fish in tanks, recently returned from a visit to the South Pacific, and dressed in a white safari suit, he answered my questions frankly and passionately defended his beloved MITI.” (p.272)

Sahashi gave Johnson some good quotes, which Johnson used freely to punctuate his points. For instance, Sahashi on industrial policy:

“It is utterly self- centered [businessman’s] point of view to think that the government should be concerned with providing only a favorable environment for industries without telling them what to do.” (pp.9-10)

Johnson added that the occasions when industry “revolted” against government edict were relatively few.

He wrote that after Sahashi Shigeru’s retirement in 1966, MITI was pressured by business to liberalize regulations and to end the use of the policy instrument “administrative guidance”. MITI also faced public criticism of collusion with big business and problems such as industrial pollution and the depopulation of rural areas like Shimane Prefecture. On top of that there was the beginning of the era of trade friction with the Japan’s biggest trading partner, the US. However, Johnson claimed that the Oil Shock in 1974 brought new life to the ministry: Johnson wrote that after the Oil Shock, along with a change in its industrial policy, MITI restructured itself, brought in new personnel and started grooming staff for international duty. Perhaps influenced by his dealings with elite officers, who undoubtedly were highly intelligent and well-educated individuals, he represented MITI as a powerful institution.

“MITI again found a call for service—to lead third-stage knowledge-intensive industrialization and to correct many abuses that had accompanied the renewal of self-control.” (p.274)

In other words, MITI’s long-term policy that had been planned since the 1950s for energy-intensive industries were scrapped and new industries related to information systems were targeted thus giving MITI new jurisdictional authority.

However, Yamamura and George Eads contended that MITI began to experience the loss of power after the Oil Shock and that MITI bureaucrats exercised less control over industries because they had less policy tools to work with:

“Although it is difficult to determine the extent of alterations in the Japanese government’s bureaucratic capabilities in the post-1973 period, there can be no dispute that the bureaucrats, whatever their skills, prestige, and discretionary power, had fewer industrial policy tools to work with.” (Yamamura K and Eads G.,1987, p.452)

Yamamura also claimed that MITI was unable to change its protectionist policies after 1973:

“...the virtues and strengths of MITI, which...so unqualifiedly praised were like a potent drug that is effective at the cost of serious and lasting side effects, one of which is inevitable addiction.” (Yamamura K.,1982, p.104)

To control production, prices and to protect markets, MITI continued the use of “administrative guidance” for the formation of form cartels. (1982, p 89)

At times Johnson was overly enthusiastic in his evaluation of bureaucratic controls as aids to the continued development of Japan’s economy. When he discussed the policy instrument “administrative guidance” he stated that the power to ‘administrate guidance’ was not given according to law or according to orders from the Diet or Cabinet but given at the will of officials, who had been granted the authority to issue guidance. Johnson

likened these MITI officials whom he called “economic officials” to military commanders. Johnson contended that their power gave them the freedom to:

“...respond to new situations rapidly and with flexibility, and it gives them the scope to take the initiative.” (p. 272)

A more straightforward way of putting this is that any elite official can issue guidance ad hoc, unfettered by law. Johnson also predicted that administrative guidance, would always be in MITI’s kit of tools:

“given the public’s awareness of Japan’s economic vulnerability and its acceptance of the need for government coordination of economic activities.” (p. 274)

The Japanese feel vulnerable as a nation because they rely on foreign sources for most natural resources and on foreign markets for exports of manufactured goods. In other words, their dependence on foreign economies for their survival creates a reliance on the ministry that plans trade policy, manages the entire manufacturing sector and, in cooperation with the private organizations, controls the distribution of energy resources.

Yamamura’s and Ead’s theory conflicts with Johnson’s because he contended that more controls prevented a developmental economy from developing into a market-driven economy:

“Although such protectionism may help absorb excess labour and distribute income more equitably, it clearly runs counter to market forces, perpetuates inefficiency, exacerbates inflationary pressures and erects de facto barriers against the imports of foreign products. Hence, the economic costs of the Japanese industrial policy in the retail distribution sector are substantial, and they contradict MITI’s professed commitment to the principal of market efficiency.” (Yamamura K. and Eads G. ,1987, p. 450)

This raises an important question of whether the Japanese themselves actually wanted more controls or whether consumers wanted the option to purchase Japanese goods for

lower prices and imports at affordable prices such as leather goods, building materials and home electronics. Until the 1988 citrus and beef GATT agreement was implemented, a single navel orange cost one pound or more. Foreign residents, who were used to drinking a glass of orange juice daily, were surprised to find that one glass of freshly squeezed orange juice sold for three pounds sterling. (Carpenter S.1993 pp. 5-6) Due to the pressures from Japanese citrus growers' associations prices rarely fell to levels that competed with domestic citrus. Imports of products such as leather goods, home electronics and computers that were competitive with Japanese goods were two to three times as expensive than in the country of origin, forcing the Japanese to purchase "made-in-Japan" goods, even though they may have wanted to buy a foreign import. When Japanese travelled abroad they invariably shopped for goods they craved but could not afford at home giving foreigners the impression that they were wealthy "economic animals."

Johnson praised bureaucrats like Sahashi for: **"not their 'control bureaucrat' mentality but their having shown the nation how to change its industrial structure in order to meet changes in the economy."** (p. 274)

His tome to MITI can be regarded as exaggerating the role that MITI played in Japan's rapid economic growth period. Johnson stated unabashedly:

" Thanks to MITI, Japan came to possess more knowledge and more practical experience of how to phase out old industries and phase in new ones than any other nation in the world." (p. 274).

Johnson was alluding to such energy-intensive industries as aluminium, petrochemicals, steel and shipbuilding and such "sunset industries" as textiles and paper manufacturing. However, MITI's policies for the industries listed above were unabashedly protectionist, using cartels and providing subsidies. On the other hand, the policies allowed MITI to maintain a hold on these industries because administrative guidance was easier to implement due to the postretirement positions (*amakudari*) that ex-MITI officials served in companies and associations related to these industries.

Johnson praised the high calibre of elite ministry officials. He asserted that opposed to the civil service in the United States where political appointees from the private sector are among the most talented in American government, the finest talent found in Japan are the elite bureaucrats. (pp. 20-21) He presented the ministries of Finance, Construction, Agriculture, Transportation, MITI and the Economic Planning Agency (EPA) as the agencies that attracted the best minds in Japan. He described them as the policy-makers in Japan, controlling the national budget (MOF) and drafting all laws. Nonetheless, what Johnson perceived as strengths in the bureaucracy also can be seen as factors that promoted more insularity and rigidity in Japan's political economy. For instance, after he counted the attributes of elite bureaucrats and their powers, he added:

“Equally important, upon their retirement...these bureaucrats move from government to powerful positions in private enterprise, banking, the political world, and numerous public corporations—a direction of elite mobility that is directly opposite to that which prevails in the United States. The existence of a powerful, talented, and prestige-laden economic bureaucracy is a natural corollary of plan rationality.” (p.21)

Johnson was stating that the propensity of ex-bureaucrats to take postretirement positions in both the public and private sectors (*amakudari*) was instrumental to Japan's economic success and that having bureaucrats in high places in business and politics made the Japanese system more powerful. He omitted stating that *amakudari* was the mechanism that promoted ties between vested interest groups, thus inhibiting the correction of economic miscalculations and the adoption of new methods of administration.

A simple example of what Johnson touted as strengths in the ministries may also be construed as weaknesses in the bureaucratic system is the importance that a law degree from Tokyo University plays in the career of an elite office. Johnson wrote:

“Even among the Todaibatsu, [Tokyo University clique] there is the batsu of all batsu—the alumni of the Tokyo University Law School.” (p.59)

He explained that historically, the top career bureaucrats graduated from Todai and that they ranked above graduates from other universities for promotion to the upper echelons in MITI and in the other ministries as well. The Todai legacy goes back to 1886 when the university, formerly known as Tokyo Imperial University was founded by the Meiji government in 1886 for the purpose of educating civil servants. Even the entrance exams for career officers, the “Higher-Level Public Officials Examination, has changed little since pre-war days. According to Johnson in 1977 out of 53,000 applicants only 1,300 passed. (p.37)

It is generally recognized in Japan, that the level of college education in Japan is inferior to education at universities in the West. Although the college entrance exams are very difficult and students spend most of their high school years preparing for the examinations, once they enter a university, they can relax. Students may spend less time studying than their Western counterparts. This poses the questions of whether Japanese elite administrators have enough training for their positions and, also, whether they were admitted to the ministries simply because they continued the Todai lineage and were able to pass a very competitive exam.

It is commonly believed among Japanese that the Todai clique creates an insular mentality within the ministries but that the ministries discriminate against graduates with the same skills from other universities.

Another example of what Johnson deemed to be a strong point of the ministry is its vertical organization, stating that Sahashi felt that it cultivated a feeling of “family” and “solidarity” within MITI:

“Given its semilifetime employment system and its vertical organization, each ministry must create sufficient public corporations, affiliated associations of clients (*gaikaku dantai*), and colonial outposts for its retired and soon-to-be-retired seniors. These commitments cause a ministry to become a ‘welfare community,’ which has become an object of affection for its members and not merely an impersonal office.” (p78)

Johnson did not temper Sahashi’s statement by adding the information that the organizations received public funding and could be used by the ministries to perpetuate their own interests. Instead, he simply gave the information that had been contributed by a government source that the ministries used public corporations to ensure loyalty among staff.

A third example is Johnson’s referral to the ministries constant battle for territorial jurisdiction:

“The struggle for *nawabari* (literally ‘roped-off areas’) is one of the passions of the Japanese bureaucracy. However, this may be one of the hidden, if unintended, strengths of the Japanese system.” (p.78).

He qualified this by citing the theory which Leon Hollerman stated in the August 1979 “Journal of Asian Studies” that if ministerial powers overlapped then the bureaucracy’s powers would therefore be reinforced. The “sheer ambition for status” among the agencies also produces an extreme rivalry and protectiveness of territory. The competition for power ultimately will counteract the dangers of the bureaucracy holding too much power.

Strangely enough Johnson did not insert the quote from Sahashi that he gave in a later chapter, which would have given readers a more realistic understanding of Japan’s bureaucracy:

“Bureaucrats are officials of the various ministries first and only second are they servants of the nation.” (p.74)

Sasashi’s statement is a universal truth but it takes on a different dimension in the behaviour of Japanese bureaucrats because he was referring to the ministries on-going battle for territory in order to secure more *amakudari* positions. A decrease in territory implies a decrease in postretirement positions.

“Tradition and circumstances thus produce an intense ‘territorial consciousness’ (*nawari ishiki*)...” (p. 74)

Japanese bureaucrats’ work involves the maintaining and expanding of territory, work that can include the establishment of affiliated associations and special status corporations. Although Johnson contended that MITI was revitalizing itself after the Oil Shock and becoming stronger as a ministry, he failed to recognize one significant factor that in itself would weaken not strengthen his MITI. That factor was the changing values of the new elite bureaucrats. They had come to enjoy the respect and power of their positions and they had experienced an easier life than their predecessors, savouring the fruits of MITI’s success. They wanted such institutions as *amakudari* to continue and those opportunities to assume postretirement positions to increase in order to ensure security for themselves and their families.

Johnson pointed to non-career officers as being more vulnerable to corrupt influences. He claimed:

“Actual corruption among higher officials in Japan has occurred but is uncommon. In general, the Japanese public places greater trust in the honesty of state officials than in the honesty of politicians or business leaders. Such petty corruption as does occur—gifts from businessmen, golf club fees, dinner parties, junkets—is more common among noncareer officials than among higher bureaucrats.” (p. 68)

Since the elite control the bureaucracy as well as the information released to the public, Johnson was forced to rely heavily on elites for his information. His perspective of corruption among career officers versus non-career officers was based on what he was told.

It is regrettable that Johnson did not examine the roles of the non-career officers and career officers, who, although they are not in the elite class, are vital to MITI operations. Non-career officers do not have the same opportunities as their elite colleagues for *amakudari* positions and other rewards that elites receive because of their elevated rank. Elites are in the envious position of making interpersonal connections within the ministry and with big business such as marrying into the families of wealthy business people and influential politicians. Although a few non-career officers may be posted abroad as support staff for career officers, they ordinarily do not receive education abroad and they are not sent abroad more than once.

As the recession continued, the Japanese began to closely scrutinize the corruptive influence of *amakudari* and the type of corruption Johnson alluded to. Gillian Tett wrote in the May 19, 2000 Financial Times that government had written a code of ethics that would regulate the types of gifts that bureaucrats could receive from businesses:

“In the past, foreign and Japanese companies have often entertained bureaucrats through dinners, golf outings, or evenings at venues such as a ‘no pan’ (no panties) restaurant, where the bill could top 300,000 yen (1, 480 pounds sterling). ‘everyone did this,’ admits one foreign banker.”

The target of the new rules was the Ministry of Finance and MITI, the two ministries that manage the banking and manufacturing sectors respectively.

Japan Who Governs? The Rise of the Developmental State (1995 W.W. Norton & Company)

The theme of Johnson’s following book, released in 1995, is that there are two types of capitalism--the American and the Asian and that the Asian has proven more successful

in the wealth-generating system. The United States must deal with Japan from the perspective that Japan had become the economic superpower in the Pacific. Johnson felt that America must compete with Japan in order to survive in the global economy and recommended a stronger industrial policy for the United States.

His contention that Japan's system was more effective than America's was an indication that he had not yet come to realise the depth of Japan's serious economic condition and social problems that had developed in this distorted environment. More bureaucratic control would only serve to continue a governing system that had proven too rigid to successfully push Japan into a solid position in the global economy.

As he did in his book on MITI, Johnson defined the elements of Japan's ruling system, which he called a bureaucracy. The Japanese agree that the bureaucracy is the strongest force in Japan's governing system (see Part II) He also examined Special Status Corporations in detail and the important role they played in providing postretirement positions for bureaucrats. He wrote:

“Even though non-Japanese scholars have hardly touched this subject in their research, no appreciation of the full extent of the bureaucracy's powers is complete without mention of it.”
(p.134)

He cited Sahashi, who was working in a MITI association, as claiming that ministries established Special Status Corporations simply to expand jurisdiction and for *amakudari* positions. Johnson pointed to concerns that ministries used Special Status Corporations to control local governments' operations and certain aspects of daily life. However, he attributed the term “30% autonomy” (*sanwari jichi*) in part to this control mechanism (p. 134) when it actually defines simply the level of independence that local government has from central government in terms of their budgets. The prefectures generate approximately 36% of their budget and must rely on central government for subsidies for infrastructure work, for health and welfare, for education and so forth. (The political

and economic relationship between central and local governments is discussed in Chapter six) Johnson and his 'revisionist' colleagues as well as commentators, who predicted great successes from the Japanese system, did not seem to fully recognise that if the Japanese government did not execute structural reforms the economy would depress further. They did not seem to realise that Japan's rigid socio-political system can neither sustain global growth nor can it accommodate reforms. The fundamental reason (to be discussed in chapter six) that can be attributed to this rigidity is that the political economy is mired in a network of personal connections between people in government, business and politics.

Johnson's works inspired other scholars to examine Japanese elite civil servants, their role in administering Japan's economy, and their *amakudari* system.

Spin-offs Of The Elite *Amakudari* Theme

The Japanese have written extensively about the *amakudari* system, and recently about *amakudari* in Special Status Corporations, which has become a popular topic. While the Japanese authors looked at *amakudari* as an institution that was at the root of corrupt behaviour among elite who took advantage of the system (i.e. serving in more than one position at a time, thus receiving several salaries simultaneously) and that it frustrated efforts to reform the economy, Western authors looked at *amakudari* from an entirely different perspective. Their articles were simple explanations of how the system worked in terms of the facilitation of government controls over industry and analyses of how the system aided to tie government objectives with corporate interests. Some academics have even suggested that *amakudari* was a positive force behind Japan's economic expansion. The following papers represent this perception of the system.

***"The Practice of Amakudari Within the Japanese Employment System"* (March 1985 Asian Survey xxxv. No. 3)**

Tuvia Blumenthal, an associate professor of economics at Ben Gurion University in Israel, undertook this study of *amakudari*. Taking up the gauntlet from Johnson, but

giving far less detail and less analysis, Blumenthal described the system and the process of gaining postretirement positions in private corporations. She stated that the close relationship between business and government seemed to be one of the causes for Japan's economic success and that such policy instruments as administrative guidance, executed mainly by MITI, was an illustration of government controls over business. She credited *amakudari* as one of the connections between businesses and government. She described the system as an incentive for bureaucrats to enter the ministries and that it was:

"...well-integrated into the framework of the Japanese employment program." (p 321)

She exhibited data that was issued by the National Personnel Authority to show that the system was continuing with the number of positions increasing as well. Blumenthal credited this to the need of ministries to retire bureaucrats by the age of fifty-five to make room for younger staff.

Blumenthal was not familiar with Special Status Corporations, identifying them as non-profit institutions that were "close" to the ministries and were sources for *amakudari*. Blumenthal produced data from the MOF "White Paper on *Amakudari*" published in 1981 that showed that 78.6% of the directors in all of the Special Status Corporations were ex-bureaucrats and that since 1974 the largest number of *amakudari* directors had come from MITI. (p.314) This data did not include information on other posts in special status corporations available to retirees as well. She also did not mention that the ministries established Special Status Corporations and associations for expanding territory, a fact that Chalmers Johnson pointed out in 1995.

Blumenthal summed up her paper by giving *amakudari* a positive assessment:

“The practice makes for better communication between government and business through personal contacts and eases the flow between the two sectors. Moreover, it can be regarded as an efficient use of skills and experience gained by officials in their long training in government.” (p.320)

It could be argued that Yamamura Kozo, who had published his paper on “administrative guidance” three years earlier, would have disagreed with Blumenthal’s analysis. The personal contacts between bureaucrats and their former colleagues who have migrated to jobs in private industry help the ministries in the use of the policy tool “administrative guidance” to implement policies easily

“Elites in an Equalizing Role Ex-Bureaucrats as Coordinators and Intermediaries in the Japanese Government-Business Relationship” 1989 (1989 Comparative Politics Vol. 21; PT 4)

At the time of publication Kent E. Calder was an associate professor of Politics and International Affairs at the Woodrow Wilson School, Princeton University. He described the dynamics of the *amakudari* system in business, Special Status Corporations and politics. Compared to the Blumenthal article it is very ambitious and delves deeply into the subject.

Calder asserted that businesses hired ex-bureaucrats to provide a stable political environment for doing business. In other words, ex-bureaucrats have strong connections with their ministries and former colleagues, enabling them to lobby on behalf of their firms to dissuade government from planning rules and regulations that would put companies at a disadvantage in the marketplace. Also, ex-bureaucrats pursue government contracts for their firms. Firms that employ ex-bureaucrats feel confident that their presence will “equalize” the competition with other firms both large and small. Small firms are particularly vulnerable when dealing with big business and government. To put it another way, having an ex-bureaucrat is like owning an insurance policy.

Calder’s focus is on the *amakudari* system in small businesses. Most studies on *amakudari* do not look at this area, preferring to look at the large corporations. Calder contended that Japanese small businesses depended more on ex-bureaucrats for

intelligence gathering than larger businesses because they had less access to central government than larger businesses:

“Bureaucrats move with the greatest frequency to relatively small, non-Tokyo-based, non-keiretsu-affiliated firms with relatively small proportions of elite Tokyo University graduates in top management.” (p.399)

Calder described the function of the *amakudari* system. He stated:

“*Amakudari* through its “equalizing” effects, broadens access to economic policy for those who otherwise could not easily afford it. “ (p.397)

Calder’s analysis of the various forms and functions of *amakudari* raised some interesting points. 1) Although the very large corporations hired ex-bureaucrats, smaller firms involved in the construction, telecommunications and transportation industries where the markets were more competitive tended to hire more ex-bureaucrats. Also, smaller firms in the provinces and further from Tokyo, the seat of central government, hired ex-bureaucrats to provide a pipeline to the central ministries. Smaller businesses were usually more isolated than larger businesses and the former civil servants served as “intelligence gatherers.” 2) Calder counted 200 ex-bureaucrats in industrial associations, many representing small business. 3) 130 ex-bureaucrats in the Diet:

“...where they tend of political necessity to be sensitive to the interests of small business, a pivotal ‘swing vote’ group.” (p.383)¹¹

.4) Calder contended that ex-bureaucrats tended to migrate to medium and larger firms that did have “establishment ties” with government. These ties could be any related to personal contacts between owners of firms and elite civil servants or connections through marriage, etc. 5) Firms that had graduates of Tokyo University at the helm tended not to hire ex-bureaucrats as frequently as firms that did not have *Todai*

¹¹ Calder could have included in his analysis that 99% of all business activity in Japan is small to medium sized business and that government heavily subsidizes small businesses

graduates in management positions 5) Elite ex-bureaucrats moved to the larger firms that were positioned below the higher ranking companies 6) Ex-bureaucrats in the Diet tend to represent the poorer prefectures. 7) Special Status Corporations supply the overwhelming number of positions for ex-bureaucrats, many of the corporations related to small businesses (Calder counted 300, using 1976 statistics).

Calder did not mention that MITI manages the small business sector and owners of small businesses will hire MITI retirees to have a pipeline to MITI to access subsidies and loans from MITI Special Status Corporations.

Calder stated that from the mid-seventies due to trade friction overseas, Japanese companies that were involved with foreign trade began hiring a large number of MITI and the Ministry of Foreign Affairs retirees, posting them in overseas branches where they accessed the latest information on foreign trade policies and to forge closer ties with foreign governments to ensure supplies of raw materials. MITI uses Japan External Trade Organization to serve the same function.

Calder explained that French ex-bureaucrats migrate to business but not as many as in Japan. The reasons he gave were that Japanese businesses were willing to pay higher salaries than their French counterparts and that since economic and political information is more readily available French companies did not feel compelled to hire retirees from the inside. Also, in comparison with Japan the political economies of both the U.S. and France is more transparent and businesses have an easier time accessing information.

Calder's analysis of the *amakudari* system showed how ex-bureaucrats helped businesses by gathering economic intelligence and dealing with an unpredictable political environment. He acknowledged that *amakudari* stifled deregulation, calling it the "veto effect." He recognized that *amakudari* produced a "rigidifying" effect in the formation of economic policy, citing MITI's inability to develop a policy to phase out certain energy intensive industries adversely affected by the Oil Shock in 1973.

Ooyama Kosuke, an associate professor of Social Sciences at Tsukuba University,¹² wrote in his book Study of the Political Economy of Administrative Guidance/*Gyosei Shido no SeijikeizaiGaku* that Calder's hypothesis that ex-bureaucrats equalize big and small businesses ability to access to intelligence is still to be proven. Ooyama questioned whether *amakudari* served as a means for businesses to government to exchange information. This could suggest that communication between ex-government officials and their former colleagues is difficult to qualify because it is done often through personal contact. Ooyama felt further investigation had to be done to determine the validity of Calder's theory that ex- MITI bureaucrats who take postretirement positions in firms cannot be considered actual employees of the firms because they come from MITI. (p.38)

Since Calder did not supply the source of his information nor the method he used to determine the number of ex-bureaucrats migrating to small businesses, his claims cannot be substantiated easily. Also, it is likely that he would have would difficulty accessing this data unless he was employed in small businesses or in Special Status Corporations and associations that catered to small businesses. Gaining entry into small businesses to do research is difficult unless facilitated by a state-run institution such as the Japan Finance Corporation for Small Businesses, a primary lender to small businesses. In addition, communication may be difficult because small business owners and their employees ordinarily do not speak foreign languages. Even then, owners would be unwilling to divulge such information unless they trusted researchers to be objective in their analysis of the data.

Calder's article was published in 1989, one year before Japan's "bubble economy" burst. When he wrote the article, small enterprises were doing relatively well because of the extended economic boom during the later half of the 1980s. When the recession hit

¹² Tsukuba University is a State university that focuses on the sciences and receives significant funding from government for research.



bankruptcies among small enterprises escalated dramatically along with the debts incurred from the bankruptcies. In his book The Contemporary Japanese Economy Matsuba Masafumi, Professor of Economics at Ritsumeikan University, who defines small enterprises as having capital of less than 30 million yen, claimed that the debt of bankrupted small business in 1991 was 6.36 trillion yen:

“This was three-fold the value of the previous year and the highest of past years. As a result, the debt value per bankruptcy increased greatly to 597 million yen (approximately 2.5-fold of that in the previous year.” (Matsuba M., 2001, p.178)

The November 15, 2001 edition of The Japan Times Online announced:

“The nation’s prolonged recession forced more small and midsize firms into bankruptcy in October, with the number of failures surging 11.7 percent from a year earlier to 1,911, the worst since the nation’s asset-inflated bubble economy burst a decade ago, a credit research firm said Wednesday. It was also the third-highest number of corporate bankruptcies in a single month in post-war Japan, according to Teikoku Databank Ltd.”¹³ There is no recorded data that shows the rate of failure among small businesses that employed ex-bureaucrats.

“Government Elites and Amakudari in Japan, 1963-1992” (July 1995 Asian Survey)

At the time of publication the authors, Chie Usui and Richard A. Colligan were professors of sociology at the University of Missouri-St. Louis and Dusquesne University respectively. They agreed with Chalmers Johnson that the bureaucrats not politicians governed Japan, a “network state and network society” and a rational capitalistic economy. They characterized the relationship between state and business in the same mode as the above authors:

“...mutually dependent, obligatory, trusting, reinforcing parts to the whole. Noteworthy are the informal policy networks and interpenetrations of government and business serving to reconcile private interests with public purpose.” (p.682)

¹³ japantimes.co.jp

They pointed to *amakudari* as the most basic form of “interaction and interpenetrations” of government and business. The authors looked at the system in terms of placements of ex-bureaucrats in business over a thirty-year span, often citing such academics as Johnson and Daniel Okimoto, who is the co-director of the Northeast Asian Institute at Stanford University where MITI retirees regularly lecture.

Charting the increase in the numbers of ex-bureaucrats in *amakudari* positions in business between 1963-1993, which they divided into three periods, the authors attempted to show the “interpenetration” of government and business. By calculating the extent of ministerial power according to the number of postretirement positions in the private sector, they suggested that the decrease during the period of 1960 to 1985 in *amakudari* for some ministries might indicate that deregulation had occurred in the industries under the jurisdiction of those ministries. They cited the deregulation of the telecommunication industry administered by the Ministry of Posts and Telecommunications as an example. They cautioned, however, that further research was still required before a firm conclusion could be made.

Usui and Colligan suggested that due to the decrease of *amakudari* positions for MITI since the 1960s indicated that MITI’s powers were decreasing, contradicting the notion of some academics that MITI was the dominant among the ministries. They looked at MOF as the strongest ministry because of the highest level of *amakudari* positions and predicted that in the 1990s, MOF would become stronger because of its efforts to correct the damage done during the “bubble” economy.

Usui and Colligan stated that their findings could not support a prediction of the future of *amakudari* but there was reason to believe that the direction of *amakudari* was in public corporations and industrial associations, although more study was necessary to determine if there was indeed this trend. They stated that other academics felt that the

route of *amakudari* had shifted from the private sector to public institutions and foundations after 1985.

Perhaps further research could be conducted to ascertain whether the loss of *amakudari* positions in the private sector is making Special Status Corporations and public corporations more valuable to the ministries as places for postretirement positions.

Blumenthal, Calder, Usui, and Colignon discussed the *amakudari* system and how it connected business to government. It is interesting to note that the authors referred to the others' works as well as to Johnson's and Okimoto's. Their definitions of the various manifestations of the system were accurate but in a very narrow sense.

There was no reference by any of the authors to the fundamental effect of the system on the Japanese and their political economy. Undoubtedly, the connections formed through *amakudari* act to facilitate the implementation of industrial policy and "equalize" competition between businesses. However, most significantly, the connections produce a mutual protection mechanism that inhibits the dismantling of old structures of institutions because the players in these institutions protect their own interests by protecting the interests of players in other institutions. It also perpetuates a defensive attitude among the players because there is the constant worry that, even though connections may have been forged through the same ministry, loyalty cannot always be guaranteed. Consequently, the most outstanding influence that *amakudari* has on Japan's economy is that it does not direct nor promote economic growth but locks the economy within a stagnant environment perpetuated by ex-bureaucrats in business trying to influence the administrators and the administrators controlling ex-bureaucrats in businesses. It is a subtle political game that can be seen from the inside of the system where ex-bureaucrats and bureaucrats engage in a ritual of "give-and-take" to protect mutual interests.

Perceptions of Japan's Political Economy by Kent E. Calder and Karel van Wolferen

“Domestic constraints and Japan's foreign economic policy of the 1990s” (Autumn 1991 International Journal XI.VI)

When Calder wrote this article he was the Director of Programs on U.S.-Japan Relations, Woodrow Wilson School of Public And International Affairs. His perspectives regarding Japan's economy was almost certainly based on research he had conducted from the outside. This is apparent when he enthusiastically described Japan's economy

“Japan is approaching a scale of international wealth, relative to its partners in the international system, rivaled only by the United States in the late 1940s or Victorian Britain in 1900.” (p.608)

He credited the strengths of Japan's economy to Japan's decade-long surplus of \$50 billion, \$300 billion in external assets and the overall portfolio of external investment, a rise of direct foreign investment from \$4.7 billion in 1980 to \$12.2 billion in 1985 to \$22.3 billion in 1986 to over \$67 billion in 1989. He also pointed to the rise of Japan's offshore security investments from \$87.8 billion in 1987 to \$113.2 billion in 1989. In 1989 Japan invested \$104.4 billion in the U.S., \$10.4 billion in Indonesia and \$5.9 billion in Brazil. (p.609)

Calder's argued that due to Japan's emergence as the world's largest lender and since the U.S. economy had been lagging since 1985, it was necessary for Japan to begin planning policy that gave it a more active role in the global economy. He contended that Japan had not developed the ability to do so because it had no central coordinating authority. He stated that in contrast to Japan the French had a government with a strong executive and political authority to control the bureaucratic struggles over jurisdiction. He agreed in principle with Karel van Wolferen's revisionist analysis of the structure of government (stated below) but he asserted that van Wolferen's conclusions that the Japanese political system was not able to make structural changes were exaggerated.

Calder predicted that MITI and MOF would take the lead and steer Japan into the global community:

“Japan’s elite bureaucracy will no doubt be the chief architects of their nation’s expanding role.”
(p. 612)

His insistence that Japan had a dynamic economy at the time he wrote his article shows that along with most Western scholars he did not see the signs of Japan’s pending economic melt-down. The fact that he credited MITI and MOF elite for joining together to plan Japan’s future role in the world economy also revealed his perception of the behaviour of bureaucrats in protecting their territory from the other ministries.

There were clear signs in 1988 that Japan’s economy was overheated. The Japanese were referring to their economy as a “bicycle economy” (*jitenshakeizai*) because it had to be peddled constantly in order to keep it going at such a fast pace. The competition between domestic firms to produce new products in order to woo consumers away from the others could be seen simply by going daily to various marketplaces. If a product did not meet with consumer acceptance within the first three months after launch, it was pulled from the shelves and replaced with a new product. (October 1993 Inside/Outside Japan pp.4-5) Publishers launched magazines that were discontinued after the first issue if they did not sell immediately. Manufacturers invested in new equipment, with the expectation that there would be an upsurge in demand. Borrowing from banks was easy but where the real money was coming from and why banks were allowing manufacturers to refinance loans using the same collateral they had used to finance the previous loan was a mystery.

Japanese companies invested heavily in highly visible real estate in the United States in the late 80s and early 90s such as the Rockefeller Center, the Empire State Building, the Chrysler Building and Pebble Beach Golf Course, paying far more than the value of the

property. Japanese love American pop culture, especially movies and Sony Corporation, seeing a lucrative market, bought Columbia Pictures, which was a wise purchase. However, Matsushita Corporation, in its efforts to imitate Sony, miscalculated when it bought Universal Pictures. First, Matsushita had to sell off the concessions at Yosemite National Park because of flack from Americans who were not happy about a Japanese company owning a piece of a national park. Then there were difficulties with American management and movies that failed at the box office, resulting in significant losses. Matsushita rid itself of Universal a few years after purchase.

During the past five years, corporate losses among multinationals have forced the sale of real estate that had been purchased a few years earlier such as Rockefeller Center.

Another image of Japanese economic prowess was the “internationalisation” of not only big businesses but smaller businesses as well. Japanese companies started to expand operation in the United States in the 70s but easier access to loans in the late 1980s gave more firms the incentive to open plants overseas. The strategy seemed logical because of the anticipated rise in Japanese consumer demand for products ranging from processed foods to automobiles and because raw materials were cheaper in the U.S. The United States also was the most desirable area for investment for small firms who saw profits from supplying larger Japanese firms that were already operating in America. However, by 1991, the firms that opened operations at the beginning of the 1990s were quickly experiencing difficulties. According to a JETRO survey, released in the March 3, 1993 issue of Inside/Outside Japan more than 50% of Japanese affiliated companies in the United States were in debt. The survey was conducted in the Fall of 1992 and sent to 1,724 manufacturing plants throughout the United States, excluding North Dakota but including Puerto Rico:

“Among the respondents, the number of plants that started operations showed as steady yearly decline in the 1990s—145 in 1990, 58 in 1991 and 19 in 1992...Two out of three plants exported their products. A tally of the figures provided by Japanese-affiliated manufacturing plants as exports to Japan totaled \$1,882 million, or an average of \$6,450,000 per plant.” (p.6)

The losses were primarily related to over-production, resulting in surplus inventory. Many businesses were office suppliers and such industries as travel and real estate that relied almost entirely on Japanese corporate accounts. As larger businesses downsized operations their affiliates pulled out of America, leaving the smaller suppliers no recourse but to close shop.

The Enigama of Japanese Power (1990 Vintage Books)

Karel van Wolferen is not an academic. He is a Dutch journalist, who lived in Japan for a number of years. A “revisionist,” he wrote his best seller, The Enigma of Japanese Power, in 1989 and managed to capture the character of Japan’s political society better than most western commentators. Like Johnson, he warned that Japan, as an economic power, must be reckoned with and that it was vital that the world should understand how Japan works in order to deal pragmatically with problems arising from trade imbalances and a renewed nationalism. Like Johnson he saw Japan (which he called a “phoenix”) as a country that recovered from the devastating effects of war to become an economic power but he worried about Japan’s relationship with trading partners:

“The phoenix has soared majestically for the entire world to see, and has drawn deserved applause and expressions of awe. But it is burdened with an inherent defect that deteriorates it. The defect is, of course, in its steering mechanism, in its inability to adopt alternative methods and aims, because of the absence of an individual or unified group with the power to make decisions to shift goals.” (p.407)

Van Wolferen was concerned about Japan’s inability to redirect its export-driven economy to an economy that invited direct investment and more imports in order to alleviate friction between itself and its trading partners, namely the United States.

He went beyond Johnson in his analyses of Japan’s way of governing, which he believed was neither controlled by a single institution nor led by an executive body that took sole responsibility but rather it was an interaction of mechanisms that he called a “syste,” a

system that did not resemble western governments. Van Wolferen contended that “accountability” suggested that there was no “center.” Since there was no central force, he felt that the term “system” was a less confusing way of describing the Japanese style of governing. His definition was very appropriate:

“It denotes little more than the existence of a set of relationships, with reasonably predictable effects, between those engaged in socio-political pursuits. The term ‘system’ is also frequently used to suggest an arrangement of inescapable forces against which the individual is helpless without resorting to violence. It hints at something beyond the range of potentially corrective powers of democratic politics, it is something that cannot be reasoned with—although it can occasionally be duped.” (p.43)

Through his commentary on the Japanese political economy readers can see that the Japanese system is resistant to change.

His eloquent definitions of components in Japan’s governing system show that he understood essentially how the Japanese ruled themselves and how they perceived themselves in relationship to the system. By defining those ties that bind the system tightly together, van Wolferen showed why promises of political reform usually amount to little more than promises:

“The Japanese political system should impress us for what it does not try to accomplish in areas where, action appears sorely needed and where, in other states, governmental co-ordination would be taken for granted.” (p.81)

The Japanese themselves enjoy his works because they feel that he portrays their social system correctly.¹⁴ Nevertheless, for all of his savvy insights on the Japanese system,

¹⁴ His book The Japanese Social System That Does not Make People Happy (*Ningen wo Kaifukuni Shinai Nihon no Shakai Shisutemu*) was a best seller in Japan. A professor of electrical engineering at Waseda University thinks that van Wolferen expertly described the darker aspects of Japanese life such as the lifetime employment system that Japanese endured but simultaneously felt suffocated by it. **“He explained to us why we were not fully happy...He emphasized ‘human’ aspects or ‘quality of life’ aspects as factors which make people happy, and in that sense, he seemed to us to represent**

van Wolferen miscalculated the Japanese economy in the late 1980s, stating that thanks to the “creation of paper wealth” (p. 439) the MOF and MITI and businessmen invested vast funds in new production capacities and that Japan was pumping out an inexhaustible supply of funding for domestic and international investments. He did not see the signs that Japan’s economy was based on severe asset inflation, was overheated and heading for a meltdown.

Unintentionally, van Wolferen pointed to one of the fundamental reason for Japan’s recession when he touted Japan’s high-riding economy:

“The highly increased nominal values of real estate and stocks held by large corporations are used as collateral against which various financing methods are applied that reduce the real cost of capital to very little or, in some cases, almost nothing.” (p.440)

Van Wolferen was convinced that there was no danger of a collapse because of the interpersonal connections (*jinmyaku*) that bound the political system together:

“The elaborate *jinmyaku* interpersonal networks, whose members can be relied upon to behave predictably, prop up this money manufacturing technique and prevent the kind of calamity that would be the inevitable results of such a technique in any genuine market economy.” (p.440)

However, it was precisely this *jinmyaku* that prevented not only early recognition of Japan’s economic woes but that so far have prevented effective reforms in banking and politics because of vested interests of members.

European viewpoint, which is different from Americans. To many Japanese, American values, which is starting to dominate the world, seemed to lie in quantifiable success, such as money earned, rankings obtained (No. 1, No. 3 whatever), etc. European values seemed not to be quantifiable (beauty, love/hate, noble, etc.) which looked more appealing to us. European values seemed to us to emphasize values from the ‘individual’ point of view (self-satisfaction, self-fulfillment, etc.), while Japanese values lie more in relation-oriented values, such as duty and honor in a groupish society, which, as I said before, is becoming unbearably stifling.” (Waseda University February 2002)

Van Wolferen had emphasized in an earlier chapter that “informal human networks” (p.110) were found throughout Japanese society and were vital for success in the society. He described the Japanese as in a state of perpetual indebtedness to each other: **“One of the main characteristics of Japanese life is an unremitting trade in favours.”** (p. 110) Interpersonal connections are in the fabric of the society. These connections between businessmen and government officials can include: **“...school ties, one-time-favours, shared experiences and intricate back-scratching deals.”**

Van Wolferen emphasized that *jinmyaku* played a far more important role in Japanese society than the Old Boys network in the West. He pointed to marriages between the children of politicians, businessmen and bureaucrats that forged connections between elite. He gave as an example the Takanawa-kai, a group of a thousand women graduates from top universities, who are introduced at formal parties to elite MITI and MOF and the Foreign Ministry. According to van Wolferen the introductions have produced hundreds of marriages between elite couples (p. 111)

As stated above, the Japanese have few natural resources, which makes them dependent on other countries, a dependency that makes them feel vulnerable as a nation. Their connections are a resource that they can depend upon. On the other hand, these connections frustrate the implementation of reforms.

The “give-and-take” relationships and mutual obligation in interpersonal connections can sometimes serve to conceal graft and other forms of corruption because of mutual vested interests. For example, a Japanese employee, who sees that his “connection’s” objective may be dubious will prefer to ignore rather than to question, often because his or her “connection” also has links to other “connections” that ultimately may prove to be valuable to them. The accumulative effect of these interpersonal links is a mutual protection mechanism that defies constructive corrections in the economic and political system. These connections are further enhanced by the *amakudari* system, which is examined in chapter 6. Since these links are personal and private, in order to understand

the full effect of this organic dependency it is beneficial to enter into various organizations as an employee for first-hand observation.

However, the accurate assessment of the conditions in these organizations that are based on the consequences of these “connections” can be made only if the observers themselves have their own connections within organizations. This is achieved through creating relationships with pertinent individuals through whom information can be accessed.

“The Japan Problem Revisited” (1990 Autumn Foreign Affairs Vol. 69 No.4)

Karel van Wolferen wrote his paper at a time when Japan and the United States were engaged in heated trade talks. He maintained that misunderstandings between America and Japan arose because America still considered Japan a “remade version” of the United States. From afar, post-war Japan looked American because the Occupation Forces had transformed the imperial government into a governing system that appeared to be democratic. The Japanese were also embracing American pop culture that gave Japan a Western façade. Misunderstandings also occurred because bureaucrats and businessmen were not open to divulging the structure of their economy and its interaction with the “informal power system.” (p. 42) Van Wolferen claimed that the United States was examined in depth because it was the world’s most important economy but Japan, the second largest economy in the world, had received little scrutiny in comparison. He blamed this on the Japanese and foreign media for not reporting enough about Japan. He also blamed Japan’s bureaucracy and business interests for muting the press and the press as well for censoring itself because of vested interests with the bureaucracy and business.

In his effort to explain the Japanese political economic system van Wolferen repeated what he had stated in The Enigma of Japanese Power; that the human networks and informal personal tied the system together. He contended that the United States erroneously perceived Japan’s ruling elite as having “villainous motives” in their

dealings with the United States. He denied this by explaining how Japanese elite looked at the rest of the world:

“Japanese power brokers grow up in a social setting where the law does not ultimately regulate affairs or provide the means for resolving conflicts. Nothing in their experience at home gives them any assurance that treaties or agreements with foreigners can in the end be reliable. Instead they seek international ‘relationships’ comparable to the domestic highly informal *jinmyaku*, as protection and to maintain maximum control through economic self-sufficiency.” (p.47)

However, van Wolferen was unable to estimate their true intentions in dealing with the rest of the world. He admitted:

“Japan’s political elite is resolutely uninterested in discussing how its system of informal relationships and transactions produces the politically protected economic might that affects other countries.” (p.49)

Japan’s political elite effect connections with foreign government officials through formal and informal networking but they primarily do it for the vested interests of their ministries in order to establish territory abroad. Businesses, independent of the bureaucracy, establish their own networks, hiring foreign ex-government officials to lobby their interests.

Van Wolferen put MITI and MOF on a pedestal, claiming that they were attempting to make the world “safe for Japan.” He pointed to these ministries’ overseas dealing as **“...being in the business of national security.”** (p 48) He reassured readers that these agencies were not involved in a conspiracy to take control of the world’s economy but that the power: **“...was a result of the unequalled skill of individual Japanese power clusters in seizing the opportunities for their own advancement.”**

However, van Wolferen, who likened MITI and MOF and Japanese trade organizations to “elite military organizations like the U.S. Marine Corp,” greatly overstated their

mission. He claimed that these institutions had a “quasi-sacred purpose” and the “need to impress society with the merits of the institution.” (p. 48)

Van Wolferen credited the ministries for Japan’s economic “vitality” but also pointed to the bureaucracy as one of the great weaknesses in the political system because no one body has a mandate to make binding decisions. However, he did not point to formal and informal relationships and networks as preventing any one body from taking control and this very fact has prevented Japan from truly internationalising. The tie-up between business and the bureaucracy through the *amakudari* system puts pressures on businesses to conform to policy and likewise on bureaucrats to protect businesses’ interests. An example of this is the use of “administrative guidance” and cartels, which effectively protected Japan’s markets from foreign competition, thus insulating Japanese industry from external pressures and competition.

A second example is the continued closed nature of Japan’s markets, which is also a product of formal and informal networks between government and big businesses. Citing JETRO’s 1992 White Paper, Matsuba Masafumi showed that in 1990 outward foreign direct investment from Japan was the highest in the world and that it was forty-eight times higher than inward investment. (2001 p. 58) Direct investment in Japan is difficult for foreign companies because of the multitude of regulations and administrative rules that also affect imports as well. Matsuba writes that, although the rules affect Japanese businesses as well, foreign businesses feel the restraints more, especially in such industries as insurance, mining, construction, securities, finance, electricity, gas, water which

“On the internal side of the closed nature of the Japanese market, there are many official regulations unsuitable for the demands of the present era in Japan.” The present situation was examined by trends in the number of administrative permissions and appraisals and it was found that there were 10, 054 cases in 1985, 10, 169 cases in 1987, 10,441 cases in 1989, 10,717 in 1991 and 11,402 cases in 1993.” (p. 46)

The consistent increase in the regulations clearly points to heavy bureaucratic controls. On average the regulations which are unsanctioned by law cover 42% of all value added in Japan. Under the same regulations, for the insurance, mining, construction, securities, finance, electricity, gas and water industries it is 100% of the value added. Matsuba put MITI at the top for administering 1,986 cases in 1993. The Ministry of Transportation came in second with 1,893 cases. (Matsuba M. 2001 p. 46)

Conclusion The Real Story: The Problems of Accessing Information

Chalmers Johnson, Yamamura Kozo, Karel van Wolferen and Kent E. Calder agreed that the core elements of Japan's governing system are the bureaucracy, the politicians and business. They agreed that the dominant body is the bureaucracy that controls, without legal sanction, the political economy at both the national and local levels through the implementation of its own regulations.

Chalmers Johnson, who believes (2001) that Japan needs strong bureaucratic guidance, wrote prolifically about Japan's bureaucracy from an historical perspective. He credited MITI's post-war elite officials in 1982 for engineering Japan's rapid industrial growth. He also contended that MITI renewed itself after the Oil Shock in 1973 by targeting new industries for development. In 1995 Johnson continued to express his belief that Japan's bureaucracy as Japan's ruling body.

Yamamura Kozo, on the other hand, claimed in 1982 that although MITI did indeed plan Japan's rapid industrial growth, it was impossible to quantify the success of its policy because other variables had to be taken into consideration such as the industriousness of the Japanese themselves, the undervalued yen and free technologies, all vital to Japan's economic recovery. Yamamura maintained that MITI continued to plan the same kind of protectionist policy post after 1973 as it had before the Oil Shock because it could not adapt to a new environment. He contradicted Johnson's claim that MITI resuscitated itself after 1973, contending that MITI's power began to erode after the Oil Shock because the number of policy tools at its disposal were decreasing, industries were

becoming more independent of bureaucratic guidance and gradually politicians in the Diet were becoming more influential. He warned that MITI's protectionist policy would pose serious problems to Japan's future economic dynamism. Yamamura continued to criticize ministerial controls over Japanese economic development during the next fifteen years but in 1998 he conceded that the bureaucracy would continue to control Japan's economy.

Karel van Wolferen described Japan's governing system in 1989 as a network of connections between bureaucrats, businessmen and politicians. He regarded Japanese political society itself as a network of connections that could not adapt to changing environments. He agreed with Johnson that MITI was a powerful ministry and that along with MOF it would plan Japan's economy in the 21st Century.

Kent Calder also felt that MITI was the powerful ministry that would play a vital role in Japan's future economy. Along with Johnson, Yamamura and van Wolferen, he examined the *amakudari* system and the way it served bureaucrats both in terms of postretirement positions and control over industrial sectors. Although the authors admitted that the system served the interests of the ministries, none of them indicated that the system rigidified the political economy thus preventing the Japanese from initiating dynamic change to meet the needs of a matured economy.

Although the authors knew a great deal about the system, it could be argued that they greatly overestimated the strengths. They, as well as most Western commentators, did not predict Japan's economic crisis, perhaps because they were not privy to the inner workings of the organizations they were examining. The efforts of academics and journalists to access comprehensive and correct data about Japan's economic state of affairs are complicated by the insularity of organizations and the reticence of organizations to divulge information, preferring to use special representatives to communicate with both Japanese and foreigners. Given these circumstances it is understandable why commentators would not be able to predict Japan's recessions and

the Japanese's inability to initiate reforms that would spur an economic recovery.

Yamamura Kozo admitted in 1999:

“In many ways I saw the problems coming but I, like others, did not anticipate the problems being so grave and so lasting.”¹⁵:

The extent of mismanagement in the ministries in the 60s and 70s would have been difficult to calculate because first, the Public Disclosure Act did not go into effect until 1999 (discussed in chapter 5). The government still conceals information and media withholds facts that would otherwise reveal such things as mismanagement in government and corruption because of government pressures to do so. Benjamin Fulford of Forbes Global writes:

“Japan’s half-a dozen or so big morning newspapers and their affiliated TV networks have deep knowledge of systematic links between government officials, corporations and criminal organizations but they refuse to let the public know, according to more than a dozen senior Japanese reporters and editors.” (February 4, 2002)¹⁶

Since the Japanese are not forthcoming with information, neither among themselves nor with foreigners (as discussed in chapter 3), gaining a real understanding of a given situation can be difficult. First of all, there is a language barrier to deal with and secondly, unless they are a part of the organization or institution they are researching, foreigners must rely on information given to them by government and corporate spokesmen who van Wolveren identified as “buffers.” He wrote:

“Resident foreign diplomats and businessmen usually deal with the Japanese intermediary community of English-speaking, ‘internationalized’ Japanese who absorb the shocks of an unpredictable outside world might deliver to their institutions. These buffers can be amazingly frank, can convey genuine understanding of the foreigner’s difficulties and create the impression of willingness to cater to his needs. Japan has a handful of super buffers who spend much time

¹⁵ October 12, 1999 University of Washington (University of Edinburgh Business Studies Honours student communication)

¹⁶ www.forbes.com/global

traveling the globe, troubleshooting and explaining the Japanese case at international conferences.” (1986/87, p 294)

Researching a social economic system that continues to remain relatively opaque can show the limitations of theoretical evaluations. Yamamura wrote in 1997:

“When we search, as the scholars among us must, for theories that can help us analyze and understand the significance of as many as possible of these developments, we are rewarded with useful insights but there is no theory that that does not have serious shortcomings.” (Yamamura K., 1997 p. 295)

The foreign news media in comparison with Japanese media is at a distinct disadvantage when pursuing a story not only because of the language barrier but also because most foreign journalists do not have a network in Japan that helps them access reliable information. For example, the Columbia Broadcasting System (CBS) chose to rely upon the facilities and staff of Tokyo Television to facilitate Bill Whitaker, the chief correspondent in Japan for CBS News from 1989 to 1993 could not speak Japanese and had to rely on interpreters to get his story. He encountered difficulties getting stories about the bureaucracy:¹⁷

“Japan is certainly not as open as here. I do think that the bureaucracy controls the information, not that they would necessarily manipulate the story but what they chose to reveal and when they chose to reveal it and then how they chose to reveal it. They play it close to the vest. If they should not want it to get out, it pretty well won’t get out. Whereas in the United States American reporters have different attitudes and different ways of getting at the information out of the bureaucracy. It’s not as closed. It’s more porous. You can find someone who is working with someone who has access to some information, who might be willing to talk in order to get this information out. Then you go back to the guy at the top and ask, ‘What about this?’ Whereas in Japan, I think that if the bureaucracy decides that the information stays within the bureaucracy, my god, that’s where it stays.”

¹⁷ September 1994 interview JETRO New York

All journalists are assigned to press clubs that are allowed to cover certain bureaus only. When Whitaker wanted to cover a story regarding another bureau, he met barriers.

“As for press clubs that covered a different bureau, if the secretary said, ‘No, you are not going to get the information’ that was the end of it. The journalists did not press another button to try to get around it and try to find out the facts.”

Whitaker lived in Japan for four years. He did not feel that Americans knew enough about Japan. Although he had studied about Japan before his assignment he was not prepared for what he was to experience:

“You have to live there to know it. There’s nothing in a book that’s going to prepare you for life in Japan. I think that what fools you, what is seductive but in the surface is that it looks so familiar. You’ve got tall buildings, freeways, subways and western dress and all those sorts of things that can lull you into believing that this is a place that you can relate to and understand. But if you’re there for a while, you begin to realize that it is just a very thin veneer and that the real Japan is behind or underneath that thought, that western thought. It sort of felt like we were beating our heads against a brick wall trying to make them understand us and for us to understand them.”

The Japanese themselves also have difficulty entering organizations for the purposes of conducting research. Many believed or wanted to believe what elite bureaucrats were telling them about the strengths of their system and that their economy would continue to expand.

Part 2: Japan’s Bureaucracy and *Amakudari*: Japanese Commentaries Commentaries Before 1992

Kanryo Daikenkyu/In Debt Research of the Bureaucracy (1990 Chikuma Shobo)

The literature prior to 1992 regarding the bureaucracy tended to be more positive than current commentaries and *amakudari* was generally referred to as being an extra incentive for bureaucrats to work more diligently. Ebato Tetsuo’s book is in this category. It is a chatty volume covering four ministries: Ministry of Justice, Ministry of Agriculture, Forest and Fisheries, Ministry of Health and Welfare, Defence Agency, and

MITI. Ebato has a degree in economics from Tokyo University, worked for Mitsui Bank before taking leave to freelance as a writer.

Ebato's previously published works included books on the bureaucracy (*Kasumigaseki no Kyobo- Okurasho, Yuseisho, Keisatsusho, Gaimusho/Kasumigaseki's Ups and Downs-the Ministry of Finance, the Ministry of Posts and Telecommunication and the Ministry of Foreign Affairs*)¹⁸ and (*Shosetsu Okurasho/The Ministry of Finance, A Novel*)

Even though he pointed to the fact that MITI no longer was as powerful as it had been during the first two decades after the war, Ebato's account of MITI is upbeat. He explained that since 1987 other ministries were referring to MITI as "aggressive MITI" because it pursued their jurisdictional territory. To illustrate he quoted an unidentified *kacho* from the Ministry of Foreign Affairs to illustrate how the other ministries viewed MITI:

"They have vitality. But their fate demands that they must be extremely resourceful and pound out new strategies or else they will have nothing to do. If they don't run around debating they will lose their vitality. When we work together to cope with economic friction, they never back down from dealing with complications but move to take countermeasures. There is no other ministry here that does this and it is amazing." (p.218)

Another unidentified *kacho* from the Ministry of Transportation claimed that his ministry had tangible sectors to deal with like taxis and trucks but MITI's world was different:

"Those guys don't have anything to work with...They must pull out all the stops to pump up actual needs for industry." (p. 219)

¹⁸ The national ministries are located in an area in Tokyo called *Kasumigaseki*

Ebato admitted that the two *kacho* expressed some cynicism but they genuinely admired the energy of MITI staff.

There were two extreme views held regarding MITI's current state in Japan, one by Japanese and one by foreigners. A young MITI *kacho* told Ebato that the old guard bureaucrats believed that MITI had been strong during the twenty-year rapid economic growth period when there were many regulations with which to control industries but now the ministry has no power and no budget. At the other end of the pole was the view of some foreigners like Johnson who perceived MITI as "notorious MITI," a term used to show MITI as the ministry was the chief guide of Japan's economy. *The kacho* felt that the truth lay somewhere in between.

Ebato's description of "administrative guidance" was in terms of cooperation between industry and MITI but that this instrument was no longer used as much as in the past. He cited a *kacho* who explained that administrative guidance was a necessary evil. He said that he met regularly with companies in the evenings to exchange information and to hear their opinions. Ebato did not mention how *amakudari* functioned to facilitate the implementation of "administrative guidance."

In his conclusion, Ebato quoted an unidentified friend, who was an officer in a ministry, "Bureaucrats work for themselves not for their country." (p.169) Ebato felt that his friend's attitude was cynical. He compared bureaucrats with businessmen. Although businessmen worked for promotion in their companies, their work also translated into profits for their companies. Likewise, bureaucrats who worked hard to protect and expand their ministry's territory profited as did their ministry and their countrymen.

Commentaries After 1992

After 1992 there were a number of books that contradicted Ebato's conclusions. In particular, from 1992 onward books and articles, which called for political and bureaucratic reforms, increased because of the sudden change in the political climate.

The Liberal Democrats had ruled Japan continuously for thirty-eight years, supporting the policies of the ministries. However, the recession and the acknowledged need for action to ignite Japan's lagging economy triggered a struggle among the factions in the Liberal Democratic Party for power resulting in some members exiting to create two offshoots the New Japan Party (*Shin Nihon*) and *Sakigake*, both of which have since been dissolved. In 1993 Hosokawa Morihiro, former governor of Kita Kyushu, a member of the LDP and the leader of the *Shin Nihon*, won the office of Prime Minister and raised the hopes among Japanese that the government was going to take care of the recession by releasing several fiscal stimulus packages. He resigned because of political scandal. In June 1994 Murayama Tomichi, a Socialist, who ran on the *Shin Nihon* ticket, became Prime Minister and formed a coalition Cabinet composed of members from the *Shin Nihon*, LDP and Socialist parties. Politicians began to push for a review of bureaucratic powers and to attempt reforms of the political system itself in order to end the relationship between politicians, bureaucrats and businessmen, bringing Japan into the same league with the other developed economic powers. The result was a power struggle between politicians and bureaucrats. The continuing recession frustrated Murayama's efforts for structural reforms and eventually members of the *Shin Nihon* Party returned either to the LDP or entered long-established opposition parties. Although Hashimoto Ryutaro, leader of an LDP faction, succeeded Murayama as Prime Minister and the LDP again dominated the Diet, the process for reform had begun and the Japanese were no longer as reticent to express their assessment of bureaucrats and politicians.

Secondly, although the ministries are very protective of operations and leaks on internal political turmoil are rare, revelations on corruption in ministries and the dismissal in April 1994 of Naito Masahisa, an elite MITI official, who had been designated for the position of Administrative Vice Minister in MITI, prompted a profound interest in the internal operations and politics of the ministries and in elite bureaucrats.

Nevertheless, Japanese academic research on Special Status Corporations is sparse because scholars receive support for research projects primarily from government funding. These funds are often distributed through Special Status Corporations or public corporations, foundations and associations that are directly connected with Special Status Corporations. Since research on Special Status Corporations would entail investigation of ministerial conduct, academics are still reticent to engage in work that would be considered politically sensitive.

Nowadays commentaries on the bureaucracy may also include commentaries on Special Status Corporations and public corporations. In general, these commentaries are similar in the portrayal of facts regarding ministerial objectives for establishing these organizations and the use of these organizations. Some commentaries include public surveys on the effectiveness of the civil service and such issues as *amakudari* in public corporations and the continuation of the system.

Kanryo Kishimu Kyodai Kenryoku/The Bureaucracy A Creaking Giant Power
(Editorial Staff of Nikkei Shimbun 1994 Nihonkeizai Shimbunsha)

The book is a compilation of a series of articles by the editorial staff of *Nikkei Shimbun* that appeared on the front page of the newspaper earlier that year as well as interviews that were conducted during the first half of 1994 with politicians and bureaucrats. The book began with the words of a former MOF administrative vice-minister, whose words characterized the way older elite bureaucrats saw their role in Japan's political economy: "When you investigate the motivations of elite civil servants you are looking at their belief in democracy." (p.i) The forward contended that young officials of MOF and MITI understood that their ministries must change and that the relationship between the bureaucracy and politicians must be made more transparent.

The book reviewed for readers the standard reasons why bureaucrats were more influential in Japan's governing system than politicians. It was emphasized that most Japanese did not believe in their politicians' abilities to plan effective legislation and that

there was no real leadership in the Diet. This pointed to the fact that politicians were subservient to the whims of special interest groups and that there was ongoing friction between political factions. Also, since bureaucrats had been given the power to draft laws since the Meiji Period, politicians did not have the background and expertise to plan effective policies.

The book looked at the relationship between the bureaucracy and the Diet and the power of the bureaucracy. It related the continued struggle by the ministries to retain power, illustrated by interviews with politicians and elite bureaucrats. Ironically, some of the elite bureaucrats who had postretirement positions in Special Status Corporations regarded *amakudari* as a system that would be difficult to eliminate. For example, there is an interview with a former vice minister in the Ministry of Construction, Takahashi Susumu, who retired in 1990 and became the managing director of the Home Finance Corporation, managed by his ministry.¹⁹ (pp 245-246) Takahashi stated that the relationship between politicians and the construction industry was a very tight. Questioned about connections between the construction industry and his ministry and *amakudari*, he admitted reluctantly that there was indeed a relationship between ministries and industry. However, he emphasized that to deny bureaucrats postretirement positions in industry was unrealistic because bureaucrats had to retire earlier than corporate executives and they had to continue to earn income. Nevertheless, he was disturbed that OBs received civil service benefits while they were earning incomes in postretirement position. He felt that positions in Special Status Corporations and other public corporations was limited. Takahashi did not go so far as to suggest that the *amakudari* system be abolished on the condition that elite bureaucrats are compensated with wages that are similar to corporate executives possibly because *amakudari* also plays an important role in bureaucratic controls over industrial sectors.

¹⁹ In 1984 when he was an officer in his ministry, he established the Association for Vision in the Construction Industry, an association managed by the Ministry of Construction. He is now chief economist at the Japan Research Institute, Ltd.

There is an interview with Naito Masahisa,²⁰ the MITI official who had been dismissed a few months earlier. (pp. 251-254) It was only the second time in MITI's history that an officer had been fired (the first time was in 1952). Before his dismissal from MITI, Naito was the Director-General of the Industrial Policy Bureau and next in line for Administrative Vice-Minister. Kumagai Hiroshi, the Minister of Commerce, Trade and Industry in Prime Minister Hosokawa Morihiro's cabinet, who demanded Naito's dismissal, was himself a MITI officer until he resigned in 1976 (Director General of Small and Medium Enterprise Agency) to run for political office on the LDP ticket, winning a seat in the Upper House of the National Diet. He later defected in the early 1990s with other LDP members led by Hosokawa to form the now defunct *Shin Nihon* New Party of Japan. He is currently Secretary of a major opposition party, the Democratic Party of Japan whose platform concerning Special Status Corporations is cited in chapter 5, p. 167. The reason given for Naito's dismissal was that he had created a position in MITI for his friend's son in order to round out his resume so that he could run for a seat in the Diet of his home prefecture on the LDP ticket against a New Party candidate. Naito's friend was Tanabashi Yuji, former MITI administrative vice-minister (retired 1991),²¹ and who was Naito's partner at the semi-conductor negotiations with the United States Trade Representatives in Washington, D.C.

The account of Naito's dismissal as reported in *Shindoromu Kasumigaseki/The Kasumigaseki Syndrome* (reviewed below) states that Kumagai, in keeping with the platform of the New Party, wanted to reform the ministries. When Naito asked when he should resign, Kumagai allegedly replied, "This month or next month. The process has already begun." (1994 p. 46)²² Kumano Hideaki, the administrative vice-minister, who was responsible for dealing with the dismissal of personnel, pleaded with Naito to resign quietly but Naito refused. Kumano had no choice but to fire him. Kumano offered his

²⁰ See chapter 7 for excerpt of Naito's speech. Naito was posted at JETRO New York in the mid-1980s

²¹ Tanabashi Yuji is referred to in chapter 6 "Amakudari and shukko in Research Institutes"

²² It must be emphasized here that Kumagai and Naito had been enemies at MITI and that Kumagai's motivations for demanding Naito's dismissal could be perceived as being politically motivated.

own resignation and left MITI the following June. Naito later was reinstated in MITI in June as a 'special advisor.' The *Nikkei* book covers in detail Naito's dismissal, revealing turmoil among MITI personnel (pp. 38-45) and a power struggle between politicians and bureaucrats.

Even though Naito was reinstated he still had to contend with other accusations from his colleagues. According to the March 1996 issues of *Sentaku* March 1996, a suspicious document was circulated around MITI questioning how Naito financed a restaurant business that his wife was operating in Karuizawa. (p 47)

In his interview with *Nikkei* Naito stated that although bureaucrats were servants of their country, after spending some time at Kasumigasaki, they regrettably became isolated from society and forgot their mission. He asserted that bureaucrats operated independently from politicians. When asked if he thought that politicians and bureaucrats could work together at Kasumigaseki, Naito answered that there would be the danger of conflict of powers but if politicians planned strategies and bureaucrats did the actual legwork, it might be feasible. Naito was implying that administrators knew more about industry and economics than politicians.

He denied that the many rules and regulations served to control industry but that most of the regulations were related to ensuring industrial safety. He contended that trust between bureaucrats and private businesses was the way policy was implemented rather than by regulation.

There is an interview with Kumano Hisashi who was Administrative Vice Minister in MITI at the time of the Naito incident 1994 and who was charged with the responsibility of dismissing Naito. As mentioned above, Kumano resigned from MITI a few months later. His interview was conducted before he resigned. (p.270)

Kumano opposed the downsizing of MITI and he denied the interviewer's suggestions that MITI was going after MOF's territory because MITI was executing duties that usually fall under MOF's jurisdiction and also was monitoring MOF. The interviewer called MITI the number two Ministry of Finance (*dainiji okurasho*). Since MITI's new name is Ministry of Economy, Industry and Trade, the interviewer's questions were a prophecy of the ministry's additional role.

The book carries the results of a public survey that was conducted by *Nikkei Shimbun* in 1993 regarding how Japanese regarded their bureaucracy and civil servants. Their responses (pp. 421-424) reflected their reaction to recent disclosures of scandals in the ministries. Their image of bureaucrats was: 1) they had a strong elitist mentality, 2) they were irresponsible, 3) they were shrewd, 4) 22% answered that bureaucrats were cold and uncaring, 5) 3% felt that bureaucrats should be entrusted to administrate independently, 6) 70% felt that bureaucrats and politicians should join forces to make policy.

However, the survey also revealed that despite their negativity regarding bureaucrats the Japanese still relied on elite bureaucrats for administering their economy. 42% answered that politicians were unable to take responsibility for planning policy. Although 70% of people surveyed felt that the ministries should consolidate operations thus downsizing the bureaucracy, 44% would permit their children to have careers in the ministries. Although 50% felt that *amakudari* was not necessary, 43% answered that the system allowed an exchange of information between businesses and government. In addition, when asked whether the bureaucracy would weaken during the Murayama Administration 60% answered a flat "no." In fact, 22% felt that the bureaucracy would become stronger.

Kasumigaseki Shindorumu/ The Kasumigaseki Syndrome (Editorial Staff of Mainichi Shimbun 1994 Mainichi Shimbunsha)

The editorial staff of *Mainichi Shimbun* also entered the fray with a book that focused more on *amakudari* in both private and public corporations. It is a surprisingly frank account of the deterioration of values among bureaucrats in terms of establishing public corporations and research institutes for the sole purposes of providing postretirement positions for retirees. There are accounts of ministries placing conservative elite retirees into management positions in private and public corporations in order to maintain control over their respective sectors. There are chapters on Special Status Corporations and how ministries used them to distribute funds to companies for such things as contracts for infrastructure work (Ministry of Construction) and how *amakudari* not only facilitated the tie-up between ministries and companies but, also, facilitated a connection between businesses and ex-bureaucrats who first migrated to Special Status Corporations before moving on to positions in the private sector.

The book's most significant contribution to Japanese readers was the reporting on how *amakudari* and the temporary posting of elite bureaucrats in Special Status Corporations in the prefectures (*haku-tsuke*) served as a means to monitor local government policy. The bureaucratic hierarchy places central ministry officers above local government officers, forcing an automatic acquiescence by local government officers to central government administration. There was also criticism of the temporary posting of bureaucrats in local governments because often the positions became permanent.

The book looked at *amakudari* to political office especially the tendency of ex-bureaucrats from the Ministry of Home Affairs to run for the offices of governor and vice-governor in the prefectures.

Mainichi Shimbun also conducted a public survey similar to the *Nikkei* in 1994. Again, as was the case of the survey conducted by *Nikkei Shimbun* the responses reflected negative reactions to the scandals in the ministries. (pp. 296- 308) Although 77% of the people questioned credited bureaucrats with Japan's rapid economic growth, 41% regarded bureaucrats in the 1990s as greedy for power, 29% believed that bureaucrats

craved promotions, and 22% thought that civil servants were greedy for money. 31% answered that bureaucrats worked for the benefit of their ministries while only 18% felt that bureaucrats worked for the benefit of their respective industrial sectors. A mere 7% felt that bureaucrats were industrious and only 3% considered bureaucrats to be sincere and honest.

Regarding *amakudari*, 60% of people tallied wanted to abolish the system while 12% wanted to maintain the system. 38% wanted to abolish *amakudari* in political office and 43% polled wanted companies that hired ex-bureaucrat subjected to strict conditions.

Interestingly perhaps because of the strong push by politicians to grab power from bureaucrats and because of the negative press on ministries in 1993 and 1994, 49% of the people polled answered that politicians were more powerful than bureaucrats and that politicians should be the decision makers in government.

Kyodai Shocho AmakudariFuhaiHakusho/White Paper on Corruption Amakudari in the Great Ministries (2000 Kodansha)

As Japan's economy continued to stagnate the books that revealed ministerial use of Special Status Corporations and public corporations for postretirement positions took on a harder line. Tsutsumi Kazuma, who is the second in command at the Coalition of Labour Unions for Special Status Corporations, was in the perfect position to scrutinize not only how Special Status Corporations and public corporations served the ministries for *amakudari* but, also, how many other state-run organizations that had not been designated for reform by government served the purpose of *amakudari* as well. His book detailed the routes that elite bureaucrats take after leaving their ministries, concentrating on Special Status Corporations and publicly funded organizations. He charted the postretirement careers of bureaucrats from all of the ministries showing clearly that elite bureaucrats can first migrate to Special Status Corporations or other state-run institutions while still officially on-salary at their ministry before moving on to

the private sector. Some of the bureaucrats surveyed remained as employees at Special Status Corporations or other government funded organizations.

Besides the charts and the insider information on how ministries establish corporations, Tsutsumi's most significant contribution is the evidence that ministries use their industrial associations and other institutes for *amakudari*. He totalled MITI's organizations at almost 900. (p.140)²³

On November 13, 2000, Iwanami Booklet No. 425 carried an interview of Tsutsumi titled "*Kanryo Amakudari Hakusho*" ("White Paper on *Amakudari* in the Bureaucracy"). In the interview, which was conducted by Yamaguchi Jiro, Tsutsumi presented a new proposal for the elimination of *amakudari* which he called "a hotbed of graft and corruption." The proposal called for the elimination of early retirement for bureaucrats, setting a fixed retirement age. Tsutsumi wanted *amakudari* to profit-making enterprises halted and for dissolution of all Special Status Corporations, public corporations and industrial associations. In addition, there would be no *amakudari* by elite bureaucrats to Special Status Corporations and bureaucrats would be required to wait from three to five years after retirement before running for political office. Tsutsumi wanted the career paths of bureaucrats equalized so that there would be no further discrepancy between career and non-career officers.

Nihon wo Kuitsuku Kiseichu Tokushu Hojin, Koeki Hojin wo Zenhaiseyo! / The Parasite That Will Consume Japan Let's Abolish All Special Status Corporations and Public Corporations! (2001 Michisha)

Iishi Koki is the vice chairman of the Tokyo branch of the Democratic Party of Japan (*Minshuto*), an opposition party. Iishi won a seat in the House of Representatives three times. Among the positions he has held is the Parliamentary Vice-Minister for the Management and Coordination Agency (*soumucho*).

²³ See chapter six, p. 178

Iishi has written books on corruption in the ministries. His book Bureaucrat Heaven The Bankrupting of Japan (1999 Michisha), is about *amakudari*. Although his book on Special Status Corporations would appear to be an effort on behalf of his party to press government to implement structural reforms in the public sector, his report is balanced and poses pertinent questions regarding the rapid escalation of the number of public corporations that are established by Special Status Corporations and by government agencies as well as the employment opportunities for ex-bureaucrats in these organizations. (p.80) In his introduction Iishi claims that Prime Minister Koizumi is approaching reforms in the wrong sequence and that structural reforms will not progress until Special Status Corporations and public corporations, institutions, used for *amakudari* and using public funds and tax revenue have been eliminated. (p.5) He claims that there are 8,059 public corporations and that 8,000 of these receive a total of well over 1 trillion yen in support from central and local governments, making them “dishes for money trusts.” 21,072 civil servants work in managerial positions in these corporations. Iishi also maintains that 1, 850 public corporations have subsidiaries and that these organizations numbered over 7,000. (pp. 80-81)

Iishi calls the subsidiaries of Special Status Corporations “family enterprises.” (p.26) He points to MITI’s Special Status Corporations as a breeder of “family enterprises.” For example, the World Economic Information Service is a JETRO “family enterprise,” employing nineteen staff. Since JETRO staff research economic conditions out of its eighty overseas offices and release information regarding this research, this “family enterprise” would seem to be extraneous.

Another MITI Special Status Corporation, the Corporation for the Development of Electricity has as its “family corporation” the Corporation for Electricity Generating Industry, which operates fourteen branches and employees 4, 367 people, as its “family enterprise. (p. 28)

Conclusion

The commentaries written about the bureaucracy before 1992 were more positive than commentaries written after 1992. Prior to Japan's economic crisis the majority of Japanese preferred to ignore such issues as *amakudari* and the establishment of Special Status Corporations and public corporations because they generally believed that their bureaucrats were impervious to failure and abuse of the *amakudari* system and preferred to avoid looking at the problem of Special Status and public corporations and the fact that they served to provide postretirement positions and to extend ministerial power over industry and local governments. Since bureaucrats had planned Japan's rapid economic recovery by 1965, had helped industry through two Oil Shocks and a recession in the 1970s, they believed that their elite bureaucrats were beyond reproach, relying entirely on their administration.

However, from 1992 onward the stagnation of Japan's economy coupled with the revelation of collusion between the construction industry and the Ministry of Construction, the banking industry and the Ministry of Finance and the misuse of funds by Special Status Corporations triggered political movement to initiate reforms in the private and public sectors (e.g. stated-run banks, Special Status and public corporations).

Both Tsutsumi Kazuma and Iishi Koki pointed out that MITI (after the Ministry of Education) has the second highest number of publicly funded organizations at 900. The fact that Japan's ministries have been able to continue using their Special Status Corporations for controlling local policies and for postretirement positions despite public disapproval illustrates not only the extent of power of the bureaucracy but the continued deference of the Japanese to the bureaucracy.

The Western and the Japanese commentators believed that the bureaucracy is the strongest force in Japan's governing system. The following chapter traces the history of the modern bureaucracy and the modern governing system and some of the factors in

Japan's socio-political system, which serve to promote the Japanese' acquiescence to bureaucratic rule.

CHAPTER 3

THE ORIGINS OF JAPAN'S SOCIO-POLITICAL SYSTEM

Introduction

The chapter discusses the power of the bureaucracy and the attitudes of bureaucrats from an historical perspective. It examines some of the factors within the Japanese socio-political system that have given the bureaucracy the power to continue operating Special Status Corporations and other public corporations as well as perpetuate the *amakudari* system in these corporations. Two case studies of workplaces in a large Japanese corporation and in an overseas branch of a Special Status Corporation are given to illustrate those factors.

Defining Japan's Governing System

Political science tends to look at a democratic government in terms of a distinct division of power between the executive, the legislature and the judiciary branches. The legislature makes laws, the executive implements the laws and the judiciary ensures that the laws are implemented and abided by correctly.

To Western observers the source of power in the Japanese governing system can seem nebulous, particularly because Japan's post-war system hinges on an American-style constitution that was initiated by the Occupation Forces and a parliamentary system that resembles the United Kingdom's.

The Japanese themselves describe their government as a "ruling triad" of politicians, bureaucrats and big business (*sei kan zai*). (Kawamura I, 1994, p.iv) Murakami Hyoe and Johannes Hirscheimer state: "**the country's power elite is a triad of conservative politicians, leading businessmen, and high-ranking bureaucrats.**" (1979 p.80) These institutions are bound together by elements inherent in the Japanese socio political system and this will be discussed in the fifth chapter.

Chapter 3 discussed the Japanese government's efforts to restructure the ministries for the purpose of producing a more efficient system. This effort is also intended to give the prime minister's office more executive powers. It is still too early to predict how it will affect the source of power in government.

Johnson defines the governing system as:

“the concrete hegemony of a covert elite working within a formal system of legality and popular sovereignty.” (1995 p. 48).

The Japanese populace in general still support the methods of governing by the elite. Kawamura feels that the Japanese people do not have any significant influence in policy decisions and that the missing word in the ruling equation is “the people” (*kokumin*), (1994, p. iv) The Japanese remain relatively isolated from politics and prefer not to discuss political issues openly.

Taking into consideration the above definitions it can be said that Japan's post-war socio-political system is characterized as a bureaucracy that has strong ties to business and to a single political party that has dominated the Diet since 1955. The system is not entirely a product of post-war Japan. The seeds of the modern bureaucracy were sown after the Meiji Restoration in 1868 and the end of feudal rule by a military regime. The ties with big business can be traced back to the end of the nineteenth century when government, with the support of the large family-owned combines converted a technologically backward nation into an industrialized economy to rival the already industrialized western powers by 1928.

The Meiji Restoration, the Birth of the Modern Bureaucracy and the Roots of the “Ruling Triad”

Suzuta Atsuyuki believed

“The warped psychology of the bureaucrat calls to mind Bushido, the way of the warrior. As illustrated by the old saw that ‘the samurai betrays no weakness even when starving,’ true devotion to one’s lord is defined as the ability to endure. Devotion to one’s lord is akin to love, and the endurance expected of a loyal samurai is similar to that of a burning love that goes unspoken unto death. This is an ideal that the average person would find it most difficult to comprehend, yet it is this abstruse Bushido that was the ruling code of the samurai society. The elite think differently from the common people, they make their own rules, and they constitute a special order of their own. Although the warrior class and Bushido were officially abolished shortly after the Meiji Restoration of 1868, Bushido lives on in the spiritual heirs within the bureaucracy.” (Suzuta A., 1981, p.197)

Suzuta, whose article originally was published in 1975 (reprinted in 1981 Inside the Japanese System edited by Okimoto and Rohlen), was referring to the bureaucrats who were working to restore Japan’s war-devastated economy. Many of them had been bureaucrats during the war and devoted themselves to their mission of engineering Japan’s economic recovery. For them it was not only a matter of restoring Japan’s economy but, also, national pride as well.

Their attitudes are not as apparent in today’s bureaucrats because the younger officers have had the opportunity to study and work in Western societies and this exposure has given them a different attitude regarding their duties. They are as diligent but they view life from a wider perspective. However, Murakami Ichiro who wrote his book in 1994 agreed with Suzuta that the elite abide by their own set of values.

Prior to the fourth century Japan was made up of small independent states that were gradually unified and ruled by an aristocracy based in Yamato (today’s Nara Prefecture). The current imperial family’s lineage can be traced to these rulers. (Biso and Abe p.2) . Chinese Buddhist monks travelled to Japan to establish large monasteries in the seventh and eighth centuries. They brought with them the Chinese written language, transmitted through Buddhist scriptures, which became the base of the Japanese written language.

The concepts of Confucianism and Buddhism, also imports from China, shaped the governing system. (Totman, C. 1981, p.21)

Japan's aristocratic bureaucracy began in the seventh century when the imperial family gave responsibility of administration of government to members of the aristocracy. In 603 Empress Suiko defined the Twelve Official Ranks for administrators and in 604, her nephew Prince Shotoku set the Seventeen Article Constitution, which indicated the desirable mental attitude of national bureaucrats. The Imperial Family came to rely upon several clans to protect their lands from marauders thus nurturing a new breed of soldier-retainer.

The beginning of a military regime (*bakufu*) was marked by the Kamakura Period (1192-1333). (Biso and Watanabe p. 8) The emperor appointed a general (*shogun*) from his army to serve as second-in-command and granted him the power to name his own vassals to protect the provinces and to administrate his lands. These administrator-soldiers were known as Samurai. Biso Masahide and Watanabe Akio write that the appointment of a general led to the formation of a feudal political system:

“At the same time, government officials were still appointed by the imperial court and the administrators of private estates by owners. Thus, the political structure of the Kamakura period was dualistic—imperial court and shogunate existing independently. “ (Biso and Watanabe p. 8)

The emperor lived in Kyoto while the shogun and his descendents lived in Kamakura. During their administration, Kamakura became the Mecca for Zen Buddhism and samurai joined monks to meditate and study the Buddhist scriptures in large monasteries as a part of their military training.

An attempt by the imperial army to topple the shogunate brought the end of the Kamakura Period. The last shogun's administration was corrupt¹ and his men indolent,

¹ The last shogun bred Pug dogs in elaborate kennels, owning more than one thousand animals.

paving the way for their defeat by the imperial army at the famous battle on the beach of Inamuragasaki. Raging civil war ensued and the “Age of the Warring States” saw the collapse of the old state order and the growing power of the samurai class.

Two lords, referred to as *daiymyo*, brought peace to Japan by unifying the country under one authority by 1590. The Tokugawa Period, named after the two *daimyo*, marked two hundred and sixty-four years of political stability, preserved by military rule. The modern-day banking system was a product of this period, which W.G. Beasley described as:

“an embryo of capitalism, which was the prerequisite of Western-style industrial growth. It shaped in a definitive form the national tradition of culture and ideas, on which subsequent generations were to depend, or from which they were to detach themselves.” (Beasley W.G. 1990, p.2)

During the Tokugawa Period (*bakufu*), the social order was rigid with samurai at the top of the social pyramid, followed by farmers, artisans and merchants. (Stockwin J.A.A 1975, p.13). The samurai, who had been serving their lords as soldiers during times of strife and as farmers during the intervals of peace, gradually became more involved in the governing process. Stockwin writes:

“In every castle-town there was a multitude of posts to be filled from the making of policy to the administration of a rural district, from supervision of finance and archives to service as attendants and messengers. All were filled by samurai, in most cases, samurai of a specific rank.” (p.13)

Some of the progeny of these samurai officials formed the Meiji Restoration government.

The Tokugawa regime resorted to taking some extraordinary measures in order to ensure political stability and control over their unified nation. Portuguese and Spanish Jesuit and Franciscan missionaries, who had been sent to Japan to convert the Japanese to Christianity, were expelled for corrupting Japanese values. Christianity was banned and

Japanese Christians were persecuted. The shogun also feared that a foreign military would join forces with Japanese dissidents and challenge the Tokugawa government. For two hundred and fifty years Japan was closed to foreigners and, with the exception of a few port cities, to foreign commerce as well.

When the American Commodore Matthew C. Perry arrived unannounced at the port of Uraga in 1853, demanding on behalf of his president that the Shogun open his country to foreign trade, the Japanese were taken completely by surprise. The xenophobic policies of the military regime had isolated the populace from contact with foreigners and until Perry's sudden appearance with his "black ships" the Japanese had assumed that they were impervious to invasion. The Shogunate, recognizing that Japan was unable to defend itself against a Western military power, signed a trade agreement the following year. Other trade agreements with Great Britain, France and Russia were signed within a few years.

By the time of Perry's visit, Japan was already experiencing political unrest. After the American ambassador to Japan set foot on Japanese soil, followed by diplomats from Great Britain and France in 1857, ten years of turmoil ensued. The realization that the military regime was unprepared to deal with foreign aggression coupled with the trepidation of being occupied by a western country (as its neighbour China) was the decisive factor in the overthrow of the shogun and in bringing the end of feudalism and the beginning of land reform. Aristocrats together with samurai engineered the Meiji Restoration of 1868, restoring the Imperial Family as constitutional monarchs, forming a cabinet in 1885, writing a constitution in 1889 that resembled Prussia's and establishing a parliament with a House of Peers and a House of Representatives. The titular head of the government was an aristocrat but the most influential members were samurai from the clans in western Japan. Among the leaders were Saigo Takamori, Okuma Shigenobu and Okubo Toshimichi. (Storey R. 1965, p.164) Okubo and his colleagues were keenly aware that compared to the Western industrialized nations, Japan was conspicuously

behind in most technologies. If the Japanese were to protect their own interests, they would have to become as powerful economically and militarily as the West.

The cabinet formed agencies to implement land reform and to guide the Japanese through the process of bringing their country into the twentieth century as a fully industrialized country. Okubo, who became the head of the Home Office, Japan's first ministry to be established and which oversaw land reform, is credited by many Japanese for giving the bureaucracy extraordinary powers. The ministries of Foreign Affairs, Finance, Army-Navy, Justice, Education and Agriculture and Commerce were also established. Central government kept a tight control over the provinces, which as W.G. Beasley writes:

“...became part of a bureaucracy, which depended upon national not local connections, and drew its personnel from a variety of sources; former samurai officials of domains and Tokugawa estates.” (1990, p. 66)

B.C. Koh described the civil service as part of the **“ruling elite in pre-war Japan.”** He credits the constitution for providing the bureaucracy with its powers and prestige.

“Article 10 of the Meiji Constitution of 1889 stipulated ‘the emperor determines the organization of the different branches of the administration and salaries of all civil and military officers...The positions of the bureaucracy vis-à-vis political parties and the Imperial Diet was bolstered by the constitution and practice alike.’ (Koh B.C.,1989, p.14)

The Japanese regarded the elite class of civil servant in the same way they related to the Shogun--with a mixture of awe, respect and trepidation. The source of power of elite civil servants can be traced to this time.

Business, the Bureaucracy and The Industrialisation of Japan: 1890-1914

The government could be described as pluralistic because powers were dispersed among the various administering bodies so that the office of prime minister did have substantial

executive powers. Muramatsu Michio explains that the government was formed from: “...among numerous clan oligarchs and the *genro* and was pluralistic to some degree. But in the period was shared among the various elites.” (Muramatsu M.,1993, p.54)

The slogan of the Meiji Era was: “Prosperous Country, Strong Military” John Sager writes that the primary purpose of government policy was: “**the promotion of Japan’s economic interests.**” (2000)

The Ministry of Agriculture and Commerce (MAC) was a major player in guiding industrial development. To achieve government’s objectives, the ministries together with the family-owned-combines (henceforth referred to as *zaibatsu*) imported technologies from the western industrialized nations such as Germany, America and the United Kingdom. Technical support was imported as well and Japanese were sent abroad to study engineering, mining, commerce and agriculture. (W.G. Beasley,1990) *Zaibatsu* (“wealthy cliques”) such as Sumitomo and Mitsui were merchants during the Tokugawa Period. Sumitomo began in copper mining while Mitsui engaged in banking and retailing. Others such as Mitsubishi began during the Meiji Period, engaging in foreign commerce, shipbuilding and heavy industries. The *zaibatsu* cooperated closely with government in the industrial development of Japan with large capital investments.

MAC managed the construction of the first hydropower station in 1907 that was built by the Tokyo Electric Light Co. MAC also oversaw the construction of subsequent power stations. The new supply of electricity increased factory output, while encouraging new business start-ups. There were many small and medium-sized businesses in operation during the Meiji Period but the industrial combines, the *zaibatu* were in an entirely different league.

The early Meiji economy was supported by rice farming and other industries such as cotton and silk yarn spinning and tool making. The first industry to undergo rapid development was textiles. Large companies concentrated on cotton yarn production so

that by 1897, exports overtook imports and Japan became completely self-sufficient in cotton material, driving Indian Bombay cotton out of the Japanese market. By 1905 large inventories of fine cotton yarn were being produced and by 1907 large companies had joined forces to form textile oligopolies, driving British yarn from the domestic market. (Tsukamoto T.,1996 p.44)

The government managed and regulated the development of the machinery, shipbuilding and heavy industries. The musket and cannon arsenals built by the feudal lords during the Tokugawa Period were banned by the Meiji government, which took over the iron mills in Nagasaki and Yokusuka. The arsenal workers were transferred to the government-operated mills and retrained by foreign engineers in machinery making and shipbuilding. Although there were a number of foreign technicians working for the *bakufu* before 1868, after the Meiji Restoration, there was an influx of Americans, Germans, British, French and Dutch, who were hired by government to serve as railroad and marine engineers, pilots, financial and legal consultants, university professors and lower school teachers, military instructors and agricultural experts. (Storey R., 1965 p 103)

Mass production of steel commenced at the Osaka Armory in 1890 after the installation of Japan's first open-hearth furnace. In 1894, Japan managed to produce only 1000 tons of steel and had to rely on imports that reached 90,000 tons. The state built a steel mill in order to accelerate production and the steel corporation, Yawata Company, was established. Tsukamoto Takeshi writes:

“In subsequent years, major steel makers were established one after the other: Sumitomo Steel Company (maker of rails and railway coach wheels) in 1901. Kobe Shell Co. in 1905, the steel division of Kawasaki Shipbuilding Co. and Nippon Steel Pipe Co. in 1912.” (1996 p.45)

By 1914 through the use of the open-hearth furnace, the new steel companies succeeded in producing for domestic use 44% of rolled steel and 64% of pig iron.

Business, the Bureaucracy and the Industrialisation of Japan 1914-1928

The Emperor Meiji died in 1914. The Taisho Period (1914-1926) saw great advances in the smoke stack industries such as coal, steel and shipbuilding. Japan did not enter World War I and, indeed, benefited economically through the exports of ships, coal and steel to the Western powers.

The confectionery industry also saw profits from the War. Until the outbreak of the war, biscuits and other Western confections had been imported from Europe and the UK to satisfy foreign demand but the war effectively stopped imports because sugar and flour were consigned for military supplies. Japanese fledgling domestic producers began to produce similar products to meet the demands not only of foreign consumers but, also, a growing number of Japanese consumers. (Carpenter S. October 1993 p 5)

The end of the war in 1918 marked a rapid decrease in ship exports. There was a surplus of ships and depressed ship prices. As orders declined Japan slipped to a ranking of ninth place among shipbuilding nations. (Tsukamoto T. 1997, p.49)

Reacting to the recessive market, shipbuilders developed a diesel engine to make their ships more efficient and diversified into general machinery, aircraft and automobiles. The Ishikawajima Shipbuilding Co.'s automobile division became Izuzu Motors Co. Mitsubishi Shipbuilding Co. developed into Mitsubishi Heavy Industries Co. and Kawasaki Shipbuilding Co. became Kawasaki Heavy Industries Co.

Not only did shipbuilding suffer a recession but, also, the entire Japanese economy fell into recession in 1925. These events prompted a split-up of MAC into two separate agencies, the Ministry of Agriculture and Forestry and the Ministry of Commerce and Industry (MCI). The recession continued, triggering the Panic of 1927 causing MCI to form the Commerce and Industry Deliberation Council, an organization made up of private industry and in cooperation with the council. MCI planned policy to protect

industry from the effects of the depression. In his book Trading Places Clyde V. Prestowitz, Jr described the function of the council.

“This forerunner of today’s Industrial Structure Council introduced the concept of ‘industrial rationalization’ which has become the backbone of Japanese industrial policy.” (1988, p.229)

Regardless of the recession, Japan received worldwide recognition as an industrialized nation in 1928. MCI expanded its control over industries and the economy, writing laws that allowed MCI to form cartels. The laws were passed by a cooperative Diet. Prestowitz claims that the laws laid the foundation for the future policy instrument “administrative guidance.” (Prestowitz C,1988, p.229)

The advent of World War II brought new powers to MCI and a closer relationship with the *zaibatsu*. The industrial combines produced the armaments as well as most military supplies and MCI organized and controlled the manufacturing of munitions, undergoing a change of name in 1942 to the Ministry of Munitions. The ministry regulated industry as a whole and since the *zaibatsu* were engaged in all types of manufacturing, and in the financial sector as well, a close partnership was the inevitable result of the all-out-effort to win the war in the Pacific. In 1944 the “System of Financial Institutions Authorized to Finance Munitions Companies” was established. This bill gave government the power to choose banks to fund munitions manufacturers so that there would be a steady supply of munitions. Government banking institutions funded the private banks. Nakamura Takafusa claims that MITI’s post-war powers can be traced to these times:

“Japan’s bureaucratic structure was so contrived that other financial institutions as well as the Bank of Japan and the government, were to back the authorized institutions so that they would not run short of funds. In the post-war reconstruction these relationships were to reappear and become entrenched in the form of the powerful financial groups known as *keiretsu*.” (1977 p.18)

In other words, Japan’s monetary and industrial policies would continue to be controlled by a central authority.

Japan's Post-war Ruling Triad: The Liberal Democratic Party (*sei*), the Bureaucracy (*kan*), and Big Business (*zai*)

The period of 1945 to 1952 in Japan is commonly referred to as the Allied Occupation. The occupying countries were the United States, Great Britain and Australia. However, both Great Britain and Australia sent only a small number of military while the United States armed forces led by General Douglas MacArthur, the Supreme Commander for the Allied Powers (SCAP) commandeered the Occupation. The objectives of the Occupation were three-fold: Japan's demilitarisation and democratisation, the purging of war criminals, and Japan's economic resuscitation. (Dower J., 1999, p.28) SCAP issued orders for the composition of a more liberal constitution that would include the right of women to vote, the right for labour unions to organize, the liberalization of education and so forth. The Communist and Socialist Parties were also allowed to organize, having been banished during the War,

The majority of Japanese did not feel that these reforms were being imposed upon them. On the contrary, MacArthur and the American military, the distributors of food rations to millions of starving Japanese, were considered angels of mercy. The Occupation was scheduled to end by 1948 with a democratic and liberal governing system set in place but the Communist-backed labour union strikes in 1947 and 1948, Communist demonstrations and the beginning of the Cold War with the Soviet Union, the beginning of the Korean War in 1950 made the United States reverse some of the reforms. The United States needed a strong conservative ally in the Pacific. The San Francisco Peace Treaty signed in October 1950 formalized the alliance. Communist sympathizers were purged and the United States backed a conservative coalition party in the Diet. The Liberal Democratic Party (LDP) was the result of this policy, coming to power in 1955.

The Liberal Democratic Party

J.A.A. Stockwin states that the LDP was formed out of a number of other conservative parties:

“It is common to regard this as a turning point marking the establishment of what is often been called Japan’s ‘1955 political system,’ which survived until the LDP lost office in August 1993.” (1999 p105)

The Japanese electorate returned the LDP to power in 1996.

The LDP consistently supported MITI’s industrial policies so that bureaucrats had the independence to implement the policies. Daniel I. Okimoto contends that:

²“For certain bureaucracies like MITI, the LDP-bureaucratic alliance had made it possible to retain an extraordinary degree of autonomy and insulation from partisan politics.” (Okimoto D., 1988, p.316)

There are several key reasons for this unwavering support, both related to the human network of bureaucrats throughout Japan’s socio-political system..² One reason is that ex-bureaucrats will seek political office on the LDP ticket both in the National Diet and in local governments. (This is related to the *amakudari* system and will be discussed in chapter 6). The second reason is that the LDP receives substantial support from special interest groups that are represented by ministries vis-à-vis associations and agencies. For example, MITI oversees the small and medium-sized business sector, which constitutes 99% of all business activity in Japan and employs 78% of the work force. Okimoto points to the Small and Medium Enterprise Agency, which is under MITI management. (p.324)

Okimoto describes the LDP as being pro-business and consistent in its support for economic growth:

2. See Chapter 2 Part I Karel van Wolferen’s Enigma of Power

“Japanese firms have had the luxury—experienced almost nowhere else—in operating in a highly predictable and favorable business environment.” (Okimoto D., 1986, p. 47)

Big business and business federations make large contributions to the LDP campaign coffers. The LDP gets votes and large donations from traditional support groups such as small local businesses and businesses that engage in construction, transportation and telecommunications in exchange for contracts for public works projects. A recent example of this kind of “pork-barrel patronage,” as Okimoto terms it, (p. 47) is the allotment of the stimulus packages released since 1992. The first stimulus package released by government in August 1992 was described in the September issue of the New York JETRO publication Inside/Outside Japan.

“The main components of the \$86 billion economic aid program that the Japanese government announced on August 28 are \$69 billion for public works, and 17 billion for small business and capital investment. The government expects the package to push up economic growth by 2.4 percent in the coming year.”³

The money from fiscal packages is distributed through Special Status Corporations, which, in turn, dole it out through contraction contracts to out local businesses. This is discussed further in chapter 5.

The Bureaucracy

Johnson feels that Japan’s post-war bureaucracy was merely a continuation of the pre-war bureaucracy because the Supreme Command of the Allied Powers (SCAP), in an effort to promote a speedy economic recovery reinstated many of the pre-war civil servants to manage the recovery:

“Japan’s bureaucratic structure was one aspect of Japanese life that Douglas MacArthur failed to reform. Instead of chopping away at the base of the bureaucratic pyramid, he simply chopped off

³ The GDP for 1993 was 1.3%, much less than government had anticipated

the apex, by purging key wartime Government officials. In due course, the pyramid grew a new apex, by renewing a dismembered limb and the bureaucracy continues unchanging from the prewar days.” (1994, p.120)

The United States, reacting to a perceived threat to Communist expansion in East Asia, needed a strong ally in the Pacific where it could base its military forces and hardware.

John Dower explains that the Occupation Forces did not speak the Japanese language and, therefore, could not understand Japan’s social system well enough to operate independently. SCAP was forced to:

“... govern indirectly through existing organs of government. This was unavoidable. For all practical purposes, General MacArthur’s supergovernment relied on the Japanese bureaucracy to carry out its directives, creating in effect a two-tiered mandarin state. When the Americans departed, the native mandarins carried on, stronger than they had ever been during the war.” (1999, p.27)

Dower agrees with Johnson that there was no essential reform of the bureaucracy:

“When Cold War considerations took over and the ‘reverse course’ in occupation policy was launched, it was the Americans who promoted the administrative ‘rationalization’ that resulted in the even greater concentration of bureaucratic authority. The creation of the powerful Ministry of International Trade and Industry three years before the occupation ended was the most visible example of this.” (p. 560)

However, Yonekura Seiichiro claims that Johnson used the continuity of staff in the post-war bureaucracy to promote his theory that the wartime economic system prevailed after the war. He suggests that the continuity was not so much in the economic system but in the continuity of the experiences of the bureaucrats who managed industry during the war and who then were reinstated after the war. (1999 p.194)

Yonekura gives a number of examples that reveal this continuity of wartime MCI officials, who, as members of the ministry, planned industrial policy after the war:

“In 1942 Takayuki Yamamoto of the general Affairs Bureau (*Soumu Kyoku*) of the Ministry of Commerce and Industry was responsible for product expansion. He remained in his post at the end of the war, and was later appointed Administrative Vice-Minister (*Jimu Jikan*) when the Ministry of International Trade and Industry (MITI) was established. His case is one of the most typical illustrating the continuity into post-war office of those who ran the wartime controlled economy.” (1999, p.193)

Yonekura also cites the cases of Kishi Nobusuke and Shiina Etsusaburo:

“For example, at the time of the ministry’s introduction of price incentives in 1942, Nobusuke Kishi was serving as Minister of Commerce and Industry and Etsusaburo Shiina was Vice-Minister. Twenty years later we find that Kishi had resigned as Prime Minister in 1960, while Shiina had been appointed Minister of International Trade and Industry in 1961, so both served higher ranking positions after the war.” (1999, p.193)

The nature of bureaucratic rule and the character of the bureaucracy remained intact because the officials who planned Japan’s post-war industrial recovery were former officers of MCI

Paul Baily feels that because of the continuity of pre-war officers in post-war positions in MITI, the officers had the advantage of knowing how to regulate industries.

“MITI not only drew on personnel from the former ministry—until the mid-1970s all top officials in MITI came from the pre-1945 bureaucracy—but also, ironically, was to attain more extensive controls over the economy that had ever been envisioned by militarists and renovationist bureaucrats before 1945.” (1995, p.60).

The officers were also comrades during the war with a strong attachment to each other and to their former ministry.

Suzuta's description of the psychological make-up of bureaucrats relates directly to the MCI officials, who administered Japan's post-war rapid economic recovery. These traits are less apparent in the officers who joined the ministry in the late 80s and 90s because they have no memory of the war, they have had an easier life compared to their predecessors and, through travel and education in western countries, they have been exposed to alternative management styles. Nevertheless, the power in the ministries is squarely in the hands of an elite class of officers. In 1994 Murakami Ichiro wrote in the introduction of his book:

“Currently among Japanese civil servants there are more than 100,000 bureaucrats who work in Kasumigaseki. Among them there are only 20,000 officers, the “career” officers with special qualifications. Among the 20,000 career officers there are only approximately 1000 with law degrees⁴ and only a small number among them manage most of the ministries. They are overwhelmed by the illusion that they can suppress the other career officers and run the ministries alone.” (1994, p.iii)

In his book The Enigma of Japanese Power Karel van Wolferen compares France's bureaucracy with Japan's. He first points to the fact that, like Japan, France has historically had a strong central bureaucracy that maintains control over local governments, education, public works, courts, etc. He points also to the similarities between the cultivation of the elite in the ministries and the fact that there is movement by bureaucrats into the private sector and into politics in both countries.

Van Wolferen then goes on to explain the differences in the education of French and Japanese elite bureaucrats. The Japanese emphasize memory retention while the French emphasize intellectual dexterity, articulateness and a liberal and well-diversified education. Before they enter the ministries the French elite civil servants study in one of five institutions for further training in diplomacy, finance, accounting, engineering and

⁴ To be discussed later in this chapter. Almost without exception elite officers have law degrees from Tokyo University. The elite bureaucrats draft all laws that are passed in the Diet.

home affairs. Van Wolferen states that French civil servants are more mobile than their Japanese counterparts because they can serve temporarily in top management positions in other ministries, private banks and businesses and state-run organizations. On the other hand, Japanese elite never leave their institution and are rotated to divisions within their ministry, perpetuating a strong institutional affiliation: “...to the extent that is detrimental to the functioning of officialdom as a whole.” (1990, pp.155-156)

On occasion, they will change ministries if their experiences are warranted valuable to the ministry extending the invitation. For example, the current president of JETRO New York, Okamura Jun, was a career officer for the Ministry of Foreign Affairs before moving to MITI.

Big Business

One of the punitive measures ordered by SCAP was the dismantling of the *zaibatsu*. The *zaibatsu* that were in operation before the war were Sumitomo, Mitsui, Mitsubishi and Yasuda. The *zaibatsu* that were formed during the war because of close cooperation with the military were Nissan, Asano, Okura, Nomura, Nakajima and Furukawa. SCAP first dissolved the holding companies so that the family-owners no longer had the controlling interests. Although the “economic purge” of the executives who had directed the companies during the war was delayed, the Antimonopoly law passed in 1947. Ultimately, in January 1947 fifteen hundred executives resigned. In July 1947 Mitsui and Mitsubishi trading companies were dismantled. (Dower J.,1999, p.532) Many other large companies were slated for liquidation but the Cold War and the threat of communist expansion in the Pacific persuaded SCAP to take a far more lenient course so that the large companies could join with the ministries, namely MITI and MOF, to rebuild Japan’s economy.

The signing of the San Francisco Peace Treaty in 1950 saw the abandonment of the reform that forbid *zaibatsu* families to own shares of stock in their firms. Cross-shareholding between firms also was allowed. Although four of the *zaibatsu* regrouped

after the Occupation, the initial modification of the punitive reforms perpetuated the close alliance between the bureaucracy and big business. The *zaibatsu* became known as *keiretsu* groups. *Keiretsu* is a term that applies to the businesses that are subcontracted by the large companies to supply parts and services. These businesses are generally small to medium-sized. The system can be traced to the war effort when small businesses were contracted by the *zaibatsu* as suppliers. The system of subcontracting continued after the war, although in a modified form. Some of the subcontractors are owned entirely by the parent company while others are partially owned or totally independent.

The companies within each *keiretsu* group specialized in a single industrial sector such as shipbuilding, banking, insurance, chemicals, real estate, retail, trading and so forth. A firm in one group had the advantage through inter-corporate shareholding of partnering with firms in other *keiretsu* groups. Prestowitz gives examples of inter-corporate shareholding by the *keiretsu*.

“Toyota, for instance, is affiliated with the Mitsui Group, even though it has assembled a group in its own right. Nissan is affiliated with the Fuyo Group, while Hitachi, which has a group of its own, is affiliated with both Fuyo and Sanwa Groups” (1988, p. 298)

Okimoto contends that these affiliations through inter-corporate shareholdings is:

“...a distinctive feature of Japanese capitalism, also facilitating the administration of industrial policy by relieving companies of the tyranny of following strategies for short-term profit maximization.” (1986, p.47)

Okimoto’s perception of the *keiretsu* system was popular during the 1980s, however, the system locks in the corporate sector so that there is no domestic competition. *Keiretsu* and cross-shareholding makes the corporations mutually dependent and there is no capacity for restructuring. There is no source of dynamism, only stagnation. In many cases, the companies have provided postretirement positions for elite bureaucrats

(*amakudari*), paving the way for the effective use of the industrial policy instrument “administrative guidance.”

The ties between the bureaucracy, big business and politicians serve to create an ideal environment for ministerial controls over Japan’s political economy. The elements explained below are found within the Japanese social system and also serve to create an environment that pressures individual compliance to group authority and discourages social movement to initiate reform

Factors in the Japanese Social Order That Inhibit Individualism and Intensify Group Pressure

In modern Japanese society, the group sets the standards for individual behaviour and individual identity is defined in terms of being a member of a group. Nakane Chie writes:

“In group identification, frame such as ‘company’ or association’ is of primary importance: the attribute of individual is secondary. The same tendency is found among intellectuals; among university graduates, what matters most, and functions the strongest socially, is not whether a man holds or does not hold a PhD but rather, from which university he graduated. Thus the criteria by which the Japanese classify individuals socially tend to be institutional unit (such as school or company) is in fact the basis of Japanese social organization.” (1988, p. 8)

The elements to be discussed here tie the Japanese to their rigid system, because, first and foremost, the Japanese identify themselves culturally as members of organizations, corporate divisions, hometowns and so forth.

Karel van Wolferen explains the system as a:

“...a hierarchy, or rather a complex of overlapping hierarchies, is maintained but it has no top. There is no supreme institution with ultimate jurisdiction over the others. There is no place where, as Harry Truman would say, the buck stops. The buck keeps circling.” (1986/87, p.290)

Wolferen sees the system as having a high degree of regimentation and conformity:
“...that systematically instilled submissive attitudes.” (1990 p. 248)

Although Japanese below the age of forty may not be as controlled by a rigid hierarchical social order as were their parents, they are still subject to values that are inherent to this system, especially in the workplace where they are members of tightly knit divisions (e.g. groups).

Identification with the Group

Nakane Chie writes:

“A cohesive sense of group unity...is essential as the foundation of the individual’s total emotional participation in the group; it helps to build a closed world and results in group independence or isolation.” (1988 p. 8)

The Japanese organization is structured to give a Japanese a sense of security both physically as well as emotionally. In general, when workers are asked what they do for a living, they will refer to their company (“I work for Sumitomo”) before referring to their responsibilities in their company. Also, when speaking of their employer to friends and colleagues they will refer to their company not by name but by “*uchi no kaisha*,” which, when translated means “the company I call my home” or “the company that is like my family.” This is, in part, related to the lifetime employment system indicative to the Japanese corporate system.

Organizations are structured hierarchically. B.C. Koh credits Nakane Chie with creating the phrase “*tate shakai*” or “vertical society” to emphasize the fact that vertical relationships take on more significance than horizontal relationships:

“In organizational terms, this idea implies the development of a strong sense of identification with the organization and intense feelings of solidarity among all members of the organization.” (Koh B.C., 1989, p. 27)

Although employees identify with their employer, their primary allegiance can be with their division (e.g. group) and their division chief. A negative aspect is that this loyalty may hamper the sharing of pertinent information with other divisions and with upper management.⁵

The Group

The seniority system still prevails in most Japanese organizations. The president and CEO are usually among the oldest of the employees and have worked for their entire careers in the same organization. Presidents and CEOs run the organizations but daily operations are in the hands of divisions (*jigyobu*), division managers (*bucho*), and the section managers (*kacho*), who are ranked by age and by the length of time they have served in the company, although there are some exceptions to this rule. Generally there be three *kacho* per division, depending on the number of employees, which ordinarily range from ten to twenty staff. *Kacho* are directly responsible to their *bucho* and the support staffs are directly responsible to their *kacho*. Loyalty of subordinates to the group leader is vital in the group hierarchy. The working method in a division referred to as “bottom-up.” When top management request information or when a new project is initiated in a division the *bucho* delegates the job to his *kacho*, who, in turn, delegates the task to subordinates. The subordinates begin the job and pass it upward to their *kacho*, who will make revisions and then pass it up to the *bucho*, who finishes the task, putting his seal on it before passing it on to the vice-president or CEO.

The Group Within the Group and Group Insularity

When Japanese are asked if they enjoy working for Japanese organizations, instead of answering in the affirmative or negative, they may choose to say, “Human relations are

⁵ See Mercian study in this chapter

trying” (*Ningen kanke*). The fear of retribution from management or from members of the group controls an employee’s external expression of disagreement with his superior. Ronald Dore writes:

“Although it may not be immediately evident to the casual observer, the subordinate’s behaviour is indeed controlled by the concern that his superior’s generosity will be influenced by his attitude. If the worker is considered to be uncooperative or unobliging, he may experience disfavor but in a covert way, recognizable to himself and a few co-workers. If his superior is displeased, the other members of his division may well detach themselves from him and he will become isolated. “
(1985, p.202)

The fear of displeasing his division manager and retribution from members in his division controls a staff’s outward expression of disagreement with his supervisor. He or she may propose an alternative solution to a problem or a different method but he or she will rarely disagree openly with his superior. In fact, any behaviour that is considered to be out of order may provoke ostracizing by group members, who will move to protect their superior with the hope that he or she will look with favour upon them for their loyalty and reciprocate in the future.

The rotation system common in Japanese organizations can present difficulties for employees when they move from one division to another. Japanese managers are trained to be generalists in their firms and, therefore, are rotated every three years to a different division. The purpose of the rotation system is to make managers familiar with all aspects of their companies. However, due to strong group unity the exodus from one division and the entrance into another can be a wrenching experience even if the new division is located in the same area as the old division and everyone knows everyone else. Once the employee has left his old division he is considered an outsider. Members of the old division will throw a farewell party (*sobetsukai*) and the farewell can be emotional even though the manager knows that he will see his former colleagues daily.

Group Exodus And Re-entry

The tensions that employees face returning to their company after having served for periods of three to five years at company facilities overseas is yet another example of group insularity. Japan is ethnically homogeneous and relocating to another culture can be stressful for many Japanese but returning to their society after a long absence can be even more stressful than living outside Japan.

Most Japanese covet overseas duty as much for the respite from the workplace as for the foreign experience. Nevertheless, upon returning to Japan they will experience difficulties re-entering corporate life and being accepted again by former colleagues. More often than not, they are not respected for the valuable lessons they received from their experiences overseas but perceived as employees, who have escaped the pressures of the workplace. In an interview in 1994 a vice-president of the North American headquarters of Sumitomo Corporation, who had previously been posted for three years in San Francisco and then for a subsequent three years in Chicago expressed his frustration:

“Even after spending five years in the States, once rotating staff land at Narita Airport, the minute they go through the door at Narita, they must force themselves to forget everything they experienced during the past five years. They are real Japanese. That’s what it means to reenter Japanese society. I think that this is still the case in our company. There is also jealousy so we must forget everything. So for Japan, there is no positive effect in rotating staff for four to five years. No matter how many times the employee is posted in the U.S. it won’t amount to anything. No matter how many thousands of workers are sent to no matter how many countries the Japanese will not develop an international point of view. They will not internationalise.”⁶

Suzuki Yoshinori, the Executive Director at JETRO New York from 1992-1995, agreed with the vice-president in his interview regarding the difficulty of the Japanese to mentally go beyond their borders: **“Internationalisation is talked about but as I said before, Japanese go abroad and have experiences and then return to their way of life. Unfortunately, things**

⁶ January 11, 1994 Interview at Sumitomo Corporation, New York

from the outside will not enter Japan smoothly. I really don't understand what internationalisation is but I have the feeling that it is difficult for the Japanese to get to the level that they will be able to negotiate with various nationalities and to interact.”⁷

In their interviews both men spoke about the difficulties Japanese have in communicating in a foreign language, which in itself promotes insecurity among foreigners and defensiveness. The Japanese language is spoken only in Japan and Japanese know that when they leave their country they will meet few people who speak their language. Also, although Japanese are adept at utilizing foreign technology quickly they need a longer period of time to assimilate western concepts. The Japanese, who are posted overseas for five years try to adapt to these concepts and learn the native language and although this effort should make them invaluable to their organizations, they find that they are regarded as having become different from the rest of the members of the organization and can feel a sense of rejection and sometimes jealousy as well. Although they may hope that their newly acquired skills and knowledge will be utilized, in many cases, ex-patriots find upon their return that in order to integrate fully into their company and their division, they must forget their foreign experiences.

Cliques As Groups

University Cliques

Cliques are found in most societies. Cliques (*batsu*) in Japanese society serves to intensify the connection between individuals. In Western cultures, cliques are generally related to wealth and social status but in Japan the most important clique is made up of members who have graduated from prestigious universities. The *gakubatsu* plays a significant role in tying together elites in the ruling triad. Johnson writes how the university clique ties together members of the bureaucracy:

“...gakubatsu is without question the single most important influence within the Japanese state bureaucracy. The cliques of university classmates are inseparable from bureaucratic life but because it is their university degrees and their success in passing the Higher-level Public Officials

⁷ January 1994 Interview at JETRO New York

Examination that set bureaucrats apart from other elites in the society. Graduates also form as an 'old boys' network throughout the society as a whole." (1982, p. 57)

The Japanese place great importance on education and graduating from the right university is of paramount importance.⁸ Nakane Chie writes:

"The ranking order among institutions is likewise of immediate concern to individuals, in that individual status and prestige go according to this ranking as well as according to the individual's rank within each institution...The Japanese are not so much concerned with social status as with institutional affiliation. Since the hierarchy of each field is so clearly perceived and widely known, and since there is a hierarchy within the individual institution, taken together they offer a fairly distinct picture of where the individual can be fitted." (1988, p. 13-14)

As was pointed out in Chapter 2⁹ candidates for career positions in the ministries are favoured over graduates from other universities if they have a law degree from Tokyo University. Prestowitz writes:

"In place of the term *gakubatsu*, some Japanese analysts prefer *Todaibatsu* (cliques of Tokyo University classmates) because of the predominance of Tokyo University graduates in the bureaucracy and in upper echelons of the banking and industrial worlds. Even among the *Todaibatsu*, there is the *batsu* of all *batsu*—the alumni of the Tokyo University Law School." (1988, p.134)

Tokyo University, formally known as Tokyo Imperial University was founded in 1886 by the Meiji government. Its function was to educate administrators in the new government. Although other public university graduates took the High Level Civil Service examination, the majority of applicants accepted as career officers came primarily from Tokyo University. This is still the case, although graduates from such

⁸ In Japan entrance into universities is based on the meritorious system. Before the war, Japanese of wealth and high social ranking were favored candidates for the top universities (as is the case in Great Britain) but reform of the educational system after the war made entrance accessible to anyone who passed the exams.

⁹ "Chalmers Johnson's Legacy

universities as Keio, Kyoto and Hitotsubashi are gradually gaining acceptance.¹⁰ Before 1996 with the exception of one vice-minister, who graduated in law from Okayama University, all vice-ministers in MITI graduated in law from Tokyo University (*Todai*). (Murakawa I., 1994, p. 135) The Japanese see their bureaucrats as the lawmakers in government, drafting all legislation and regulations, and their politicians as the supporters of the laws.

Corporate Human Resource Management: Individual Sacrifice, Group Unity and Loyalty to the Corporation

Susumu Yoshida, the managing director of corporate planning for Sumitomo Chemical Corporation, explains what he feels is the philosophy of Japan's corporate culture:

“The Japanese have assimilated two principals that constitute essential elements of their thinking: Confucian ‘harmony’ and the Buddhist concept of ‘transcendence of one’s ego,’ developed by the Upanishad in ancient India. The latter implies that through a long process of training, reflection and meditation, an enlightened individual will come to realize that the inner self is identical to the inner essence of the universe. Such metaphysical identity of man with the universe underlies Japanese religious beliefs and social conventions. This principle not only serves as a goal of Japanese spiritual life, but also provides the foundation for the concept of ‘teamwork’ embedded in Japan’s modern corporate culture.” (1998, p 569)

Yoshida's theory is a rather idealistic version of modern corporate Japan but one that has been popularised by two of Japan's greatest industrialists who are Buddhists.

The late Matsushita Konosuke and Inamori Kazuo incorporated Zen Buddhism along with their own personal philosophies into human resource management in their companies. (Carpenter S., March 1993, p.6 and May 1993 p. 6). Their management style in terms of promoting group unity and loyalty to the corporation have, to some extent, influenced human resource management in other Japanese firms and are often

¹⁰ See introduction to Chapter 3 for examples

touted by western observers as indicative of Japanese corporate management style in general.¹¹

Matsushita Konosuke and Corporate Management

Matsushita Konosuke founded his company, Matsushita Electric Industrial Co., Ltd. in 1918 with his first invention, the battery powered bicycle lamp. His company later became Japan's largest manufacturer of consumer and industrial electronic product. After the war, Matsushita established his foundation, PHP (Peace, Happiness and Prosperity) in 1946 in an effort to restore the Japanese spirit (as told in the July 1993 issue of "*ImadaKara Matsushita Konosuke*" The 21 PHP Institute).

"The Institute provided a positive environment in which professional from the public and private sectors could conduct research, collect data on economic trends, engage in business consultations, and create educational programs. As president, Matsushita poured his efforts into the program (which also served as his pulpit), and he thrived on a non-stop lecture circuit until his death in 1989 at the age of 94." (Carpenter S. 1993 p. 6)

Matsushita wrote many books on doing business, work ethics and management techniques. Many Japanese revered him, likening him to the guru of corporate management. To mark the occasion of Matsushita's 100th birthday, The 21, a magazine published by PHP, released a commemorative edition on Matsushita (July 1993), including an article that the well-known journalist and television commentator, Shimomura Mitsuko wrote about Matsushita for *Asahi Shimbun* eighteen years earlier titled "Matsushita is Not God" (*Matsushita Konosukesama wa "Kamisama" de wa nai!* pp.130-133) In his interview Matsushita talked about his philosophy and how his religious beliefs influenced his management of his employees in order to encourage productivity and loyalty.

¹¹ It must be asserted here that devout Zen Buddhists adhere to a strict code of ethics, live in an aesthetic no-frill environment. In other words, they sacrifice physical comfort for spiritual enlightenment

Japanese companies own retreats where the recently employed staff is sent for the purpose of gaining a sense of identity with their corporation, group unity and, also, to develop a commitment to making a contribution to corporate operations as well. Called *kenshu* (“training and study”), the retreats can last from three days to one week and the schedules can be strenuous with sessions beginning in early morning and continuing to late evening. Employees will return to these retreats throughout their careers

Mr. Matsushita became a devout Zen Buddhist in his early forties and often he would prefer sending his employees to Zen monasteries for weeklong meditation sessions instead of to *kenshu* because he felt that this practice would inspire team loyalty among his employees. (Carpenter S., March 1993) Participants eat, sleep and meditate in a group and, therefore, individual needs are placed secondary to the group. His own practice inspired a personal ideology that: **“...spiritual benefits could be reaped not only from prayer but from the daily, diligent execution from one’s duties. He attended religious retreats at Buddhist monasteries, prodding employees to participate in order to restore inner peace and to improve concentration. What was good for the soul was also good for sales. The enthusiastic found solace but the less willing realized only pain, sitting in crossed-legged silence for eight hours a day.”** (Carpenter S., March 1993, p. 6.) Matsushita made large donations to monasteries thus employees were allowed to join with other lay members and resident monks.

Inamori Kazuo

Inamori Kazuo is the founder of Kyocera Corporation, the world’s largest industrial ceramics producer and KDDI, Japan’s second largest telecommunications company. Invariably articles written about Inamori mention his Zen Buddhist leanings. (Carpenter S., May 1994 p. 6) In the June 1981 edition of *Fortune* Inamori’s philosophy (“Kyoto Philosophy”) was described as: **“...praise-the-lord- and-Pass-the-Automation creed with a Zen Buddhist flavor.”** (Bylinsky G. 1981) The cover story on Inamori in the June 3, 1993 edition of the *Far Eastern Economic Review* is titled “Samurai Soccerer” and describes his philosophy as: **“...a ruthless emphasis on efficiency with dollops of Zen Buddhism and Max Weber.”** (Friedland J., June 3, 1993, p.61)

Through his company, Inamori publishes booklets that put forth his ideals, which emphasize individual sacrifice on behalf of others (i.e. the individual versus the group): **“Pursue material and spiritual happiness and the welfare of mankind.”** Another precept is:

“Too many people think only of their own profit. But business opportunity seldom knocks on the door of self-centered people. No customer ever goes to a store to please the storekeeper.”

When Inamori announced that he would retire in June 1997 and become a monk for one month in a Zen monastery, the April 2, 1997 edition of *The New York Times* ran the two-page article, “Eyes on Higher Things And on the Bottom Line—Not the Usual Retirement Ahead for a Master of Corporate Zen.” Andrew Pollack, who described Inamori as one of Japan’s greatest entrepreneurs since World War II wrote that Inamori: **“...runs his companies like religious orders and is revered as almost god-like.”** Pollack balanced his appraisal by adding:

“He is short-tempered and extremely demanding. ‘He treats his management like they’re children,’ said Rodney N. Lanthorne, president of the San Diego-based Kyocera International Inc., the main American subsidiary, referring to Dr. Inamori’s strict discipline and tongue-lashings.” (April 2, 1997)

The State-Approved Approach To Corporate Management

Matsushita and Inamori’s ideologies on Japanese corporate management and human resource management are also to be found in *The Rise of the Japanese Corporate System* Matsumoto Koji wrote his book for Japanese readers in 1983 while he was a MITI official. Although he made a disclaimer that his opinions did not reflect those of his ministry, his book should be viewed as an officially approved account because the English version, printed in 1991 and again in 1993, was distributed to American opinion leaders through the New York branch of the Japan External Trade Organization, one of MITI’s largest Special Status Corporations. It was an effort to portray his ministry and corporate Japan in a positive light.

Matsumoto holds a degree in economics from Tokyo University. In 1987, four years after the publication of his book, he was appointed Counsellor in the Japanese embassy in Canberra, Australia and in 1990 he was appointed General Director of the General Administration Department of the Japan National Oil Corporation, a MITI Special Status Corporation, which is described in the following chapter.

Matsumoto believed that Japanese corporations were a product of an economic system that had developed during the first decade of Japan's rapid economic growth period. In his forward Matsumoto wrote:

“Although not widely recognized yet, a new economic system has developed and been nurtured in Japan inside a shell of capitalism. The new system differs greatly from traditional capitalism, but that does not mean to say it has drawn close to socialism.” (p.vii).

Matsumoto attributed Japan's economic success to Japanese corporate culture and corporate structure while downplaying government controls over the economy

“The issue in the new system is not the degree of government interference in the economic process, or the relationship between government and corporation. Rather, it is the new elements that have appeared in the structure of the corporations—the basic units of the economy—and the economic conclusions these elements have brought about.” (p. vii)

The “new” elements Matsumoto described in Japan's corporate restructuring have actually been an integral part of the Japanese corporate system since the end of the war: the lifetime employment system in large businesses, corporate management autonomy and stockholders' acquiescence to the reinvestment of profits into corporate expansion. Chalmers Johnson, who admires MITI elites and who gave the book positive reviews in California Management Review synopsised:

“Japan is dynamic because its managers devote themselves to competing with other companies at home and abroad, without having to serve the parasitic interests of shareholders or the passive interests of workers, who have no stake in the viability of the company.” (Johnson C.1993 p 60)

Matsumoto tried to reassure readers that his government’s role in Japan’s economic development was small compared to the role of the Japanese individual:

”...most of MITI’s functions do not result from infringements on the freedom of private companies, and in the end it is not possible to truly appreciate MITI’s role if one sets it solely in the framework of freedom or control. Indeed, in the limited sense of applying such a framework, one must say that the Japanese allow a greater latitude of freedom for corporations than do the government of western free nations. Despite being able to make such comments about the relationship between government and companies in Japan, this should not be immediately interpreted as meaning that Japan is more liberal than Western nations. In other words, the small role of government in Japan is not a reflection of a larger role played by the individual.” (pp 225-226)

Matsumoto tried further to justify his stance that Japan’s economy is neither planned nor controlled:

“Some proof of that can be seen if one looks, for example, at the small number of personnel MITI has assigned to its sections in charge of four important Japanese industries. Certainly it must be clear that such a small staff cannot design and carry out major programs of centralized control that ‘would make a good capitalist cry.’ (p. 222).

To prove that the number of MITI staff was small he drew a chart showing that, as of July 1989, there was 11 staff in automobiles, 13 in computers (electronic policy), 13 in iron and steel manufacturing and so forth. However, he omitted the important fact that MITI used other means besides officers to implement policy: 1) bureaucrats can control industry through their relationship with former colleagues who had taken top management positions in private industry (e.g. *amakudari*). 2) MITI’s Special Status Corporations and public corporations can be vehicles to implement policy (as is discussed in chapter 6, p. 173). In 1990 Yamamura Kozo claimed:

“Many formal and informal institutions, created and maintained in previous decades to actively aid the economy in ‘catching up’ with and overtaking the Western industrialized economies, are still in place and continue to shape the behaviour of all political and economic actors.” (Yamamura, 1990 pp. 300-301)

Matsumoto claimed: “The new corporate system is the source of the might of Japanese economy. It provided the propulsive energy that enabled the Japanese economy to expand fifteen-fold between the mid-1950s and the mid-1980s, and to this day it remains the source of the Japanese economy’s strong vitality. “

In 1983 Japanese readers may have believed Matsumoto’s claims of the strengths of the Japanese corporate system because Japan’s economy was doing well as opposed to the American economy that was in recession. However, they surely would have questioned his declaration that MITI did not “infringe on private companies” and that the “role of government in Japan is not a reflection of a larger role played by the individual.” MITI spokesmen often try to reassure both Japanese and foreigners alike that MITI allows Japanese companies leeway to operate with relatively little interference and that, compared to western capitalistic economies, the Japanese government’s role is small in the regulation of businesses. Daniel I. Okimoto, professor of political science at Stanford University, wrote in 1986, three years after Matsumoto’s book was published, that MITI had:

“...an unusually broad scope of its jurisdictional authority” and that the ministry also had: “extraordinary latitude to decide whether, when, and how to intervene, and in these situations when it decides to do so, the structure, means, and specific policy instruments, by which to protect its power.” (Okimoto D., 1986 p. 49)

Japanese readers, who were working for large corporations may have considered Matsumoto portrayal of employer-employee relations overly enthusiastic. Matsumoto explained how workers were integrated into Japan’s corporate system

“Japanese corporations are able to consolidate the total energy of their employees toward corporate objectives, a feature not found elsewhere. They can do so because of the special corporate system found in Japan, wherein corporate employees are integrated into the corporate structure and assume shares of corporate risk to become the main standard-bearers for carrying out company operations.... the career employment system binds the individual’s destiny, in terms of his working life, to the rise and fall of the company’s fortune.” (p. 65).

Matsuba Masafumi, professor of economics at Ritsumeikan University took a more realistic view, explaining that the integration of employees into those corporations is supported by the following factors:

“1) the sweeping exclusion of the political left from companies; 2) military discipline and organization of human relations within the companies; 3) remarkable differentials of wages and labor conditions between large corporations and medium and small enterprises; the lack of rights and low wages of part-time workers and contingency workers in so-called ‘middle’ or ‘peripheral’ labor markets; 4) the feeling of identification of employees belonging to large corporations with their companies through satisfaction with their high income and fringe benefits; 5) employees of large corporations have been organizing themselves in enterprise unions (moreover, only of formal employees) and have lost the sense of social and universal solidarity; 6) a lack of powerful social counterprinciples and counterthoughts against capitalism in Japan” (2001, p. 93)

Matsumoto claimed that since workers remained in their company for many years their interests and destinies were tied to their companies. He characterized Japanese workers as “diligent” and that: **“they think about what is most needed for their company and then personally take the initiative to promote it.”** (p. 66). He also claimed that Japanese workers would volunteer willingly to do other work besides their own and that they would gladly work overtime as well.

However, Matsuba asserted that of all of the factors he listed, the factor that persuaded employee loyalty to large corporations was the high salary and fringe benefits. He

raised the question whether employees were compelled to feel loyalty or were they loyal because they received good salaries and benefits. (2001 p. 93)

In addition, an employee's motivation for volunteering to do extra work and to put in extra hours may be based on the fear of receiving a poor evaluation from Personnel who may question workers loyalty to the corporation. Also, it can be argued that the restriction of **"the ability of workers to move from one company to another,"** has given management tremendous control over workers if they choose to leave their employers and enter another company they can expect to lose seniority privileges and a decrease in salaries. It may be difficult to change midstream since exiting from one group (to whom they were supposed to have a sense of loyalty) to enter another group raises suspicion concerning the reasons for departure.

In 1991 Western readers reacted enthusiastically to Matsumoto's book. On the back of the book jacket there are some reviews from the first printing in 1991. The Financial Times stated: **"this is an exceptionally powerful book. Koji Matsumoto has developed a theory of the Japanese Corporation."**

Chalmers Johnson wrote in the Journal of Japanese Studies:

"an excellent, well-documented guide to the 'Japan is different' literature as it existed in the early 1980s in Japanese...It is a pioneering work, typical of the best minds at MITI."

When Japan was experiencing a high rate of economic growth there was much interest among Western observers about the Japanese corporate management style. In 1988 Chalmers Johnson wrote about Japanese management techniques as used in American affiliates. In "Japanese Style Management Techniques in America" for California Management Review he described some of the practices he perceived as being specific to the system, which promoted the cooperation among staff. He pointed to the old practice of all members engaging in a short exercise program before beginning their

daily work, morning pep-talks by supervisors, loyalty among staff to company is given high priority by management who granted bonuses for good work, no direct orders given to staff “but lots of internal communication,” overtime is expected of all staff, decision making is “bottom-up,” staff congregated after work to go drinking in order to further company loyalty, company trips and retreats to further integrate members into the corporate family and no in-house lawyers because lawsuits by staff against management is not tolerated. (April 1988)

Johnson’s understanding of Japanese corporate management-style as seen from the outside is, in part, correct but it does not fully reflect the actual conditions of the workplace. These conditions are difficult to see without working in a large Japanese corporation among Japanese. The writer worked for three years for Mercian Inc., a traditional Japanese corporation alongside Japanese. The writer chose this type of environment because it was an effective way of observing traditional Japanese management style methods and Japanese who had not been previously exposed to Westerners.

The elements in the Japanese socio-political system that have been defined in this chapter as serving as mechanisms to pressure individuals to submit to the will of the group was reflected in the company’s employee-management relationship as well as employee-employee relationship. The following study of Mercian, Inc. is given to bring further insight to Johnson’s analysis.

STUDY OF MERCIAN, INC.

Mercian, Inc.¹² is a subsidiary of Ajinomoto, whose founder invented a process to manufacture monosodium glutamate, commonly known as MSG (“Ajinomoto,” in Japanese means “the base of flavour”) during the Meiji Period. Ajinomoto is a food and pharmaceutical conglomerate and is known for its fermentation process technology and biotechnology. Mercian is a good representation of a large Japanese

¹² See appendix 3 for corporate profile and annual report

affiliate of a major food and drug manufacturer with traditional Japanese style management.

Mercian, Inc. was established in 1934 as a producer of Japanese spirits. Known until 1989 as Sanraku, Inc., the company became involved in whiskey and wine production, feed, pharmaceutical and chemical production as well. By 1988, Sanraku, Inc. had become Japan's largest domestic wine maker, marketing the wine under the label Mercian, after its winery in Yamanashi Prefecture. The growth of wine production was directly related to the fact that the Japanese, who did not begin drinking wine in earnest until the 1980s, were purchasing more wine, both domestic and imported. (Carpenter S., 1997, p. 2)

Tadao Suzuki, a vice-president at Ajinomoto and whose great uncle had invented MSG, realizing the potential of a burgeoning wine market, took the reigns at Sanraku in 1988 with the intention of focusing more on wine production. He also intended to import and distribute more wines and spirits. Within three years Sanraku had purchased a winery in the Napa Valley (Markham) and in Bordeaux (Chateau Reysson). Sanraku also became the sole importer and distributor of more foreign wines and spirits, including Glenfiddich whisky. In accordance with Suzuki's strategy to internationalise, Sanraku entered into joint-ventures with Italian, German, Spanish and Australian wine producers.

Sanraku's strengths were in distribution and on-premise sales (restaurants, bars and hotels) but its weakness was its unfortunate image of being a traditional maker of low-grade whisky and a vodka-like spirit (shochu) that is popular among blue-collar workers. Sanraku's main competitor in the wine industry was Suntory, also a whisky producer, that marketed itself as a promoter of the arts (one-third of corporate profits are said to contribute to the arts), thus cultivating an image of elegance and sophistication. Suzuki knew that Sanraku had to develop a singular corporate identity

and initiated a name change. To modernize management at Mercian, which had the reputation of being a conservative Japanese company, Suzuki hired the management consultants McKinsey & Co. for one year. According to staff in the wine division, two McKinsey staff sat with them the entire year but their input was minimal.

In September 1990, Sanraku's name was changed to Mercian, Inc after its winery in Yamanashi Prefecture. Nine years later in the 1999 Mercian corporate report "Message From The President read: "For my company, survival in the coming era of open, global competition will depend on its cultivated core businesses in which it is assured of a significant competitive advantage. We have thus positioned wine as Mercian's primary core business, and will continue to take steps to reinforce our operations in this area." (pp.3) Despite Suzuki's efforts to create a modern image for his company, Mercian's management style still was traditional influenced by the elements found in Japan's rigid social hierarchy, which were discussed in this chapter.

Gakubatsu

Before Suzuki transferred to Sanraku Sanraku staff managed the company. When Suzuki entered Sanraku the company moved offices to Ajinomoto's corporate headquarters and there was a visible effort to replace existing management in some divisions, including Human Resource and General Affairs with Ajinomoto staff. For example, the new director of the wine division had been the director of the mayonnaise and soup division at Ajinomoto. His section chief accompanied him, becoming a section chief in the wine division. The directors of human resources (jinjibuchō) and the liquor divisions also came from Ajinomoto. The fact that Suzuki and his men had all graduated from Keio University (known for its high quality economics department)¹³ gave them an advantage over Sanraku employees, who were generally graduates from technical colleges and provincial second or third class

¹³ Graduates from Keio with degrees in economics are sought after by Japanese corporations

universities. Thus not only was upper management from Sanraku's parent company but, also, their education was considered superior to Sanraku's staff as well.

Human Resource Management

Despite the expertise from Mc Kinsey & Co. human resource management in Mercian did not change noticeably but as the company was expanding wine imports and domestic production, the number of staff in the wine division increased from nine to twenty-one within two years.

There was lifetime employment and staff received welfare benefits. The tradition that Suzuki did away with was that, with the exception of the receptionists, employees no longer had to wear uniforms. Also, there was no morning exercise period (taiso) nor were there morning pep talks. Mercian sent employees to retreats, usually by division so that group unity was enhanced. Members would return hoarse and exhausted from the rigors of these training sessions.

The Division as a Group

In the late 80s and early 90s the wine and liquor related divisions were located on a single floor in one large room. An open floor plan accommodated five divisions. Members of each division occupied a long table with the directors of the divisions (bucha) sitting at separate desks at the heads of each table. The assistant directors (fukubucha) sat at the head of the long table and their section managers (kacho) flanked them. Support staff sat towards the end of the tables. Each kacho was responsible for certain work such as sales or marketing or distribution or production. Support staff worked with each kacho, creating a section within the division.

In his introduction of "Japanese Management Style in America" Johnson contended that there was much internal communication. At Mercian, which is a good representation of traditional Japanese companies, this was not the case between members of a division as well as between members of separate divisions. Although all

members of divisions sat at the same table, there was little communication regarding the work these smaller sections were engaged in even when a member of one section had information that was relevant to another section.

Johnson contended that there were no direct orders given to staff. This was also not the case at Mercian. The bucho was responsible to Mr. Suzuki, who left the daily operations in the hands of his directors. The bucho discussed the division's work with the fukubucho. The fukubucho communicated the information to the kacho. When the bucho needed a report or information on sales, marketing, production or simply feedback on a project he would ask either the fukiubucho or the kacho. The kacho, in turn, would request information or ideas from his support staff, which then did research and wrote reports. They passed the reports to the kacho, who, after adding his comments passed them on to his superiors. The support staffs were rarely asked for their opinions on corporate operations. Although Mr. Suzuki, who was supposedly consulted regularly by his bucho, in general, he remained aloof from daily operations. This is true for most corporate presidents in any society who act as the representative of their companies. Their social obligations and business meetings take them away from the office much of the time.

Johnson stated that the purpose of after-hours drinking among staff was to instill company loyalty. In reality, workers (with the exception of special occasions) would have preferred to return to their families at the end of the workday. On the average, the daily commute for most Mercian employees was three hours but they felt pressured to go drinking with their directors.

Employees did not discuss openly any dissatisfaction they might have had regarding their treatment by management but there was the ever-present anxiety of not fitting into the group and the need to keep a peaceful relationship with other members of the group. Occasionally during tea breaks when staff gathered in a separate room, they would complain about such general issues as the frustration of being tied to one

company for life. The fear of retribution from superiors and ostracizing may have been the overriding factors for this reticence to voice negative views. Employees, who were seen as being different from the others or who did not fit into a division were transferred to other divisions. Many of them would have liked to have the option of changing companies or careers but they knew that other companies would be suspicious of the reasons for their need to change jobs and be wary of hiring them. Again, this concern reflects the unity of the group and group insularity.

Johnson claims that upper management expect staff to do overtime. At Mercian, Inc., this was true if there were deadlines or emergencies. (In general Japanese corporate etiquette dictates that staff should wait for the directors to leave the office before departing the premises). Even if they had no pressing work, staff may have wished to remain after working hours in order to receive additional salary for overtime. Staff would leave the company at 6:00 PM, have dinner and return to their company at 8:00 PM or later and do work that they could have accomplished during regular working hours.

Group insularity is reflected also when members return after a long absence. This was illustrated at Mercian when an employee, who had been posted at a winery overseas for three years, returned to Mercian headquarters. He was given a seat in the wine division but no work. He appeared daily and sat at the table trying to be actively involved in the division but to no avail. The skills that he had acquired while serving overseas, including fluency in a foreign language, were not used. After two months, he was sent to another division where the work did not relate to his overseas duties.

Group Unity: Communication Between Divisions

The distance between divisions was approximately six feet. There was a common Fax machine and copier. Files were stored in a central filing cabinet. Each division remained autonomous from the other and there was little communication between

divisions or cooperation between divisions. Indeed, there was often a palpable rivalry between divisions.

At times the failure of a division to communicate openly with another division can lead to unfortunate consequences. A good illustration of this is an incident that involved a large- scale preparation for the first Beaujolais Nouveau festival in Japan in 1989. Mercian along with the other major wine importers and producers marketed the wine to Japanese through a series of hotel-sponsored events that were to be held at midnight of the third Thursday in November when Beaujolais Nouveau was released in France. Mercian had contracted France's largest negociant to export by airfreight hundreds of cases of the wine from France. The procurement division was responsible for the logistics. The wine division was responsible for the sales and marketing of the wine. In theory the two divisions were to cooperate closely on the project. The shipment was expected to arrive in time for the evening festivities at hotels throughout Japan. However, the shipment did not arrive on schedule, crucial to the success of the Beaujolais Nouveau festival. The procurement division did not inform the wine division that the planes were delayed until six hours before the festival was to begin. Mr. Suzuki was eventually notified but it was too late for the festivities and local wine replaced the French. In order to salvage Mercian's reputation, a mortified Suzuki and his directors travelled around the country to offer their apologies in person. Surprisingly, after the debacle the first year, a similar episode occurred the following year. (Carpenter S. November 1992 p.5)

The elements that characterise the relationship between management and employees and the relationship between employees at Mercian, Inc. can be found in most Japanese work environments. The conservative nature of the Japanese workplace may be less apparent at overseas branches of multinationals but the hierarchical structure and strong group identity remains.

The following study illustrates the same elements that were discussed in the Mercian study but in a different context. The study is of an overseas branch office of the Japan External Trade Organization (JETRO), one of MITI's largest Special Status Corporations. It has eighty overseas offices. Since representatives from other government organizations were also posted in the office, the hierarchy in government is well defined in the cross section of Japanese civil servants.

The writer worked in the New York branch for over six years (1992-1998) in three divisions giving her the opportunity to observe daily the government officials posted in the office and their relationship with each other, how they functioned alone, away from their home organization. There seems to be no literature available that looks at the operations of overseas offices of Special Status Corporations in terms of personnel management. .

STUDY OF JETRO NEW YORK, an Overseas Office of a Special Status Corporation¹⁴

The JETRO overseas offices house not only MITI and JETRO staff but also, representatives from other ministries, public corporations and prefectural governments, which operate one-man offices under the JETRO umbrella. Officers are posted at these offices from one to four years, depending on the organization they represent. JETRO and MITI staff are posted for three years to four year.

The number and mix of these organizations differ from office to office. For example, JETRO London houses the representative offices of Nagano Prefecture and Okayama Prefecture. The Japan Ship Centre in London, which represents the shipbuilding industry, although located in a separate building, is under JETRO management. At JETRO New York besides JETRO and MITI staff there are representatives from other ministries (Health and Welfare and Construction) prefectures (Kyoto and Fukui) and twelve (at last count) public corporations, among

¹⁴ See Chapter 7 for a detailed account of JETRO

them the Japan Highway Corporation, the Japan Finance Corporation for Small Business, the Japan Small and Medium Enterprise Corporation and the Electronic Industries Association of Japan (EIAJ).

During the 1980s and early 1990s the New York office housed representative offices of other public corporations and industrial associations that have since closed shop such as the Japan Camera Industry Association and the Japan Bicycle Promotion Corporation. These offices were relatively quiet and when Japan's recession deepened, the funds supporting the offices dwindled.

JETRO's New York office is one of the largest overseas offices with approximately sixty staff and is a good representation of the other JETRO overseas offices in terms of management and how staff deals with life away from Japan and their respective organizations. MITI career officers are at the top of the pecking order. They remain fairly aloof from the other officers, socializing only on formal occasions such as farewell parties and other functions that require their attendance. MITI non-career officers and the representatives from the other ministries are second in rank and they generally congregate among themselves, although on occasion they circulate with the other officers, whatever their rank. JETRO staff and the other representatives from industrial associations, public corporations rank fourth and local government representatives are last. In other words, not only does the civil service hierarchy remain intact outside of Japan but, also, so do the representatives' institutional affiliations.

Management

Organizations not related to JETRO pay fees to JETRO for support and office expenses. JETRO facilitates such vital services as taking care of visa applications, tax identification numbers (for bank accounts etc.) and provides health insurance. Although the representatives would prefer acting autonomously, keeping their respective organizations' identity separate from JETRO, they are considered officially

JETRO staff. They are expected to cooperate to some degree with management including participating in research projects. Their office budgets and expenditures are audited regularly. In other words, MITI is in control.

At JETRO New York, management encourages officers from other organizations to socialize with JETRO staff so that they feel included in the group. The officers reluctantly oblige because they feel pressured to acquiesce to management. Management does not encourage the officers to interact with Americans. Intentionally or otherwise, during the 1990s a xenophobic atmosphere was further induced by daily announcements in Japanese about recent crimes committed in the United States that were circulated to all of the officers. The reports were generated from a Japanese consulting firm operating in the United States.

Operating Away From the Group

At JETRO New York there are at approximately eleven MITI staff and JETRO staff numbers are approximately the same. JETRO and MITI officers are in the majority and, although they may not have worked together previous to their overseas assignment, they come from the same organization, thus there is an automatic support system in place. The representatives from local governments, other ministries and public corporations are at a disadvantage in terms of being separated from their ethnically homogeneous society, their organizations and their peers and having to operate in societies where languages, ethnic groups and culture are very different. They arrive alone, most of them having had little exposure to other cultures and they are without the physical and moral support from their division. It is generally the first time that they have had to work independent from a group and constant supervision. The preparation for their assignment is minimal— six months of language lessons and approximately one month's training and instruction on operating in a foreign country at JETRO headquarters in Tokyo.

The MITI officers and a chosen few of the JETRO officers, who have attended foreign universities, adapt to life in unfamiliar environments more easily than do the other officers. Nevertheless, the initial exposure can be a major shock even for MITI staff. An officer, who was sent to study at John Hopkins University, said that he was unprepared for what he saw:

"MITI didn't prepare me for life in the United States. It should have. Even though I knew that there were many ethnic groups I was still surprised when I saw the different kinds of hair and eyes"¹⁵

Although some officers elect to visit their future posts a few months before they are to assume duty to scout for housing and schools for their families, the majority arrives two weeks prior to their predecessors return to Japan. During a hectic schedule the new representatives are introduced to the network of people the predecessors have cultivated during their tenure. There is little time allotted for the detailing of the specific duties they are expected to carry out.

For the first time in their careers, most representatives experience isolation from their organizations. Communication with Japan is done through Fax or email or the telephone. There is no peer pressure from their division, no pressure to do overtime and they can return to their families at reasonable hours. Some officers relish the privacy that a one-man office affords them but most officers, who are accustomed to working as members of a division find it difficult to manoeuvre as individuals, especially when it entails making decisions. The isolation makes them feel vulnerable. This can be especially true for the officers, who are sent overseas if they have been considered misfits in their organization. They may be suffering from mental disorders or they may be alcoholics. Management in their organizations mistakenly think that by sending them away for three years will not only release the officers from the

¹⁵ 1994 Interview with the Director of EID/MITI JETRO New York.

pressures of the workplace but, also, the other members of the division will be rid of disruptive behaviour. Unfortunately, these officers do not benefit from being isolated from their divisions. In fact, functioning initially in alien societies can be extremely stressful, intensify the illnesses. For example, a representative of a prefectural government at JETRO New York could barely function during his three-year tenure and he was continuously treated for anxiety at a psychiatric institution. JETRO management did not offer any support. While most officers receive a promotion upon their return to Japan, he was demoted.

The representative's successor was also unprepared for life in the United States. He settled his pregnant wife and young daughter in a three-bedroom home with an outdoor swimming pool in the New Jersey suburbs. His home in Japan was a one-bedroom apartment, a substantial contrast in lifestyles. His second child was a girl. A year after her birth, she fell into the swimming pool. Police rescue teams resuscitated the child, flying her by helicopter to the nearest hospital. She survived the ordeal but suffered extensive brain damage. The father felt keen humiliation because he had failed to fence off the pool and thus preventing the accident. At the time he was in the midst of preparing a large exhibition for traditional industry from his prefecture, which would be attended by his governor and members of the prefecture Diet. Although his daughter was in a coma, he elected to leave his wife at the child's bedside and continue preparations and direct the weeklong proceedings. His fears that he and his family would suffer the stigma of having a sick child and that he would have to bear the ultimate responsibility for the accident pressured him to put his duties first before his family.

It takes at least six months for officers to adapt to their new circumstances. In Japan their workloads are far greater and they operate as members of a close-knit group. Overseas there is no group pressure, their responsibilities are far lighter and the hours are shorter as well. Although the initial freedom and privacy can be stressful for the officers, they gradually adapt to the luxury of having fewer work hours and being with

families. Some officers show their individuality by growing beards and longer hair. However, these signs of individualism disappear three months before they return to Japan, which can be even more stressful than their initial arrival at JETRO. They begin to prepare mentally for the inevitable trials they face upon their return to their organization where they will be expected to work harder than before they left.

Competition Between Divisions

The insularity of divisions can lead to rivalry between divisions, especially when territory is involved. This was aptly illustrated at JETRO New York in 1992 when the president bypassed the Public Affairs division and chose staff from the Research and Planning division to write and edit Inside/Outside Japan. Normally all promotional materials and newsletters were handled by public affairs. Also, the president duties focused on representing JETRO to the public and since Public Affairs handled his schedule as well, he was expected to cooperate with that division. However, since the president was of higher rank than staff in Public Affairs (who was JETRO staff), he was in control. The director of public relations, realizing the potential popularity of the paper, was dismayed that his division was not involved and aggressively lobbied his views to the other representatives throughout the office. The executive director of JETRO New York, a MITI officer, who was caught in a tug-of-war, supported the director of Public Affairs because tradition demanded it. The president requested representatives from other ministries and associations not related to MITI to contribute articles to the paper but most of them resisted unless they felt pressured to comply because their organization was related with MITI. However, the paper survived the first year despite the inter-office turmoil.

Conclusion

This chapter has given an historical perspective of Japan's socio-political system in order to trace the source of power of the bureaucracy. It has also defined those factors in the Japanese social system, which can cause the Japanese to acquiesce to bureaucratic guidance.

So far the restructuring of the ministries seems to have progressed no further than the consolidation of some of the ministries and agencies and the changes of names for others. It may appear that the ministries are consolidating operations and that the bureaucracy is downsizing from twelve to ten ministries but, in truth, the roles and territory of the former ministries are intact and a strong central bureaucracy survives. The ministries continue to legislate laws and regulations, which are passed by the National Diet that has been dominated by the Liberal Democratic Party since 1955

In most Western countries and the United States no single political party has been in power long enough to give bureaucrats the liberty to make policy nor are the ministries unfettered by legal sanction when implementing policy as they are in Japan. Public surveys reveal that the majority of Japanese would like to see their politicians more active in the legislation of laws¹⁶ and planning of policy both domestic and foreign but they continue to elect candidates belonging to the Liberal Democratic Party thus preserving the status quo, which is exactly what the bureaucrats want to maintain.

Restructuring the governing system connotes changing the mind-set of the Japanese themselves and this will take many years. Although the exposure to Western values and ideology during the last hundred years has made some impact on Japanese lifestyles, the majority of the Japanese, who have never travelled beyond their borders, abide by a value system that has existed for hundreds of years. They belong to a rigid hierarchical socio-political system that has been in place since the Meiji Period, a system that contains elements that can be traced back thousands of years, namely the acquiescence to the needs of the group instead of the needs of the individual and the social pressure to conform. The Japanese still strongly identify themselves with this system.

¹⁶ See chapter 2 for review of Japanese literature on the bureaucracy.

Since the system supports acquiescence to the bureaucracy and the bureaucracy is responsible for administering the reforms of Special Status Corporations and public corporations it is likely that the ministries will continue to maintain their corporations.

MITI has approximately 900 public corporations and associations. (Tsutsumi K. 2000 p 143)

CHAPTER 4

THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI)

Introduction

The Japanese regard their bureaucracy as the strongest force in their governing system because it drafts laws which the Diet, ruled for most of Japan's postwar history by the Liberal Democrats, invariably sanctioned. Twelve years ago Japan's economy seemed to be on the fast track and the Japanese by and large credited their bureaucracy for planning policies that brought Japan one step behind the United States as the second largest economy in the world. The two economic ministries, MOF and MITI were considered the most powerful of the ministries. Most Japanese viewed elite civil servants as the most influential members in society and viewed them with a fair amount of trepidation. With the exception of literature published by opposition parties such as Communist and Socialist, books and articles about bureaucrats tended to be more positive than negative and although bureaucrats avoided the limelight, Japanese considered elite with a sense of awe..

The Ministry of International Trade and Industry (MITI) was established in 1949 to revive Japan's war devastated industry as a consolidation of the Ministry of Commerce and Industry and the Board of Trade. (Dower J., 1999, p. 541) The Ministry of Commerce and Industry managed Japan's industrial growth before the war and controlled industrial production during the war, its name changing to the Ministry of Munitions in 1942. As was discussed in chapter 1 MITI plans industrial policy. MITI as well as Japan's other ministries are not subject to legal sanction when implementing policy as will be discussed later in this chapter.

Chalmers Johnson wrote in MITI And The Japanese Miracle:

“MITI men are powerful and outspoken, and the Japanese public enjoys reading about them. Several best selling novels have been written about them...English novelists sometimes choose bureaucrats as subjects (examples are Maugham’s *Ashendon* or le Carre’s *Smiley’s People*), but economic bureaucrats in America or Britain are rarely as interesting as spies or politicians.” (p.81-82)

This perception may be relevant to the elite officials who make policy but the majority of the staff is ordinary civil servants who work diligently at the bidding of their superiors. They work long hours without the benefit of overtime pay (as do all civil servants). Secretarial staff is minimal and the directors do most of their own administration. Housing is provided for officers and their families but the facilities in apartment complexes are cramped. If they can afford it, the officers prefer living in private dwellings.

Scott Callon describes MITI as: **“an awesome brain trust, and its officials work legendary hours on behalf of its policies.”** (1995, p.186)

Callon may have been influenced by Johnson’s estimation of elite MITI staff. Although the Japanese regard elite bureaucrats as talented and good administrators, generally, skills are not effectively utilized. B.C. Koh quotes Sahashi:

“As Sahashi Shigeru, a former administrative vice-minister of MITI put it, the concept of ‘ability’ is totally nullified.” (1989, p.254)

The internal structure of the bureaus is hierarchical. A director-general heads each bureau. A deputy director-general is second in command followed by directors who perform various functions. For example, in the Basic Industries Bureau there is a director-general, a deputy-director general, a director of general affairs division, a director for basic industries (policy planning), a director of administrative affairs office, a director for basic new materials policy office and so forth. The nature of management resembles the military.

There are two tiers of civil servants: career and non-career. Non-career officers act as support staff for career officers and are not eligible for promotion to the higher ranking positions such as vice-minister, director-general, deputy-director general and director.

The elite are among the career officers as was discussed in chapter 1¹³¹ and are accepted into the ministry after having passed the difficult High Level Public Officials Exam and going through gruelling interviews. Twenty-five candidates considered for elite rank are accepted as career officers to MITI each year. Only a small number out of the twenty-five will survive the climb to the upper echelons of MITI. B.C. Koh describes them as “meritorious elite.” (1989, p.253) However, they soon realize that they must adhere to bureaucratic etiquette and follow the orders of their superiors’ orders without questioning, concealing any personal opinion so that they will not fall from favour and be promoted.

There is a clear distinction among career officers. As Chalmers Johnson stated¹³², officers who have a law degree from Tokyo University are favoured for high-ranking positions over career officers holding other degrees such as engineering. The Japan External Trade Organizations (JETRO) is one of MITI’s Special Status Corporations. It has eighty overseas branch offices. MITI elite officers are posted in upper management positions in these overseas offices and the majority have received law degrees from Tokyo University. For example, with the exception of one official, who had a law degree from Kyoto University, the MITI officers who served as executive directors and presidents at JETRO New York from 1992-2001 held law degrees from Tokyo University.

During the initial three to five years in MITI, the career officers are rotated to various divisions to be assessed on their abilities. In their third year they may be sent abroad to

¹³¹ See chapter 2 “Chalmers Johnson’s Legacy”

¹³² *ibid*

foreign universities to study for one to two years. MITI contributes large sums of money to such universities as Harvard, Stanford, Tufts and John Hopkins where elite officers are sent to study law, government and business administration.

Many of them have received education at American universities. For example, the MITI officer, who served as president of JETRO New York from 1992-1994 was a Visiting Research Fellow at the Royal Institute of International Affairs and also attended the University of Syracuse School of Management for eight months. The MITI officer, who served as president of JETRO New York from 1996-1998 studied at Rice University in Texas for one year. The MITI officer, who served as the director of EID/MITI at JETRO New York from 1992-1995 studied at John Hopkins University for one year. The current president of JETRO New York attended Harvard University, earning a Master of Comparative Law degree. The MITI officer, who served as executive director of JETRO New York from 1998 to 2001, graduated from the Harvard Law School, passing the Massachusetts State bar exam.

At the beginning of their careers, members from the same class are promoted at the same time. However, through a gradual elimination process only a few members from each class climb to the top of the ministerial pyramid. Promotion as well as postings overseas may also be executed according to internal political factors such as belonging to a certain clique of officers whose superior is particularly influential. The elite are given three opportunities to study and assume posts overseas. Some officers are sent for three years as First Secretaries in Japanese embassies. For example, the president of JETRO New York (1992-1994) was the First Secretary at the embassy in Indonesia. He was sent to London for a year as a Research Fellow at the Royal Institute of International Affairs and then to the University of Syracuse Management School for eight months. His successor at JETRO New York was the First Secretary at the embassy in Pakistan and president of JETRO San Francisco. The current president served in the Japanese embassy in Brazil.

The promotion of the rank and file is based on the seniority system in keeping with the ministry's hierarchical system. The seniority system makes advancement tediously slow and the senior members are retired (*katataki* or "tap on the shoulder") to pave a way for junior officials so that they can assume higher positions. As managerial positions near the top of the pyramid become scarcer, many officials retire if they do not receive promotions. In MITI the highest positions are administrative vice-minister and vice-minister of international affairs. Traditionally, both officials, who have entered MITI as members of the same class, will retire at the same time.

Retirement for civil servants is on the average between the ages of forty-five to fifty-five, earlier than pre-war civil servants and for employees in the private sector, who retire at sixty to sixty-five. The majority of MITI employees come from middle-class families. Some candidates opt to enter because their families do not have the necessary personal connections to facilitate an introduction to big businesses. The director of EID/MITI, who graduated with a law degree from Tokyo University, was in this category:

"I had no idea what my future career would be. My father was a sailor in the Coast Guard and we did not have connections in the business world. I did not want to become a lawyer. After graduation I immediately entered MITI."¹³³

Some officers enter the ministry because a family member was an officer. Others, who would have preferred a career in the military because their fathers were military, may opt for MITI because it manages the defence industry. A non-career officer posted in the Industrial Research division at JETRO New York explained his background:

"I originally wanted to be a pilot in the Air Force Academy. However, after the war, all of the military institutions were shut down and, of course, there was no Air Force. I graduated with a degree in aeronautical engineering from Tokyo Metropolitan University, a public university. I entered Toyota because the defence industry was non-existent and the civilian aircraft industry was

¹³³ January 1994 Interview at JETRO New York

very limited. Many people who had aeronautical engineering backgrounds went to work in the automobile industry.”¹³⁴.

Johnson documents a well-known conflict in MITI between “nationalists” and “internationalists” in the mid-1960s. He explains: “This distinction used to have policy implications but in recent years it has boiled down to an argument over ‘merit’ (the internationalists) versus promotion based on ‘seniority’ (the nationalists). Both groups have liaisons with different groups of politicians.” (Johnson C. 1995, p. 228) Yamamura Kozo describes the “nationalists” as officials, who wanted to maintain the status quo and continue to promote Japanese industries, and the “internationalists” as officials who wanted to open up Japan’s industrial markets to foreign imports even though major changes in MITI’s policies would be necessary. Yamamura contends that the “internationalists” won a partial victory but that it:

“...indicated even within MITI—the ministry occupying pre-eminent position in Japan’s industrial policy—internal consensus on policy goals could no longer be taken for granted.” (Yamamura K. and Eads G., 1987, p. 451)

On January 6, 2001 the MITI’s name was changed to the Ministry of Economy, Trade and Industry (METI) but since the thesis examines MITI’s role before 2001 METI will be referred to as MITI with the exception of chapter 7, the conclusion.

This chapter examines MITI’s old structure and METI’s new structure and formal functions. There is also discussion of the policy tool “administrative guidance” to illustrate the power that ministries wield over the political economy.

Functions And Structure

The Japanese government, in an effort to make government smaller, to give the prime minister’s office more executive powers and to execute a more efficient management of Japan’s economy, is attempting to consolidate some of the duties that were previously

¹³⁴ January 1994 Interview at JETRO New York

recognized as being within one ministry's jurisdiction among several ministries. However, at this time, the extent of the restructuring seems to apply mainly to the reshuffling of duties. For example, the Ministry of Home Affairs, the Ministry of Posts and Telecommunications, and the Management and Coordination Agency have joined to form the Ministry of Public Management, Home Affairs, Posts and Telecommunications. The Ministry of Education has taken in the Science and Technology Agency to form the Ministry of Education, Culture, Sports, Science and Technology. The Ministry of Health and Welfare has joined with the Ministry of Labour to form the Ministry of Health, Labour and Welfare. The Ministry of Transport and the Ministry of Construction have joined together with the National Land Agency to form the Ministry of Land, Infrastructure and Transport. The Ministry of International Trade and Industry has formally adopted the Economic Planning Agency¹³⁵ and changed its name to the Ministry of Economy, Trade and Industry.¹³⁶

Agencies that were formerly within MITI such as the Patent Office, the Small and Medium Size Enterprise Agency and the Environmental Protection Agency (now the Ministry of Environment) have been separated from the ministry but they are still under the ministry's management. Indeed, there is a new agency, the Agency of Industrial Science and Technology that also fits nicely into the ministry's portfolio of related agencies.

According to METI's web page, MITI was established in 1951, however, the 1994 MITI Handbook records MITI's establishment in May 1949.¹³⁷ John Dower agrees that MITI was established in 1949. (1999, p 541) The MITI Handbook provides a summary of the ministries' responsibilities:

“MITI covers a wide range of industrial fields, including basic industries, steel, new chemical materials, bioindustries, etc., machinery and information industries (electronic equipment robots,

¹³⁵ The EPA was managed by MITI

¹³⁶ See appendix 1 for METI history and organizational structure

¹³⁷ ()

industrial machinery, automobiles, aircraft, information processing, aerospace, etc.) and consumer goods, industries (textiles, fine ceramics, household goods, housing materials, etc.). At the same time it is in charge of affairs related to foreign trade, high technologies, environmental protection and industrial location, energy and other areas.”¹³⁸

MITI's authority also extended to all large, medium and small manufacturing firms and has established industry specific manufacturing trade associations. Before the recent restructuring there were four 'horizontal' bureaus that managed industrial policy, international trade policy, international trade administration and industrial location and environmental protection. Vertical bureaus handled basic industries, machinery and information industries and consumer products. There were also nine regional bureaus that provided MITI with data on regional industrial activity. (Osaki R.,1984, p.55)

Although METI's organization has been slightly restructured, METI bears a striking resemblance to MITI. The new METI intends to take on a broader role in the management of Japan's economy during the 21st century. As well as the promotion of commerce and trade, the ministry will plan microeconomic policy for industries, protection (*hojo*) of industry and ensuring that there is a steady supply of energy (including nuclear power). According to Shima Nobuhiko, the particular characteristic of the new ministry is seen in the word "protection" which - is often used. He suggests that the "protection" implies that the policy tool "administrative guidance" (to be discussed later in this chapter) will be used as often as before in order to ensure compliance with ministerial guidance. (Shima N. 2000, p.48)

Although the elimination of the Consumer Goods Bureau and the Environmental Protection Bureau brings the number of bureaus from nine to seven, the ministry has plans to institute five temporary agencies that are apparently not subject to budget and operation reviews. (see below # 10)

¹³⁸ See appendix 2 for MITI organizational structure

METI states that the restructuring effort is for:

“Logical Consideration, Effective Action and Emphasis on Results.”

METI’s mission statement reads:

“To be a navigator in support of a diverse range of players and to create socio-economic systems for these diverse players to exercise their capabilities fullest. As its mission METI will propel the Japanese economy by providing information and analytical insights, creating systems that support society and the economy, and enhancing Japan’s technological foundations, so that companies, communities, individuals, non-profit organizations, and other players can exercise their capabilities to the fullest and maximize their potential.”¹³⁹

The restructuring includes the following:

1. A new bureau, the Economic and Industrial Policy Bureau, has been established:
“...to integrate macroeconomic and microeconomic policy, research and statistics, and regional economics.”
2. **“Establishing a post of Director-General for Regional Economic and Industrial policy and encouraging greater networking among the eight Regional Bureaus of Economy, Trade and Industry.”**
3. **“Reorganizing the sections responsible for trade policy and trade relations and establishing the Trade and Economic Cooperation Bureaus”**
4. **Reorganizing the Agency of Industrial Science and Technology and bringing industrial technology policy under the Industrial Sciences and Technology Policy and Environment Bureau.”**
5. **“Expanding the interfaces with industry in the Manufacturing Industries Bureau.”**
6. **“Shifting from the Information Industries Bureau to the Commerce and Information Policy Bureau and establishing the Consumer Affairs Department.”**
7. **“Revamping the Agency for Natural Resources and Energy and establishing the Agency for Nuclear and Industrial safety as an up-dated organization.”**

¹³⁹ ()

8. **“Reorganizing the Japan Patent Office (JPO) to better support the knowledge based society.”**
9. **“Establishing a new structure to solve various SME business problems.”**
10. **“Spinning off five organizations as independent agencies.” (not subject to annual budgetary and operational reviews) “**
11. **“Adoption of the ‘unit’ system.” (to facilitate a faster decision-making process within divisions)”**

METI continues to manage the public corporations set up by MITI, among them the Japan External Trade Organization, the National Oil Corporation (JNOC), the Japan Finance Corporation for Small Businesses, the Japan Small and Medium Enterprise, and the Japan Regional Development Corporation. METI also assumes the industrial associations that were established during MITI’s era. Among these are, the Electronic Industries Association of Japan (EIAJ), The Foundation for International Trade and Industrial Cooperation (ITIC), the Institute for Developing Economies (IDE), Japan Auto Parts Association, Japan Automobile Manufacturers Association, Inc. (JAMA), Japan Camera Industry Association, The Japan Electrical Manufacturers’ Association (JEMA), Japan Industrial Technology Association (JITA), Japan Information Processing Development Center (JIPDEC), Japan Lumber Importers’ Association, Japan Machinery Exporter’ Association, Metal Mining Agency of Japan, Japan Textile Machinery Association, Nuclear Power Engineering Corporation (NUPEC) and The Japan Society of Industrial Machinery Manufacturers.

Mr. Shima states that METI’s policies will still encompass industrial production, commerce, trade, high technology industries, energy, patents, and nurturing small enterprises. (p.152)

In comparison to other ministries such as the former Health and Welfare (now merged with the Ministry of Labour), which had over 20,000 employees, METI is small with approximately 12,381 officers. Nevertheless, the ministry is recognized as having

significant control over Japan's industrial growth, planning both micro and macro industrial policy.

Industrial Policy

Yamamura Kozo and George Eads define the objectives of MITI's industrial policy as resembling the objectives of industrial policies in general.¹⁴⁰ The policy instruments are similar as well (Yamamura K. and Eads G., 1987, pp.423). Nonetheless, a nation's policy is driven according to the needs of the society. Ozaki states that policy:

"...inevitably reflects the history, culture and tradition" of the society. (1984 p 49) The methods used to implement policy also are related to the country's culture and tradition. Yamamura and Eads distinguish the policy tool that reflects Japan's specific system:

"...informal (nonenforceable in the legal sense) ministerial involvement in the corporate decision-making process—'administrative guidance'—has been a significant element in Japanese industrial policy." (1987 p. 425)

MITI has planned post-war industrial policy for Japanese industries. Although MITI's policies have been credited for Japan's post-war rapid economic growth (1950-1973), there is no hard quantitative evidence that defines the extent to which industrial policy contributed to Japan's economic miracle. Thomas Pugel contends:

"Analysis of the role of Japan's industrial policy in contributing to higher growth is hampered by the extreme difficulty of quantifying efforts." (1984, p. 422)

¹⁴⁰ A protectionist industrial policy consists of measures that are employed by government to nurture the industries deemed important to the national economy. These measures are known as policy instruments or policy tools. In general, the package of instruments include the regulation of production, the protection of industry from foreign competition through the use of tariffs, tax incentives to companies that procure from domestic manufacturers, subsidies for R&D and loans for expansion of operations and so forth. Hugh Patrick states that the industries that are favored by government: **"...have access to resources in degrees in timing different from what would occur through the normal market place."** (Patrick H. 1986 "Japanese High Technology Industrial Policy in Comparative Context" Japan's High Technology Industries University of Washington Press pp.5)

Certainly MITI's efforts were greatly enhanced by a number of factors. 1) the fixed rate of exchange of 360 yen per dollar in 1949, undervaluing the yen so that Japanese exports could have easier access to world markets, 2) the SCAP purge of communist sympathizers and the quelling of labour strikes in order to ensure a stable environment for industrial growth,¹⁴¹ 3) antimonopoly legislation revised to allow inter-corporate share holdings (Dower J.,1999, pp.540-541), 4) access to cheap technologies, 5) the 1964 Tokyo Olympics that marked a spurt in industrial development as the Japanese prepared for the influx of foreign tourists. The construction of roads, hotels, sports arenas, airports and new housing also brought improvements to infrastructure in such metropolitan areas as Tokyo and Osaka, 6) consistent support of policy from the Diet and business, 7) the successful efforts to internationalise by industrialists such as Morita Akio (Sony), Honda Soichiro (Honda) and Inamori Kazuo (Kyocera), 8) America's willingness to accept the surge of Japanese exports in US markets with the objective of preserving a strong alliance in the Pacific, 9) the industriousness of the Japanese themselves and their willingness to follow MITI's prodding to save earnings. In 1973 the Japanese had the highest rate of savings per capita in the world. They still have a relatively high rate of savings, although behind Singapore, Thailand and Indonesia.

Industrial Policy and Economic Growth

MITI's powers were significant during Japan's period of rapid growth (1955-1973)). MITI focused on resuscitating the smoke stack industries, coal and steel, in order to nurture automobile production and the energy intensive industries such as petrochemicals, shipbuilding and aluminium. Within that period Japan's petrochemical industry burgeoned.

Foreign trade resumed in 1947. The 1949 Foreign Exchange Law gave MITI the right to control foreign exchange until 1964. MITI controlled licensing, which favoured Japanese companies. Japan imports 98% of fossil fuels and MITI also controlled the distribution of fossil fuels to industries, accommodating the ones deemed crucial to

¹⁴¹ See chapter 3 "Big Business"

national interests. By 1953 Japan's production, national income and consumption had returned to pre-war levels. Policy until 1973 was the promotion of exports and capital investment. (Yoshida S.,1998, P. 572) MITI established the Development Bank of Japan, the Long-Term Trust Bank and the Japan Import Export Bank (EXIM), setting up a system through which the banks could invest capital in industries so that companies could focus on long-term development.

Hugh Patrick describes Japan's economic growth:

“Between 1955 and 1973 the Japanese GDP increased almost six times in real terms. By the early 1970s Japan had become the world's third largest industrial economy (following the United States and the USSR) with per capita income comparable to Western Europe.” (1986, p10)

Japan's economy rose steadily until 1973 despite the fact that President Nixon abolished the conversion of the dollar into gold (“Nixon Shock”) in August 1971, which resulted in an appreciation of the yen from 360 to 308 yen per dollar. However, the end of the Bretton Woods system in 1973 and the adoption of the flexible exchange rate system, appreciating the yen even further, as well as the first oil crisis in October 1973, were two blows that forced Japan into a four-year recession and an end to smooth sailing for MITI's policies.

The Oil Shock took MITI completely by surprise. Its long-term plans for the energy intensive and heavy industries were brought to an abrupt halt. Industries such as shipbuilding, steel, chemicals, paper, aluminium and petrochemicals suffered structural problems. By that time MITI had relinquished control over foreign exchange (1964). Also, cheap technologies were no longer useful to maturing industries. MITI had no choice but to revise its long-term policy.

MITI's “visions”, released every ten years, show the changes in direction of MITI's industrial policy. A “vision” is defined by Robert Ozaki as: “...the Japanese version of

indicative planning intended to build consensus opinion among all segments of society concerning the country's industrial structure, to ensure continuity and stability of industrial policy."

(Ozaki 1984: p.55). The "vision" indicates the policies that MITI is planning and the industries that will receive specific guidance. A number of deliberative councils (*shingikai*) attached to MITI, the most prominent among them being the Industrial Structure Council, examine issues related to industry. Other councils include the Export and Import Transaction Council, Japanese Industrial Standards Council, Consumer Affairs Council and Small and Medium Enterprise Policy Making Council. The members are composed of leaders in industrial circles, consumers, academics, and representatives from national and local government. The members are asked to assess the direction of the economy and to suggest policy for the coming decade.

MITI's "vision" for the 1960s focused on heavy industrialization. The "vision" for the 1970s, influenced by the two blows to heavy industrialization, switched from heavy and intensive industries and promoted "knowledge-intensive" industry (e.g. computer). The "vision" for the 1980s encouraged industry to be "creative," and the "vision" for the 1990s changed direction from the promotion of industrial growth to "Creating Human Values in the Global Age." (Tsukamoto, 1994)

"Administrative Guidance" (*Gyoseishido*) and the Implementation of Policy Through the Bureaucratic Network

In Japan bureaucratic regulation of industry can be administered through the use of the policy instrument "administrative guidance." The tool is used *ad hoc* and at the discretion of the ministries. There are no laws that limit the number of times this tool can be used or for what purposes. As Ulrike Schaeede states:

"Rules can be implemented or revoked at the discretion of the ministry in charge, and without prior notice, hence the strong situational character of administrative guidance." (Schaeede U., 1995, pp.301)

“Administrative guidance” was first used by MITI in 1952 to order the formation of cartels of industries that were designated as being important to national interests such as heavy industries and petrochemicals. Nakamura Takafusa explains that the Antimonopoly Act was revised in 1953:

“...to allow the authorization of depression cartels and rationalization cartels, relaxed restrictions on such things as stock retention to corporations, interlocking directorships and mergers, and sanctioned retail price maintenance.” (1995, pp. 51)

MITI started using “administrative guidance” to protect industries from foreign competition even before the law was revised. After the oil shock in 1973 and the beginning of the recession, the problems with inflation and increased unemployment, MITI and other ministries sought to use the policy instrument to form antirecession cartels of such declining industries as aluminium and petrochemicals.

As stated above, the ministries can use guidance unfettered by legal sanctions. Usually companies will receive ‘requests’ or ‘notifications,’ which contain ‘recommendations.’ The requests are issued in written form or by telephone, although a law in 1997 formally curtailed the use of the telephone. Companies rarely reject guidance for a number of reasons but pressure from peers and acquiescence to elite authority and fear of retribution such as fines, rejection of permits and applications for patents and subsidies are primary considerations. Richard Katz writes:

“Indeed, efficient producers were often coerced to make cuts under penalty of government fines and industry association boycotts.” (1998 p.170)

If companies do not comply with guidance they may find that future applications for licenses, permits, patents or tax breaks may not be dealt with immediately. Ezra Vogel claims: **“...even if MITI eventually grants the necessary permission to an uncooperative company, the harassing tactics of delaying, requesting more information, raising more questions and creating uncertainty are ordinarily enough to inspire companies to be more cooperative.”** (1979, pp.73-74)

In many cases MITI's guidance is administered at meetings between elite officials at meetings and upper management in the industries where MITI plans to form cartels. The management in these industries can be ex-MITI officials, who have parachuted into those positions after their retirement from the ministry (*amakudari*: is discussed in chapter 6) and who were former colleagues of the officials giving the guidance. This network of elite ex-bureaucrats throughout business and elite bureaucrats in the ministries (commonly referred to as "old boys" or "OBs") creates an ideal environment for the use of "administrative guidance" as a policy enforcer.

Johnson contends:

"Who governs is Japan's elite bureaucracy. The bureaucracy drafts virtually all laws, ordinances, regulations, and licenses that govern society. It also has extensive powers of 'administrative guidance' and is comparatively unrestrained in any way, both in theory and in practice, by the judicial system. To find a comparable official elite in the United States, one would have to turn to those who staffed the E-Ring of the Pentagon or the Central Intelligence Agency at the height of the Cold War." (1995 P.13)

The Japanese deference to elite officials in the ministries facilitates the use of "administrative guidance" but the network of bureaucrats throughout the political economy perpetuates a rigid system and, coupled with ministerial power to implement policy with little intervention from the judiciary, can frustrate efforts to reform.

In his article "Success that Soured: Administrative Guidance and Cartels in Japan" Yamamura Kozo relates a story about a meeting between MITI officials and the directors of a steel company that originally appeared in the January 7, 1981 *Nihon Keizai* newspaper. The episode, a portion given here, illustrates the method of communication used when "administrative guidance" is given and how the network of ex-bureaucrats in business (*amakudari*) and their former colleagues in the ministries facilitates the implementation of policy.

“The Iron Steel Building in Nihonbashi, Tokyo. Around noon every Monday, elderly gentlemen arrive in black cars...They go to room 704, on the entrance of which is a sign reading, ‘The regular Monday Club Meeting.’ The members consist of eight major steel producers. They sit at a rectangular table around the section chief of the Ministry of International Trade and Industry, who is seated at the head of the table.

Ogawa, who heads the Iron and Steel Section of the Basic Industries Bureau of MITI, presides over the meeting. On his left is Vice President Ohashi of New Nippon Steel and on his right is Senior Director, Yamaguchi of Nippon Steel Pipe...after coffee the members listen to Ogawa’s presentation. The meeting ends after about an hour. The official name of the Monday club is the General Session of the Market Policies Committee. It was organized in 1958 and since then has served as a point of contact between MITI and Industry.

Vice president Ohashi is responsible for coordinating the industry view. Twenty years ago (circa 1960) the current president of the Japan Federation of Economics Organization (Keidanren), Mr. Imayama, now the chairman of the New Japan Steel Corporation had the job which Mr. Ohashi now holds. Among the ranks of the senior directors of the major steel firms are former MITI officers who ‘descended from heaven’ to these firms. Japan Steel Pipe’s Counselor Matsuo (former MITI vice minister), Sumitomo Metals President Kumagai (former MITI vice minister): Kobe Steel’s Vice President Kamatsu (former MITI vice minister)...”(Yamamura K.,1982, p.81).

Even companies in the giant *keiretsu* that have refused to comply with guidance experienced some form of retribution by the ministry that has issued the guidance. Ozaki gives a famous case in the 1960s:

“In 1965-66 MITI administratively instructed Sumitomo Metals to reduce production, allegedly to prevent excessive competition. Having just completed a new large-scale plant, Sumitomo refused to comply with the guidance. MITI retaliated by cutting down the coal import quota for the firm. Considerable tension arose between the two, although a compromise solution was later rectified.” (1984 pp. 63-64)

Daniel Okimoto claims that the use of “administrative guidance” has decreased since the 1970’s.but the policy tool continued to serve MITI well through 1980s. Schaeede claims

that the increase in the number of ex-MITI officials in the steel industry between 1983 and 1988 indicated that MITI used “administrative guidance” to implement the formation of cartels among steel manufacturers under the Structurally Depressed Industry Law:

“...steel makers had an incentive to hire OBs in order ensure stable market quotas, access to limited imports of raw materials, and lobbying with MITI against competing steel makers.” (1995, p.310)

Also, although Japan’s markets may be in the process of deregulation for some products, apparently MITI’s policy for the steel industry in the 1990s was the continued formation of cartels and Japanese businessmen supported policy as Mark Tilton confirmed in the article he wrote about how Japan’s steel industry benefits from cartels. He described a conversation he had with an executive from an electronics firm:

“...he praised MITI’s cartels to keep prices high in the steel and chemical industries from which his companies buy raw materials as ‘wonderful. We were afraid that the companies would go bankrupt.’ (1994, p.3)

Although it may be construed as informal, guidance can be given by ministries through their trade and industrial associations whose members feel obliged to follow ministerial policy such as purchasing supplies solely from domestic producers. Richard Katz claims that companies fear retaliatory measures if they do not comply. He gives Mitsubishi Heavy Industries as an example of a company that dared to purchase cheaper steel from a Korean firm (one-third cheaper than Japanese cartel steel prices) and was threatened by a cut-off of supplies and other punishments. (1998, p. 45)

“Administrative guidance” has clearly given MITI the power to implement policy and this power is derived from the network of ex-MITI officials in business.

Conclusion

The Ministry of International Trade and Industry (MITI), established in 1949 to revive Japan's war devastated industry, was a consolidation of the Ministry of Commerce and Industry and the Board of Trade. The Ministry of Commerce and Industry managed Japan's industrial growth before the war and controlled industrial production during the war, its name changing to the Ministry of Munitions.

Reacting to the Cold War and the threat of communist expansion in Asia the Supreme Command wanted a strong and conservative ally in the Pacific. SCAP allowed the bureaucrats, who had served during the war in the Ministry of Commerce, to plan and implement policy for industry in order to recover Japan's economy as rapidly as possible. The ministry was granted extraordinary powers to implement its policies.

MITI's policies during Japan's rapid growth period to 1973 were protectionist in nature, protecting domestic industries from foreign competition through the use of cartels for both domestic and export markets. MITI's policy tool, "administrative guidance" was used to compel industries to adhere to MITI's regulatory policies, particularly in the formation of cartels. The tool could be facilitated through the collaboration of MITI officials with their former colleagues, ex-MITI officials, who had parachuted into upper management positions in the industries that were in MITI's jurisdiction. The ex-MITI officers usually cooperated with MITI's guidance. "Administrative guidance" now must be transmitted by written recommendation and can no longer be given verbally, but there are also ways for MITI to guide industries "informally" through its industrial and trade association, its Special Status Corporations and public corporations where ex-MITI officials take upper management positions.

The new METI plans major changes in its future activities, becoming more involved in regional development and in promoting small enterprises. Although METI's organizational structure appears to have changed, the internal nature of the ministry will

remain in tact unless the rigid system that has continued since the end of the war is changed.

The METI has 903 public corporations, second only to the Ministry of Education. The ministries are vested with the power to administrate wide-ranging structural reforms, reforms, which include the public finance sector and Special Status Corporations and public corporations. Since the ministries rely on these corporations, it is unlikely that reforms will progress quickly to alleviate further government debt. As will be explained in the next chapter, the Japan National Oil Corporation, a METI Special Status Corporation, is slated for dissolution because of enormous debt. However, in reality its functions are being taken over by another METI Special Status Corporation, the Japan Metal Mining Corporation.

CHAPTER 5

SPECIAL STATUS CORPORATIONS

Introduction

In his book, *The Parasite That is Consuming Japan* (*Nihon wo Kuitsuku Kiseichu*) Iishi Koki contends that if his plans for structural reforms were followed, Japan would undergo change. (p. 97) Iishi, currently the vice-chairman of the Tokyo branch of the Democratic Party of Japan, feels that at the center of structural reform is the Special Status Corporations and public corporations, which he claims are a “swarm of parasites that is a hotbed of power” for bureaucrats and politicians. (p.22) He calls for the closure of these “administrative enterprises”. (p. 3)

Iishi claims that public corporations employ 3.86% of Japan’s population or 4, 900,000 people (p. 19)¹ He calculates that public funding to Special Status Corporations in 1999 was ¥3,082,154 trillion in comparison with 1990 when public funding was ¥2,308,645 trillion. The total amount received by Special Status Corporations rose from approximately ¥256 billion in 1999 to ¥258 billion in 2000. (p. 33) His book was published in 2001 when Japan’s public debt had reached 130% of the GDP. It is expected to reach 140% in 2002.

The October 10, 2001 edition of *Nikkei Shimbun* ran a front -page article of prime Minister Koizumi Junichiro’s intention to reform Special Status Corporations by cutting government funds to corporations by one-third and closely scrutinizing how loans were made to Special Status Corporations. His proposed reforms coincide with other structural reforms that would reduce public debt. However, Koizumi is encountering stiff opposition from members of his own party, the LDP, and from the ministries because of vested interests.

¹ Iishi claims that 49% of the population or 62,540,000 people are not employed (children, housewives, the physically and mentally disabled, the aged and the unemployed)

Iishi claims that, so far, there has been little movement toward reforms of any kind. The reluctance of the ministries to reform Special Status and public corporations, thus preserving their territory, and the continued support of ministerial conduct by the Japanese symbolizes the rigidity of Japan's political economic system that inhibits the implementation of reforms. This chapter defines Special Status and public corporations and explains how the ministries use them.

Definition

The ministries established Special Status Corporations after the war to aid in the reconstruction of infrastructure that had been destroyed by air raids and to assist in Japan's economic recovery. The corporations are in some way connected to the sectors that the ministries administrate and they are supported entirely or partially by public funds and tax revenue. After Japan's rapid growth, Special Status Corporations were no longer necessary and should have been dismantled but the ministries continued to operate them. (Iishi K., 2001, p. 22) They were established according to "the law for the establishment of Special Status Corporations" which is neither a civil law nor a law that pertains to the establishment of private corporations. The Ministry of Public Management, Home Affairs and Posts and Telecommunications states that Special Status Corporations are:

"...corporations that were founded directly through special establishing acts brought about by special laws which are subject to Article 4, subparagraph 15 of the Ministry of Public Management, Home Affairs, Posts and Telecommunications Establishment Law (Law No. 91 of 1999)."²

(February 17, 1997 *Zenkakutsuke Tokushuhojin/Categorizing Special Status Corporations Nikkei Business* p 24)

However, there is no clear indication of conditions for establishment and there are no general lists available for examination. Currently the Japanese government counts the number of Special Status Corporations at 163.

² October 2001

Until recently the terms “public corporation” and “Special Status Corporation” were interchangeable and Special Status Corporations fit into the general category of public corporations or *koeki hojin*. According to a government report released this year (*Koeki Hojin Hakusho/ White Paper on Public Corporations*)³ there are more than 26,000 public corporations. The national government ministries manage over 7,000 while 19,000 are managed at the local level. The Japanese categorize “public corporations” as being foundations (*zaidan*) and associations (*shadan*) that can be connected to Special Status Corporations and can receive funding from Special Status Corporations. Other types of public corporations that also fall within the classification of Special Status Corporations are: 1) *kosha* or publicly-owned utility companies 2) *kodan* or state-run corporation that are involved in construction 3) *jigyodan* or corporations that involve everything except construction 4) *koko* or public finance corporations 4) *kinko* or public corporations where loans are made from capital supplied from the public and private sectors 5) *eidan*, only one which is the Tokyo Metropolitan Transit Authority 5) *tokushukaisha* or corporations that are funded with both public and private funds such as Japan Airlines and the Tohoku District Development Company. (Johnson C.,1995, pp 135-136)

Special Status Corporations receive funds from investments from the Postal Savings Agency, a state-run banking system.⁴ The collection agency is the Ministry of Home Affairs and Posts and Telecommunication. The dispersing agent is the Ministry of Finance. Since the funding is not made primarily from tax revenue, Special Status Corporations are not required to make public disclosure of their budgets. However, tax revenue is also a source for supplementing budgets.⁵

³ November 2001 www.soumu.go.org

⁴ Many Japanese prefer the Postal Savings Agency because it offers slightly higher interest rates than private financial institutions. They also feel secure because government controls the institution.

⁵ March 28, 2002 *Asahi Shimbun*

The Special Status Corporations that are involved in construction and finance also receive funds from the Fiscal Investment and Loan Program (FILP)⁶ that is often referred to as Japan's "secondary budget." Iwamoto Yasushi of the Institute of Economic Research, Kyoto University defines FILP:

"The term of 'Fiscal Investment and Loan Program' first appeared in the 1953 Budget. The postwar FILP system was based on two laws enacted in 1951. Since the center of FILP was the Trust Fund Bureau, we call it in the Trust Fund Bureau system. Filp is a financial activity of the public sector. It is a big financial conglomerate operated by the public sector...The largest part is postal savings. Another important part is the public pension fund."⁷

Various public institutions receive funds from FILP. Among them is the Japan Highway Corporation the other highway construction corporations. Gillian Tett, reporter for the Financial Times wrote in the March 29, 2000 edition:

"The Japanese will need to inject about 5,000 bn yen (30bn pounds) of taxpayers' money into state-run infrastructure projects to cover hidden losses, the Ministry of Finance has estimated. Those needing subsidies include the Japan Highway Corporation, the Road Building Agency, and the Housing Loan Corporation, the state mortgage leader. This 5,000bn yen project marks a striking break from the past, since until now the ministry has usually denied that these projects would need subsidies. This is because they were funded by postal savings deposits, through a system known as the Fiscal Investment Loan Program (FILP), and were supposed to be completely safe. And although FILP projects play an important role in the Japanese economy, their accounts have remained opaque."

As public debt spirals upward (130 % of 2001 GDP) FILP is facing a drastic downsizing. In the 2002 budget FILP is estimated at ¥26.79 trillion or a cut of 17.7%, marking the biggest reduction in its history.

⁶ FILP report available at www.mof.go.jp/zaito/zaito2001.html

⁷ Kyoto University Symposium on the Changes in the Japanese Economy Facing the New Century (November 2001 University of Edinburgh)

Demands for the Reform of Special Status Corporations and Public Corporations

The February 1997 *Nikkei Business* article on Special Status Corporations was published when media was focusing on corruption in the ministries, particularly in regards to funding of Special Status Corporations and the *amakudari* system in Special Status Corporations and public corporations. The article claimed that, although Special Status Corporations are founded on the precept that the work executed serves the interests of the nation, the exact opposite is true. Among the reasons given were: 1) Special Status Corporations receive funding from sources that are difficult to trace, 2) Special Status Corporations can set up subsidiaries (*kogaish*, *magogaisha*) that show profits even though the parent corporation may be in debt, 3) the ministries establish Special Status Corporations as well as their subsidiaries to provide temporary employment for staff (*shukko*) or temporary postretirement positions for retired senior officers before they migrate to positions in the private sector (*amakudari*). Currently civil servants are required by law to wait for two years after retirement before taking positions in the private sector. However, they are free to take positions in Special Status Corporations, receiving a salary while receiving postretirement benefits from their former agencies, 4) Special Status Corporations spend funds to do work that is in the best interest of corporations (e.g. ministries).

The *Nikkei* article carried a graph that shows that there were seventy-nine Special Status Corporations in 1997, employing 831 civil servants and 528, 553 staff. The budgets in 1997 for these Special Status Corporations were also subsidized by the National Treasury to the amount of £16.8 billion and from other public funds £190.4 billion.

Using 1994 statistics, the graph showed that there were 332 public corporations. (*koeki hojin*), that received £1.39 billion in subsidies from the National Treasury and 658 corporations that received £80 million from trusts. These public corporations were said to employ 151,394 civil servants in management and 191, 779 staff. 1,014 of the public corporations are connected to Special Status Corporations and 240 corporations receive

funds directly from Special Status Corporations. The lowest section of the graph indicated that senior officials from the ministries migrated from Special Status Corporations to positions in the private sector.

There is an interview with Kato Kan, the director of Chiba Commercial College, who emphasized that the financing of Special Status Corporations through public funds (i.e. 34 billion yen) is the big problem because the ministries have the power to use the funds at their discretion without entertaining discussion in the Diet and politicians who want to direct work such as construction to businesses in their districts can ask the Special Status Corporations for funds (i.e. provide contracts for infrastructure construction and so forth).

Kato also complained that there is absolutely no disclosure by Special Status Corporations regarding postretirement positions for civil servants (*amakudari*) and accounting. He claimed that the Special Status Corporations subsidiaries (*kogaisha* and *magogaisha*) provide postretirement positions as well, but this information was not easily available to the public. The accounting system for Special Status Corporations was difficult to understand because the method of keeping accounts differed from private corporations. Mr. Kato recommended that Special Status Corporations be converted to private corporations. (p 28)

Iishi Koki agreed with Kato that Special Status Corporations bred subsidiaries, which he called “family companies.” (2001 p.26). He also pointed to the Special Status Corporations that local governments establish with local public funding. These corporations are involved in tourism and leisure, culture, education and agriculture and can provide postretirement positions (*amakudari*) for local government officials. Iishi counted 6, 615 ex-government officials in these organizations. He also pointed to

temporary posting (*shukko*) in these corporations for civil servants,⁸ counting 33,243 civil servants (p. 94)

Public Disclosure

The discrepancy in numbers as well as information regarding the administration and administrative costs of Special Status Corporations and other public corporations can be attributed to the difficulties in accessing data regarding Special Status Corporations⁹. First and foremost there is the problem of disclosure, as Mr. Kato pointed out. Until 1999 and the Law Concerning Access to Information Held by Administration Organs (*Gyosei Kikan no Hoyu Suru Joho no Kokai ni Kansuru Horitsu*) the ministries were not compelled to make public the budgets or operating expenses of their organizations. For example, there is no extant list of corporations that MITI has established since the end of the war. Although Special Status Corporations have websites, which offer information about the activities engaged in by the organizations, there is little material available on how they were funded and their annual expenditure. Nevertheless, Article 42 Information Disclosure by Independent Administrative Institutions and Public Corporations merely states that:

“...in accordance with their character and type of business, the government shall take necessary measures such as legislative measures relating to the disclosure of information in order to promote the disclosure and provision of information of information held by independent administrative institutions and public corporations.”¹⁰

Indeed, the government is still in the process of analysing how Special Status Corporations and public corporations will declare information regarding administrative activities but it claims that:

⁸ These position can become permanent

⁹ In October 2001 some of the Special Status Corporations, including JETRO, released their budgets for 2002 and these can be accessed on the Internet. (JETRO.org.jp: “Special”

¹⁰

...”there is an ongoing effort to disclose the operation and accounting contents of public corporations by establishing an access room for the data on public corporations.”¹¹

Secondly, as will be discussed in the third chapter, the Japanese are reticent to share information outside their specific group (i.e. division or institution). Unless research is done within the group, it is exceedingly difficult to gather information about activities the group is engaged in. The phrase, “information sharing” has become popular among corporate executives who are trying to promote a more transparent environment in their firms but realistically, the habit of sharing information with the public will take years to develop. The study below is given to illustrate the difficulty of accessing pertinent information from a Special Status Corporation.

Study of the Reticence to Share Information

In 1997 JETRO New York received notice that there would be a formal audit of JETRO books as well as the books of other Special Status Corporations and ministries (Japan Highway Corporation, Ministries of Construction and Health and Welfare, etc.) that had posted representatives in JETRO’s office. The announcement was made ten days prior to the audit. This was the first time that JETRO would undergo a government audit. Following the announcement, the writer observed that there was a frenzy of activity throughout the office that included the shredding and disposal of many documents. The conjecture can be made that the audit was a mere formality, executed to satisfy members of the opposition parties. Ironically, although JETRO may have not been entirely forthcoming with data, the audit together with the recession may have resulted in the subsequent closure of representative offices of such public corporations as the Japan Bicycle Promotion Corporation (MITI). Also, JETRO’s office moved within the next two years to a smaller space in the same building, despite the fact that the office had undergone major renovations a year before the audit.

¹¹ ibid

Thirdly, before the 1990s the majority of Japanese grudgingly accepted the fact that bureaucrats establish public corporations for the benefit of their ministries. The common view was that the salaries and retirement benefits of civil servants were lower than for corporate executives and that the prospect of earning a good salary after leaving the civil service would be an incentive to enter the ministries. The voices of opposition to the system went unheeded while Japan's economy was on the fast track

Proposed Reforms for Special Status Corporations

The October 10, 2001 edition of *Nikkei Shimbun*, ran a front page article on Prime Minister Koizumi Junichiro's intentions to reform special status corporations by cutting government funds to special status corporations by one-third and closely scrutinizing loans made to special status corporations. The proposed reforms coincide with other proposed reforms such as the loosening of regulations and tackling the problem of non-performing loans in order to restore Japan's ailing economy.

According to Julie Norwell in her December 2001 article for the *Oriental Economist*, in June 2001 Koizumi targeted 163 "special" public corporations for eventual review. The government now grants ¥5 trillion (\$42 billion) annually to 163 "special" public corporations.¹² The reform starts with the elimination or consolidation of seven debt-ridden Special Status Corporations.

At Koizumi's request, the ministries reviewed how the largest Special Status Corporations were spending funds in an effort to cut wasteful spending. Ota Seiich, former director of general affairs for the Coordination and Planning Agency and currently director of the LDP office for the promotion of reforms contended that one-third of the funds government gives to Special Status Corporations is wasted.¹³ So far, the ministries have agreed to eliminate or consolidate seven. Among them are Housing Loan Corporation, the Urban Development Corporation and the Japan National Oil

¹² Norwell J. (December 2001) *The Oriental Economist* p 7 The writer does not specify which corporations are Special Status Corporations

¹³ *Nikkei Shimbun* October 10, 2001

Corporation (JNOC) and the Japan Highway Corporation (JH) Three debt-ridden highway-construction corporations, the Metropolitan Expressway Public Corp., Metropolitan Expressway Public Corp., and the Shikoku-Honshu Bridge Authority, which manages the Kurushima Bridge (discussed in chapter 6 in Study of Ehime Prefecture), are to consolidate operations with the JH. However, Koizumi faces stiff opposition. His state minister, Ishihara Nobutaru recommended reforms for only one-third of the public corporations, which forces Koizumi to throw-out his original plan of cutting in half ¥5 trillion in government subsidies and lowering his targeted amount to ¥1 trillion. Even this reduced amount is too high for ministries to stomach. So far recommended cuts stand at ¥580 billion.

1. The Japan Highway Corporation¹⁴

The Construction Ministry established the Japan Highway Corporation in 1956 to manage the construction of major highways and toll roads throughout Japan. It is a huge *kodan* that contracts firms to do the construction. The JH as well as the other corporations slated for consolidation finances projects with government funds and loans from the Fiscal Investment and Loan Program (FILP, *Zaisei Toyoshi*) and repays the debt with revenue from highway tolls (November 21, 2001 Bloomberg Professional) Prime Minister Koizumi wants to privatise the Postal Savings Agency because of the ways funds have been dispersed to both FILP and to Special Status Corporations. However, reform of Postal Savings will affect funding to FILP and in 2000 FILP loaned the JH ¥2.1 trillion and the Housing Loan Corporation ¥10.4 trillion. Tax revenue cannot refinance these loans. Before the Postal Account Agency can be reformed an alternative way to finance these enormous loans must be found.

Ryuichiro Hosokawa, former managing editor of the *Mainichi Shimbun* contended that the reason the JH should be dissolved is:

¹⁴ [www. Jhnet.go.jp](http://www.jhnet.go.jp)

“...because its highest posts—including president, vice president and directors—are held by former Construction Ministry bureaucrats. As most of them lack management skill, it’s no surprise that the corporation continues to lose money. The argument that a public corporation can be allowed to operate at a deficit does not hold water. The highway corporation’s top executives should resign and refrain from accepting their retirement allowances. The same can be said of other public corporations.”¹⁵

Koizumi wants the debts incurred in highway construction paid within thirty years instead of fifty years but he may soften his stance and accept repayment in fifty years.

2. The Japan National Oil Corporation¹⁶

MITI established the Japan National Oil Corporation in 1967 to secure oil and natural gas supplies. The JNOC also receives funds from FILP. The corporation states: “JNOC has actively assisted Japanese oil companies through the following functions:

Providing up to 70% of the risk capital through equity share investment and low-interest loans to Japanese oil companies for overseas and offshore oil Japan oil and gas exploration.

Granting loan guarantees of up to 60% of development capital financed by banks to Japanese oil companies.

Conducting geological and geophysical surveys.

Gathering information concerning oil and gas activities.¹⁷

The reason for the dissolution is that the corporate debt from oil exploration was substantial (£7.8 billion in outstanding loans) but these losses were not disclosed until the JNOC was revised in 1998. (Kuji T.,1998 p.104) In addition, there are complaints about MITI retirees migrating to the JNOC for two years and then moving on to oil corporations that have a relationship with the JNOC.

¹⁵

¹⁶ www.jnoc.go.jp

¹⁷ *ibid*

The June 11, 1998 edition of *Sankei Shimbun* reported on the jostling among MITI elite officials for the position of president after president Komatsu Kunio retired. Komatsu, who handed in his resignation after almost six years as president because of the outstanding debts, had been Director General of the MITI Assembly but had no experience in energy administration. The Minister of Commerce and Industry stated that if the next president was not an economist with experience in energy administration the corporation could not be restructured.

The position of president of the JNOC was traditionally a postretirement post for either former MITI Administrative Vice-ministers or MITI Vice Ministers of International Affairs (*shingikan*). At the time that Komatsu was moving towards taking a second three-year term, there was talk that former Administrative vice-minister Tanabashi Yuji, also a former director of MITI's Deliberative Council (currently chairman of the Association of New Energy) was to succeed him but Komatsu continued to serve. The talk in the ministry was that Tanabashi had enough influence to gain the position. The names of former directors of MITI's Deliberative Council, Hatayama Noboru (currently president of the Japan External Trade Organization) and the Director General of the Oil Bureau in the Agency for Natural Resources as well as Sakamoto Kichihiro, once the head of MITI's Deliberative Council (currently an advisor at Mitsubishi Bank) were raised also. Since there was criticism of *amakudari*, the reshuffling and Komatsu's resignation, a person from the private sector also was in the field for appointment but tradition prevailed and MITI officials continued to serve as president. The current president is Kamata Yoshiro, a former MITI official.

The reform of the JNOC seems little more than the elimination of the name. Operations will be continued by another METI public corporation, the Metal Mining Agency.

The government has divided the largest Special Status Corporations into ten categories: There are twelve public corporations (*kodan* and *shadan*) with the JH and JNOC among

them, sixteen public enterprises (*jigyudan*), among them is the Enterprise for International Economic Cooperation. There are nine finance corporations (*koko*). In this category is the Japan Finance Corporation for Small Businesses. There are two state-run financial institutions (*kikin*) comprising the Development Bank of Japan and the Export Import Bank of Japan (EXIM). The largest category is “others” (*sono hoka*). The Japan External Trade Organization is included in this category, managed by the Ministry of International Trade and Industry (MITI)

MITI'S Special Status Corporations

The government claims that the number of Special Status Corporations total 163 but Kuji Tsutomu totals the number of public corporations, foundations and associations (those receiving public funding) throughout at 26,000 organizations. He claims that the Ministry of Finance manages 900 of them. He contends that all of the organizations offer positions for elite bureaucrats and that the results of a survey released to the public by the Office of the Prime Minister shows that in of December 1997, 7,080 ex-bureaucrats had migrated to 2,6089 public corporations. (Kuji T., 1998, p. 118)

Tsutsumi Kazuma, who is the director of the Council of Labour Unions for the Liaison With Special Status Corporations, claims that the number of corporations, associations and agencies established by MITI is eight hundred and ninety four, slightly less than as was reported in the *Asahi Shimbun*. The discrepancy may be due to the ambiguity in the definition of Special Status Corporations and public corporations and the laws under which they have been established. Tsutsumi regards all of these organizations as potential landing spots for ex-bureaucrats. He lists each division and the number of organizations under its management. (2000, pp.140-141)

1. Cabinet Director-General: 9
2. International Trade Policy Bureau (related to): 35
3. Trade Policy Bureau: 26
4. Industrial Policy Bureau: 93

5. Environmental Protection and Industrial Location Bureau: 30
6. Basic Industries Bureau: 55
7. Machinery and Information Industries Bureau: 203
8. Consumer Goods Industries Bureau: 204
9. Agency of Natural Resources and Energy: 82
10. Patent Office: 7
11. Small and Medium Enterprise Agency: 27
12. Agency of Industrial and Science Technology: 37
13. Trade, Commerce and Industry Bureau 85

Taking the Basic Industries Bureau as an example, among the Special Status Corporations, institutes and associations under its management are the Development Bank of Japan, Economics Institute of Japan, Institute for International Business Communication, Japan Federation of Economic Organizations (Keidanren), the Distribution Systems Research Institute and the Japan Department Stores Association.

The top seventy-seven Special Status Corporations are managed by seven ministries and the Cabinet. They have websites that display some facts and figures regarding partial expenditures for 2000 and 2001, number of employees, organization and the names of management. MITI is said to manage twelve. The Japan National Oil Corporations, the Shoko Chukin Bank, and the Electric Power Development Corporation (EPDC).¹⁸ are FILP agencies and there are proposals that they and the other FILP agencies be privatised. Other MITI Special Status Corporations are the Japan Finance Corporation for Small Business¹⁹ and the Japan Small and Medium Enterprise Corporation (JAMEC).²⁰ These agencies also receive funds from FILP. There is the Japan Corporation for the Promotion of Bicycles, the Japan External Trade Organization

¹⁸ www.epdc.co.jp

¹⁹ www.jfs.go.jp

²⁰

(JETRO),²¹ the New Energy and Industrial Technology Development Organization (NEDO)²² and the Japan Regional Development Corporation, Japan Overseas Development Corporation, the Japan Corporation for the Research and Development of Nuclear Power, and the Corporation for Metal Mining. Shima Nobuhiko adds one more with the Japan Promotion of Small Automobiles {e.g. racing cars} (p 195)

The Japan Finance Corporation for Small Businesses

The Japan Finance Corporation for Small Business founded in 1953 and has ¥410.9 billion in capital resources, is a primary lender to small businesses, giving long-term, low-interest loans. Its budget comes from the Fiscal Investment and Loan Program (FILP). As of March 31, 2001 there were 1,751 employees and sixty offices throughout Japan, one in New York and one in Kuala Lumpur.²³

The Japan Small and Medium Enterprise Agency

The Japan Small and Medium Enterprise Agency was a consolidation in 1999 of the Small Business Credit Insurance Corporation and the Japan Small Business Corporation and the transfer of the Textile Industry Restructuring Agency.²⁴ The capital is 3.5 trillion yen and there are 948 employees. There are nineteen domestic offices, one at JETRO New York, one at JETRO Bangkok and one at JETRO Shanghai. The objective of JAMEC is to help small business upgrade structure by providing loans, jointly operating businesses and “collective establishment of factories and stores, etc.” There are programs to help the textile industry to restructure and to support the internationalisation of small businesses. There is the Mutual Relief System for Small Scale enterprises with 2 million subscribers (funds total ¥7.4 trillion) and the Mutual Relief System for the Prevention of Bankruptcies in SMEs (410 thousand subscribers with loans totalling ¥343 billion. Businesses request loans from the JAMEC through

²¹ See appendix 4

²² [www..nedo.go.jp](http://www.nedo.go.jp)

²³ www.jfs.go.jp

²⁴ The textile industry, a declining industry, is heavily subsidized by government

local government authorities who, in turn, request the loans from the JAMEC. The local authorities receive the loans from the JAMEC and pass the funds onto the businesses.

As an example of Special Status Corporation subsidiary organizations, the Electric Power Development Co. Ltd. has ten (see appendix) The EPDC has a Holding Company, and Industrial Company, EPDC Environmental Engineering Service Co., Ltd., EPDC Coal Tech and Marine Co. Ltd., Kaihatsukoji Co., Kaihatsu Computing Services, Co., Kaihatsudenki Co., KEC Corporation, KDC Engineering Co., and EPDC Overseas Coal Co. The Japan External Trade Organization has “family corporations,” among them research institutes and foundations (such as the Japan Economic Foundation (JEF) and the Asia Research Institute (mentioned above).

Conclusion: Demands For Reform

In 1994 when Prime Minister Maruyama was attempting to reform Special Status Corporations, the *Mainichi Shimbun* conducted a survey of 1,780 employees in seven Special Status Corporations that had been established by the Ministry of Construction. They were asked questions regarding the *amakudari* of ex-civil servants who comprised 80% of the staff. 38% felt that *amakudari* was a very bad influence and should be stopped. 29% felt that it could not be helped because of the current state of affairs. 7% felt that the system was necessary. 33% of the employees answered that the ex-bureaucrats did not serve any purpose as opposed to 7%, who answered that ex-bureaucrats did serve a purpose. 50% of the employees felt that ex-bureaucrats were slightly helpful. (*Mainichi Shimbunsha*, 1994, p.183)

In 1995 the now defunct Sakigake Party proposed a number of reforms for Special Status Corporations as well as smaller public corporations that Koizumi is now proposing but the Sakigake’s proposals went a step further with the suggestion that the Japan External Trade Organization merge with the Asia Research Institute, a “family

corporation.”²⁵ Koizumi’s proposed reforms for Special Status Corporations have succeeded in weakening the stance of the opposition parties, who approved Koizumi’s “blueprint to privatise seven major government-backed corporations”²⁶

The opposition parties have been calling for the reform of *amakudari* and Special Status Corporations. On April 16, 1998 Yamashita Yoshiki, a member of the Japan Communist Party (JCP) and former member of the Lower House in the National Diet wrote in his monthly column that elite ministry officials should not be allowed to stay over a certain period of time in Special Status Corporations where they receive high salaries along with their retirement benefits. To illustrate *amakudari* in Special Status Corporations he gave the example of MITI’s Japan External Trade Organization where six out of the nine top officials had come from MITI via *amakudari*. He stated that his party wanted a law that would prohibit *amakudari*.²⁷

The JCP announced in the March 15, 2001 edition of “Red Flag” that since 1996 the party has demanded that *amakudari* in both private and public corporations be abolished. It claims that there are no regulations in effect that limit the intimate relationship between retired civil servants and civil servants in the ministries. The JCP wants a law that requires civil servants to wait at least five years before taking positions in both private and public corporations. The JCP calls for the termination of benefits they receive from their corporations when they migrate to other corporations. The party wants the institution of a more democratic structure and the establishment of a watchdog committee to oversee the *amakudari* system.²⁸

In October 2001 the most influential opposition party, the Democratic Party of Japan, together with the Socialist Party and the Free Party called for a number of reforms that echoed the demands of the JCP. The parties called for not only sweeping reforms of

²⁵ January 9, 1995 *News Asahi*

²⁶ November 23, 2001 The Japan Times Online

²⁷ www.yamashitayoshiki.net/

²⁸ www.jcp.or.jp/akahata

amakudari in both private and public corporations but also restrictions on retired civil servants taking positions on advisory boards of corporations.²⁹

Koizumi's efforts to reform Special Status Corporations may be more lip service rather than the implementation of substantial structural change. The former Secretary General of the Liberal Democratic Party, Nonaka Hiromu, claimed on October 3, 2001 doubted that Koizumi's proposed reforms were little more than indicating that particular organizations must change but that there has been little discussion. Nonaka wondered how the problems of *amakudari* would be addressed since the Chief Cabinet Secretaries of the ministries choose the officers who will work in Special Status Corporations and public corporations. He claimed that the civil service system must be changed first before the problems of *amakudari* could be resolved. (October 4, *Mainichi Shimbun Mainichi Interactive*) Indeed, Shima Nobuhiko, an economist and former reporter for the *Mainichi Shimbun*, claims that senior officers in the ministries continue to make new public corporations and then "dig up" posts in those corporations for fellow officers. (Shima N., 2000, p 193)

On March 28, 2002 the *Asahi Shimbun* reported that as of 1999 there were 12,872 public corporations (*koeki hojin*) and 13,482 foundations, far more than was revealed in the *Nikkei* article. According to a government report issued in 2000, there were 6,112 elite bureaucrats ("OB") working in 2,428 corporations. However, the *Asahi* claims that official reports do not reveal the real picture and that official accounts may only divulge as little as 5% of elite bureaucrats who take postretirement positions. The report states that as of 1999 among the twelve ministries, the Ministry of Education took first place, managing 1,821 *koeki hojin*, the Ministry of International Trade and Industry came in second at 903, the Ministry of Transportation managed 849 and the Ministry of Finance managed 849.

²⁹ www.dpj.or.jp

The following chapter examines the *amakudari* system as well as ministerial use of Special Status Corporations for *amakudari*

CHAPTER 6

AMAKUDARI, Yokosuberi, SHUKKO, and KONE: The Ties That Bind “the Ruling Triad” and Serve to Rigidify the Political Economic System

Introduction

The chapter is designed to show how elements explicit to Japan’s political economy will perpetuate an organic dependency between the Japanese and their governing system. There is discussion of the *amakudari* system in the private sector, *yokosuberi* or “sideslip” to Special Status Corporations and public corporations, the temporary transfer of ministry personnel to local government and branch offices of public corporations in the provinces (*shukko*), and the informal and formal personal connections (*kone*) in business and government.

The National Public Service Law stipulates that retiring bureaucrats must wait two years before they are eligible to take positions in private industry, which is commonly known as *amakudari*. However, bureaucrats can take postretirement positions in Special Status Corporations, public corporations and other associations that have been set up by the ministries immediately upon retirement. This function is known as *yokosuberi* or “sideslipping.” Also, they can work in these organizations for one or two years while they are still engaged by their ministries and then migrate to the private sector after the formal two-year waiting period has ended. Another option at bureaucrats’ disposal is that they can remain in these organizations while holding positions in private industry. One of the main objections to Special Status Corporations and public corporations is that they facilitate the smooth migration of bureaucrats into the private sector.

There are examples of *yokosuberi* to Special Status Corporations that facilitate the migration of bureaucrats into private business and *amakkudari* by ex-bureaucrats into national and local political office, educational institutions and ministerial research institutes.

In order to illustrate the importance of having the right connections in Japan a case study is provided about how the president of a medium-size chemical company effectively uses his connections with government to procure funding for research and development. A second case study illustrates how a former governor used his connections with bureaucrats in the ministries to procure subsidies for public works. A third case study illustrates how MITI officers gain postings at JETRO's largest overseas office through their connections in MITI.

Definition

The literal translation of the term *amakudari* is “descent from heaven” referring to the practice of ex-bureaucrats taking postretirement positions in private corporations, Special Status and public corporations and political office. Along with their pensions, ex-bureaucrats receive full salaries from their new organizations and some ex-bureaucrats simultaneously serve in two organizations. *Amakudari* was not a part of the political economic system until the 1930s when the government began tightly regulating the economy for the war effort. Kent E. Calder explains:

“Firms began to need intelligence concerning the plans of bureaucrats and the opportunity to deal freely with them. Rapid expansion of the number of ex-bureaucrats in the Diet of a heavily regulated economy and a rapid increase in the demands for government service created a pressing need for mediators between bureaucrats and the general public...” (1989, p 381)

The tradition continued after the war. Through the network of ex-bureaucrats, the ministries, which are unfettered by legal sanctions, are able to implement policies without undo restraints. J.A.A. Stockwin states that *amakudari* is:

“... is an entrenched institution driven by structured bureaucratic interests, and also that it is a control feature of the way politics and government work in Japan.” (1999, p.108)

The *amakudari* system secures the power of the ruling triad but the resulting network also rigidifies the political economy.

The Japanese call their country, “bureaucrats’ heaven” because of the postretirement positions and additional salaries waiting for elite bureaucrats after their careers in the ministries. However, it is important to distinguish between the rank-and-file civil servants, who work diligently without reward and the elite, who receive special compensation. During the 1990s as the recession deepened the Japanese began objecting to *amakudari*, claiming it frustrates reform and promotes corruption since it serves to extend ministerial controls over territory through a network of elite civil servants and ex-civil servants, who support the policies of their former ministries. Johnson contends:

there can be no doubt that the need for post-retirement *amakudari* has weakened the overall independence of the Japanese civil service. There can also be no doubt that, over time, the continued practice of *amakudari* contributed to serious corruption as was revealed in 1993, in the bribery and bid-rigging scandals throughout the construction industry.” (1994, pp 142-156)

According to a public survey conducted by the *Mainichi Shimbun* in 1994 when Japanese were particularly disenchanted with bureaucrats 60% favoured the discontinuation of the *amakudari* system.

Amakudari is considered a catalyst for the policy instrument “administrative guidance.” In the 1950s when new energy-intensive industries developed, MITI staff found that *amakudari* was inclusive to the method of administration. Kazuma Tsutsumi claims: “... **it was at this time that a system was established by which administration was done through OBs who had descended from the upper echelons of MITI.” (1994, p.128)**

The policy instrument is still in use and *amakudari* helps in its implementation. Stockwin agrees:

“...there is no doubt that *amakudari* together with other bureaucratic practices such as *gyouseishido* (administrative guidance) have led to the emergence of an economy which is unusually highly regulated by government. This remains the case, despite a considerable degree of deregulation in certain areas of the economy that has taken place in recent years.” (1999 p. 108)

Even without the formal use of administrative guidance, the elaborate web itself of bureaucrats and ex-bureaucrats can be a mechanism, which automatically induces consent to guidance.

***Amakudari*: Rules and Regulations**

The National Personnel Agency places retiring bureaucrats into private and public corporations. The ministries also place staff in corporations under their jurisdiction. Edward Lincoln claims that this compromises bureaucrats when planning policy:

“The very act of ministries negotiating with the private sector over placement of officials introduces an additional element of favour swapping; firms may agree to take (possibly unwanted) officials in exchange for other favours (such as protecting domestic market share against foreign competition).” (1999, p 192)

However, the National Public Service Law states that retiring civil servants cannot take a position in a corporation they used to regulate for two years. Therefore, retiring bureaucrats will first migrate to Special Status Corporations before moving on to the private sector. This process is known as *yokosuberi* or “sideslip.” (Shaede, 1995, p.297) Lincoln claims that these organizations serve as: “...a place to park these officials until they can legally move to industry.” (1999 p.192)

Although not considered to be literal *amakudari*, the transferring of civil servants for up to four years in Special Status Corporations and various public corporations (*shukko*) is yet another means by which the central ministries control Japan’s political economy. Johnson contends:

“Another cause of concern is the tendency for public corporations to pre-empt the functions of local government in many areas. More and more of daily life have been drawn back under control of the central government...” (1995, P 134)

The network of rank-and-file bureaucrats on loan to branch offices of public corporations helps the ministries to monitor local government policies and to ensure that regional policies that have been planned by the central ministries are implemented. In addition, some of the Special Status Corporations are related to infrastructure construction (Ministry of Construction’s Japan Highway Corporation) and regional development (MITI’s Corporation for Promotion of Regional Development) through which regional businesses can access contracts and subsidies. The temporary posting of civil servants ranked above the *kacho* class in prefectural governments (*haku-tsuke*) also serves to control the implementation of central ministerial policy at the local level.

Amakudari to the Private Sector

One of the incentives that draw Japanese to careers in the civil service is the opportunity to take postretirement positions in private and public corporations that bring an additional salary with ministry pensions. The postretirement positions offered to ex-bureaucrats from the two economic ministries, the Ministry of Finance (MOF) and MITI are in banks (Tokyo-Mitsubishi both national and regional, securities firms (Nomura, Nikko, and Sanwa) and insurance companies (Dai-ichi, Sumitomo, Mitsui, and Chiyoda). For example, Tsustumi Tomio, a former MITI administrative vice-minister is on the board of directors at Sanwa Bank. Officials from MOF tend to focus more on the finance-related industries. Securities firms are primary employers.

For MITI elite officials, upper management positions during the period of rapid growth were mainly in the industries that they were protecting from foreign competition as well as the industries that were exporting. These industries included textiles, steel, retail, automobiles, metals, petrochemical, chemical, and electronics. The tradition continued

after the rapid growth period. Lincoln, who wrote about the affects of *amakudari* on Japanese trading practices contends that even in the 1990s:

“The *amakudari* system provides substantial reason to be sceptical of the extent of deregulation and the unilateral market opening in Japan because of the manner in which this practice establishes a broad web of personal ties between government and Japanese firms.” (1999, p.129)

Examples of ex-MITI staff, who have parachuted to positions in the private sector are given below in the section, “*Amakudari* in Special Status Corporations.”

MITI’s intervention in the petroleum industry and *amakudari* in petroleum companies is prolific (Ooyama K., 1996, p.199). Kazuma records *amakudari* in such firms as Cosmo, Abudabi and Indonesia.(see below) Calder records that the Japanese subsidiaries and affiliates of multinational oil companies such as Mobile and Shell have hired ex-MITI officials as advisors. (July 1989, p.389) The electronics, retail, and automobile (Mazda, Toyota, Nissan and Honda among them) industries provide postretirement positions for MITI officers.

MITI still manages the public utility sector and positions have always been available in the electric, gas, and nuclear power industries. The positions in corporations range from chairman of the board, vice-president, advisory board member, etc. For example, Yamamoto Teiichi retired from MITI in 1989 and migrated to Osaka Gas as an advisor and then serving as a director. Nagata Hideki retired in 1993, migrating to Kansai Electric Company in 1994 as an advisor. (Tsutsumi K., 2000, *Kyodai Shocho* pp.148-149)

Postretirement positions in the affiliates of multinationals have been forth coming since the 1980s as more firms tried to break into Japanese markets. Foreign corporations like IBM Japan began hiring MITI officials to gain leverage with the Japanese government. According to Calder, IBM Japan hired Nebashi Masato, former senior managing director

of both MITI's industrial policy research institute and very large scale integration (VLSI) electronic circuitry research association and Ozu Shuji, former director-general of MITI's Tokyo regional bureau. Both men joined IBM in the late 1980s when IBM was eager to enter the Japanese market but faced stiff competition from Fujitsu:

“IBM was beginning to diversify into information service business requiring special regulatory authorization and MITI's protégé Fujitsu had just passed IBM during 1979 to become the largest producer in Japan. Counting its three senior ex-MITI officials, IBM Japan's personnel roster throughout the early and mid-80s included more retired bureaucrats than any domestic Japanese computer firm.” (1989, p 389)

Calder claims that small and medium sized enterprises hire ex-bureaucrats as well. Small businesses account for 99% of all business activity in Japan and are identified as having fewer than 100 employees and capital of 30 million yen. Calder states:

“For the Japanese private organization, as for their counterparts elsewhere, the consequences of interdependence with government has been a perceived need to influence government and thus reduce risk to the firm created by the unpredictability of state regulatory policy. In the case of Japanese firms, this desire has intensified since the 1950s by two special circumstances: highly leveraged corporate strategies made riskier by high fixed price labour and capital costs and the increasing importance to Japanese firms of unpredictable events overseas.” (1989, pp. 379-380)

However, Calder does not give statistics that give an estimate of the number of ex-bureaucrats in small business.

Calder contends that the closer a small business is to Kasumigaseki the easier it is for businesses to establish firmer relationships with ministry officials and be able to influence decisions regarding regulations as well as to access subsidies. The owners of small enterprises who are outside the radius of the Capital have more difficulty in maintaining relationships with bureaucrats, therefore, it is beneficial for businesses

located far from the seat of power to hire ex-bureaucrats “...to manipulate and induce predictability in their political environment.” (1989, p 381)

Small businesses are wise to hire ex-bureaucrats whose prior work involved such areas as licensing, patent applications, permits for joint ventures with foreign firms, loans and subsidies. Gaining patents can be particularly troublesome for small businesses because of competition from larger firms who use various tactics to frustrate patent applications. (Ibata-Arena K., 2000, p. 230)

***Amakudari* to Special Status Corporations**

Calder wrote in 1989:

“Postretirement movement of bureaucrats in the kodan [Special Status Corporations] supplies the overwhelming majority (76.5%) of the management level officials of government corporations; such as relatively low status groups and broadening access to the political process for groups without significant connection to it.” (p 390)

Although the government has not categorized all associations and corporations that receive public funding as Special Status Corporations or public corporations, the network of these organizations that are used for *yokosuberi* and *amakudari* is immense, as stated in chapter 5. According to Murakawa, in 1994, 817 elite ex- civil servants were employed in Special Status Corporations and 214 were employed in foundations (*zaidan* and *shadan*) and other public corporations. (*koekidan*) (1994 p. 77) However, these numbers do not take into account the industrial associations where ex-MITI staff migrate as well.

In 1989 Okimoto described MITI’s organizations as:

“...intermediate organizations, which extend the tentacles of state throughout the private sector.”
(p. 41)

He defines them: “**Informal intermediate organizations**—those not requiring special legal dispensation—include industrial associations, business federations, MITI advisory councils, Diet member caucuses, and countless study groups, linking MITI officials with leaders from industry, banking, the legislative branch, the mass media, labour, and academics—the core centre of power in Japan.” (p. 42)

He claimed that the organizations create a positive environment for the implementation of industrial policy. In the case of MITI, the numbers of ex-bureaucrats who find positions in MITI-run organizations are said to be large, although there are no statistics available that reveal the actual number (Ooyama K.,1996, p.38). It is interesting to note that the Ministry of Finance increases the budgets of ministries that open their public corporations to MOF retirees. (Johnson C.,1982, p. 68) It is not uncommon to find MOF officials serving in MITI organizations such as the Japan External Organization (JETRO) and the Japan Finance Corporation. On the other hand, MOF does not ordinarily open the doors of its organizations to the other ministries.

It is important to note that, although the law regarding postretirement positions in the private sector stipulates that bureaucrats must wait two years before taking a position in a private corporation, bureaucrats can migrate first to Special Status Corporations or public corporations while still officially employed by their ministries. In other words, since they no longer have a formal position in their ministries and are physically separated from Kasumigaseki, they appear to have “retired.” Also, ex-bureaucrats can take positions in Special Status Corporations while simultaneously serving in management positions in private corporations.¹

The banks that MITI established to support industrial growth such as the Development Bank of Japan, the Long-term Bank of Japan and the Japan Import Export Bank (EXIM) were used for *yokosuberi* and *amakudari*. The following examples point to the use of

¹ See section on JNOC in this chapter for the reference to Komatsu Kunio

Special Status Corporations by MITI for the purpose of *yokosuberi* as recorded by Tsutsumi Kazuma in 2000. (pp.146-175)

1) Toyoshima Toru became a director of the Japan Import Export Bank in 1982. He retired from MITI in 1984, assuming the position of vice-president at Cosmo Oil, continuing on as the president of Abudabi Oil and then as the chairman of JETRO. He is currently serving as the Chairman of the Japan Economic Foundation (FEF), a corporation linked to JETRO.

2) Shibata Masao became the vice-president of JETRO in 1984. After retiring from MITI in 1985 he became managing director of Kansai Electric² and then vice president.

3) Sato Mitsuaki served as president of JETRO New York before retiring from MITI in 1986. He became a director at Hecksto Japan, a private firm.

3) Yoshida Fumitake retired in 1988 to become an advisor at the Patent Agency and the Japan Import Export Bank. He then became an advisor at Tokyo Gas,³ rising to the position of a director.

4) Kawasaki Hiroshi was the director of research at the Economic Planning Agency in 1988. After retirement in 1988 he first migrated to director of the Import Export Bank of Japan. He later went to a position of an advisor at Tokyo Electric⁴ where he rose to the position of vice-president.

4) Kitagawa Yukimasa served as president of JETRO New York in 1988. After “officially” retiring from MITI he served as the director of the Research Institute for

² Utility companies are managed by MITI

³ Utility company

⁴ Utility company

Global Industrial Culture, the Chairman of JETRO, then onto a directorship at IBM Japan and the chairman of the Association of Petrochemical Industry.⁵

7) Takase Kazuo was the president of JETRO Paris before retiring from MITI he migrated to Taisei Kensetsu, a construction company, as an advisor.

8) Kubogawa Isao served as the president of JETRO Bangkok in 1990. After retirement from MITI he assumed the position of managing director of Tobu Department Stores.⁶

9) Takashima Nobutake served as president of JETRO Paris before his retirement in 1990. He entered politics and won a seat in the Upper House of the Aichi Prefecture Diet as a member of the LDP.

10) Yamamoto Teiichi was the director of the Development Bank of Japan in 1990. After retiring in 1991 he migrated to Kawasaki Steel, a private corporation, where he served as managing director.

11) Minamigaku Masaaki assumed the position of advisor at the Japan Import Export Bank in 1992. After retiring in 1993 he became an advisor for the Mitsubishi Electric, a private corporation.

12) Nakao Shunichi served as president of JETRO London before he retired in 1992. He migrated to the Association for the Promotion of New Offices, serving as director and then to Nichimen Corporation where he served as counsellor.

13) Kuroda Naoki assumed an advisory position at the Bank of Tokyo in 1992. After retiring in 1993 he became an advisor at Sumitomo Trading Company and then managing director.

⁵ This is a case of *amakudari* into a private company (IBM) and a MITI industrial association.

⁶ MITI manages the retail sector.

14) Okamatsu Sozaburo assumed the position of advisor at the Long-term Bank of Japan in 1993. After retiring in 1994 he took a teaching position in the University of San Diego Graduate School and then a position of advisor at the Long-term Bank of Japan, a MITI Special Status Corporation.

15) Kawada Yoki became the president of the Development Bank of Japan in 1994. He retired from MITI in 1995 (current position not recorded).

16) Nakata Tetsuo assumed the position of the Director the Japan Import Export Bank in 1994 and retired from MITI in 1995 (current position not recorded)

17) Aogawa Yuji served as director of the Organization for Overseas Economic Cooperation in 1995. He retired from MITI in 1996 (current position not recorded).

18) Takashima Me retired in 1994, migrating first to the Foundation for the Promotion of Machinery as an advisor and then onto Sumitomo Marine Insurance, a private corporation.

19) Fujiwara Munehirata served as Japan's Ambassador to Bulgaria in 1995. After retiring he became the managing director of Sharp, a private corporations. He also served as director of the division for overseas planning. (p.169)

20) Maeda Masahiko migrated to the Bank of Japan where he served as a member of the committee for strategic planning. He retired in 1995, moving on to an advisory position at the Association of Japanese Mutual Insurance Companies, advisor at Tokyo Mitsubishi Bank and as the director of the Shoko Chukin Bank.⁷

⁷ This is a case of *yokosuberi* first in a state bank and then *amakudari* into both a private financial institution and a MITI Special Status Corporation.

21) Kobayashi Atsushi was the director general of the Economic Planning Agency before he retired in 1996. He migrated to the Association for the Development of Machinery, a MITI industrial association.

22) Wakamatsu Shigezo served as the director of the alcohol bureau and general affairs in a MITI Special Status Corporation, New Energy and Industrial Technology Development Organization (NEDO) before he retired in 1996. He migrated to managing director of the Association of Engineering for the Management of Information Systems, a MITI industrial association.

Study of Yokosuberi and Amakudari : The JNOC and the Petroleum Industry

The petroleum industry involves four specific activities; the exploration and production of crude oil, the exportation and importation of oil, the refining of petroleum products such as kerosene and gasoline and the sale of crude oil and petroleum products. Domestic firms engage in exploration, production and refining of crude oil as well as exporting and importing of oil in cooperation with foreign firms. The foreign firms hold the largest percentage of the investment. Foreign companies such as Shell and Arabian also sell petroleum products in Japan. (Ooyama K., 1997 p 199)

MITI oversees the energy-producing industries, among them oil. It controls the import and refining of crude oil through federations of oil producers such as the Kagoshima Federation for Oil Exploration, the Federation of Oil Producers, Japan Petrochemicals, the Japan National Oil Corporation (JNOC) and so forth. These organizations connect MITI to the oil refiners who distribute to retailers and to consumers. The Japanese petroleum companies form groups to execute most of the activities listed above but they have difficulty selling the petroleum products they manufacture because of competition from foreign manufacturers. (p 201)
Government regularly intervenes in order to support price stability

In the first chapter it was explained that the JNOC⁸, established in 1967 for the development of oil exploration, is one of the Special Status Corporations that the Koizumi administration has slated for elimination. MITI and MOF have used the corporation regularly for amakudari. When the JNOC revealed that it had 7.8 billion pounds sterling in outstanding loans in 1998, Komatsu Kunio resigned. However, the vice-president, the director, and the director of finance, all of who had been ex-MOF officials, continued in their positions. (KujiT. 1998, p.104) Before he resigned from the JNOC, Mr. Komatsu, who retired from MITI in 1986, was an advisor for the Long-term Bank of Japan. He then served as a member of the board of directors at Nissho Iwai, later rising to vice-president and then to vice-chairman. Mr. Atara, who retired from MITI in 1995, assumed the post of managing director of the JNOC in 1996, continuing the MITI line.

MITI and MOF ex-bureaucrats also use the JNOC for yokosuberi to private oil companies. For example, Katsutani Tamotsu served as the president of the JNOC in 1981 before moving on to the position of advisor at Indonesian Oil, rising to the position of vice president and, then, finally, to the chairman of the board. Simultaneously he served as the president of the Oil Mining Federation and the chairman of Northern Oil. Matsuo Yuhiko served as the President of the JNOC in 1989 before migrating to Indonesia Oil, serving as an advisor and then as president. Matsumoto Koji⁹ was appointed director-general of the JNOC in 1990. He then went on to Saitama University to teach Policy Science. In 1991 Fukuzawa Koji became the director-general of the JNOC and then moved on to the Japan Steel Pipe Co., serving as a director. (Tsutsumi K., 2000, pp.147-148)

As was stated above, postretirement positions for ex-MOF staff are commonly found in organizations operated by the other ministries. MITI's organizations such as Japan

⁸ See chapter 5 for study of JNOC

⁹ See chapter 4, pg. 110 for review of Matsumoto's book

Finance Corporation for Small Businesses, Japan National Oil Corporation and JETRO provide postretirement positions for MOF officials. (Kuji T.,1998, p 94)

***Amakudari* To Research Institutes**

According to the *Mainichi Shimbun*, ex-MOF administrative vice-ministers migrate to research institutions that have been established by their ministry. The institutes are established for the promotion of understanding and research. The companies that use these institutes are counted at 82 banks, securities firms, and trading companies (1994, p.202) The ex-bureaucrats receive salaries.

This is also the case for MITI officers. There is *yokosuberi* and *amakudari* into research institutes that are funded by Special Status Corporations. For example, when Tanabashi Yuji¹⁰ retired in 1991 he entered the Industrial Research Institute, using the office and secretarial staff for private business. Funding came from two of MITI's Special Status Corporations, the Japan Corporation for the Promotion of Bicycles and the Japan Corporation for the Promotion of Small-sized Automobiles (racing). The director of human resources contended that Tanabashi's work at the institute was related to research. (p.203) The following are examples of *yokosuberi* and *amakudari* by MITI officials in MITI-connected research institutions as given by Kazuma:

1. Kodama Koji retired in 1989, migrating first to the Institute for Industrial Research as an advisor before going to Sumitomo Metals where he served on the board of directors and then vice-president.
2. Tanabashi Yuji, administrative vice-minister, retired in 1991. In 1993 he became an advisor for the Industrial Research Institute.
3. Kumano Hideaki, administrative vice-minister, retired in 1994 and migrated to the Industrial Research Institute.

¹⁰ See Chapter 2 p. 73 for further details on Tanabashi

4. Tajika Yu served as the president of JETRO Paris in 1986. After he retired he migrated to the International Economic Research Centre, serving as the director (p. 165)
5. Okumura ... retired in 1996, migrating to the NEDO Research Institute for Industrial Technology. He moved on to Japan Mining as an advisor.

Shukko to Local Government Governments: An Extension of Ministerial Control

Ministries send staff on temporary assignment (*shukko*) to the prefectural governments. The ministries contend that officers learn about the region where they are posted during their tenure and serve as a pipeline to central government. However, in reality, they can act as watchdogs for their ministries (*haku-tsuke*) and, consequently, become tools for controlling policies at the local level. Also, their positions can develop into permanent positions. (*Mainichi Shimbun*, 1994, p 268) Furendera Jains writes:

“Japanese scholars argue that this system of transferring central officials to prefectures is most certainly a product of national distrust of local administration. These officials serve as an important channel of communication between ministries and prefectures. (1987, p.16)

Since the prefectures generate on the average one-third of their budgets, local governments are beholden to central government for loans and subsidies for health and welfare, education, and public works. This is commonly known as “30% autonomy.” The director of the Kyoto Prefectural Government Representative Office at JETRO New York from 1995-1998 felt that the central ministries regarded prefectures as “beggars.”

Jains contends that the Japanese have been educated to believe that local governments are dependent on central government authority:

“Most of the textbooks prescribed for high school students and university undergraduates in Japan emphasize the dependence of local government and depict local bodies more as administrative units (*gyosei kikan*) than as independent, autonomous policy making organs. Thus the conventional wisdom or the textbook approach relies heavily on the dominant theme of dependence and centralization.” (1987 p. 14)¹¹

The Council on Local Authorities for International Affairs (CLAIR) releases the annual publication “Local Government In Japan” that explains the structure of local government and its relationship to central government. Section 8, page 7 of the first chapter of the 1999 edition suggests that Jains’ contentions are correct.

“The philosophy underlying the Local Autonomy Law is that the interference by central government should be kept at minimum and should consist of advice, recommendation and technical support. In reality, the central government’s involvement in local government affairs is extensive. However, the process is not wholly one-way. Just as local authorities seek approval and subsidies from various government agencies, those same ministries and agencies need information from local authority.”

The Negative and Positive Aspects of *Shukko* to the Prefectures

Officials from the central ministries are posted in the capitals of prefectures in local government offices as well as in government offices throughout each prefecture. In 1993 the *Mainichi Shimbun* conducted a survey of local government officers for their views regarding having officers from the central ministries in their midst. According to the survey, as of December 1, 1993 there were 770 officials ranked above the *kacho* level posted in prefectural governments. (p. 268) Some prefectures such as Ishikawa (known as the Kamsumigaseki of the North) had as many as twenty officials from central government posted within its borders.

¹¹ The Ministry of Public Management, Home Affairs and Posts and Telecommunications manage the Council on Local Authorities for International Affairs (CLAIR) that represents prefectural governments overseas. There are offices in London and in New York City. Local governments post staff in these offices to promote business from their areas while elite officials from the ministry manage the offices.

Mainichi Shimbun interviewed local government civil servants from Iwate Prefecture (17 staff from central ministries) regarding the merit of the temporary posting of staff from the central ministries in their offices. They answered that ministry officers have “know how and information” and that as part of the “clan” (*jinpa*) from central government they have easy access to information from Tokyo. Also, they provide additional staff where there is not enough local staff. When asked about the negative aspects, they answered that the ministries mistakenly assume that their officers are posted to direct policy. Also, *shukko* by too many staff from the ministries stultifies their organization. (pp 273-274)

When officers in middle management (*kacho* class) in Yamanashi Prefecture Government were interviewed, they stated that some of the officers sent by the central ministries were very fine but there were also officers who did not make the grade. They also felt that it would be for the best if the number of staff were reduced because now there were exceptional officers in local government who were being developed.

Mainichi Shimbun illustrated the intimate connection between central and local government through *shukko* by pointing to the Tokyo Metropolitan Government, which has thirty-six officers from the central ministries on temporary duty. Among them twenty-six officers were not involved in any of the work being done by Tokyo Metropolitan government officers. In an interview to *Mainichi Shimbun*, Narita Koku, a *kacho* in Human Resources, explained that the posting of central ministry officials was really like borrowing a sun visor (*hisashi kashi*). In other words, local government must request favours (e.g. protection) from central government and, therefore, should cooperate with central government (p 274)

At the end of 1993 *Mainichi Shimbun* sent another questionnaire regarding *shukko* in the prefectures to one hundred officers above the *kacho* class in sixteen central ministries and politicians serving in the upper and lower houses of the Diet. 41% members of the Upper House answered that *shukko* was necessary because it provided a pipeline to

central government. 33% were opposed to the system. Interestingly, only 5% felt that officers from the central ministries were skilful at administration.

Naturally, members of conservative political parties besides the Liberal Democratic Party such as *Komeito*, *Shin Nihon* and *Sakigake* were in favour of *shukko* because it tied central government closer to local authorities. Conversely, all members of the Communist Party were opposed and 57% of members of the Socialist Party were opposed. (p 276) Views on *shukko* by the opposition parties included: 1) The numbers of officers sent to the prefectures should be regulated by law 2) Local government should try to think in terms of self-government 3) Elite civil servants should be cultivated by local government. Kawamura Ichiro agrees with *Mainichi Shimbun* that even though politicians in the National Diet talk about devolution in the prefectures, this will not occur because of the transfer (*shukko*) of elite civil servants to prefectural governments. (p. 78)

Mainichi also conducted a national public survey regarding *shukko* to local governments in 1993. 41% of people surveyed were opposed to *shukko* while 40% were in favour when it was necessary. Other answers given as well as those completely permissive of the system totalled only 3%.

Shukko by bureaucrats into Special Status Corporations with branches in the prefectures also serve as control mechanisms over local politics. Many of the top Special Status Corporations have extensive networks throughout the country, among them the Japan Highway Corporation, the Japan Finance Corporation for Small Businesses, JETRO, and the Corporation for the Promotion of Regional Development. Bureaucrats from the ministries serve as directors in these branches (*haku-tsuke*) and can monitor as well as influence local government policy.

Shukko to Other Government Agencies Can Also Serve as Yokosuberi

Older officers from the elite ranks can be sent to other agencies ostensibly for temporary duty but these positions can lead to positions in the private sector. For example, the ties between the Defence Agency and MITI's wartime predecessor, the Ministry of Munitions, have been beneficial to MITI officials. Tsutsumi Kazuma gives an example of Eguchi Hiromichi, who in 1977 was sent to the Defence Agency to serve as director of the Equipment Division and then moved on to The Japan National Oil Corporation (see below) before entering Arabian Oil as the president and then as Chairman. He became a consultant for the oil company when he took the position of managing director of the Japan Association of Defence Industries. Eguchi's predecessor as director of the equipment division in the Defence Agency in 1978 was Mabuchi Naozo, who after retirement migrated to Sony Corporations as an executive director. In 1982 while Wata Yutaka was serving as director of the Equipment Division he also served as the managing director of the Foundation of Overseas Economic Cooperation from where he migrated to Chairman of Sharp Corporation. In 1990 Seki Osamu simultaneously served as director of the Equipment Division and Director-General of MITI's Small Business Agency. He migrated to Tokyo Marine Insurance Company and Nihon Soken, serving as an advisor and then he took the position of Executive Director of Sumitomo Electric. The companies that employ MITI officials who have served in the Defence Agency consequently develop an intimate relationship with the Defence Agency. (Tsutsumi K. 2000, p.138)

Shukko and Amakudari to Public Universities

The Ministry of Education, Culture, Sports, Science and Technology manage Japan's national, prefectural and city universities. The majority of the professors are regarded as government employees (komuin) and they are guided by strict regulations. For example, professors are not allowed to own businesses. If they want to take a sabbatical or conduct research abroad, the ministry provides the funding. At times an official will accompany professors when they lecture overseas as was the case when professors from Kyoto University gave a seminar at the University of Edinburgh on November 30, 2001.

Shukko serves to remind professors that their benefactor is present. Both public and private universities depend on government subsidies for support and, therefore, “invite” bureaucrats to teach classes. Some ministries post staff at universities for three years. An example of *shukko* is Mr. Maegawa Toru, a MITI officer, who is an electronic engineer and who was posted at JETRO New York from 1993-1996 as the director of Industrial Electronics. He is presently serving as a lecturer for three years in Waseda University’s Global Information Telecommunications Institute (GITI). He teaches about the Internet and e-commerce. Waseda’s graduates include three former Prime Ministers, the most recent of whom was Mori. An example of *amakudari* in a university is former president of the JNOC Matsumoto Koji who retired from MITI in 1991. He migrated to Saitama University, a state-run university, to teach policy science

***Amakudari* to Political Office**

A major reason why MITI and MOF have been able to implement policy with relative ease during Japan’s post-war economic growth is the continuous support from the National Diet that has been dominated by a single party, the Liberal Democratic Party (LDP) since 1955. Although there have been exceptions, such as Kyoto Prefecture which had a communist administration for thirty years, the LDP has also dominated prefectural politics. Okimoto contends that one reason for this phenomenon is that ex-bureaucrats run on the LDP ticket and win seats in the national and prefectural Diets.

“Of all the LDP representatives elected to the lower house from 1955 to 1984, 21 percent hailed from bureaucratic backgrounds, an astonishing proportion given the limited number of officials leaving the higher civil service each year. The LDP has enjoyed a monopoly over the recruitment of ex-bureaucrats.” (1988, p.316)

An example of this type of *amakudari* is the case of Takashima Nobutake, who retired from MITI in 1989 after serving as executive director of JETRO Paris. He then won a seat in the Upper House of the Aichi Prefecture Diet. (Tsutsumi K., 2000, p 164)

Big business and business federations make large contributions to the LDP campaign coffers. The LDP gets votes from traditional support groups such as small local businesses, and from interest groups involved in construction, transportation and telecommunications in exchange for funds lined up for public works projects, procurement and subsidies. Evidence of this kind of “pork barrel patronage,” as Okimoto calls it, is in the expenditure of the stimulus packages released by government since 1991 to ignite Japan’s stagnant economic growth. Some Japanese were unhappy with how the funds were appropriated as Gillian Tett reported in the January 25, 2000 issue of the Financial Times:

“...elite Japanese in Tokyo, for example, complain that spending has been too heavily biased in rural areas on “pork-barrel” projects and some local citizen groups argue it is imposed by central planners without consultation. But the ruling Liberal Democratic Party (LDP) has refused to stop spending, fearing it would cost rural votes.”

As has been pointed out earlier in this chapter, the small business sector accounts for about 99% of all companies and 78% of all employees.¹² MITI manages the small and medium-sized business sector. The owners support LDP candidates with large contributions. In return the businesses can benefit through subsidies from state-run financial institutions like the Japan Finance Corporation.

In July 1994 there were twenty-six ex-bureaucrats who were serving as governors, all members of the LDP. Seventeen of them migrated from the Ministry of Home Affairs. (*Mainichi Shimbun* p. 262) Officials in top management serve not only as governors but also as the vice-governors of the larger prefectures. Officers of the *kacho* class, who have some influence, will serve as vice-governors in the medium-size prefectures. Even though they may not have influence, officers of *kacho* ranking may also serve as vice-

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governors in the medium-size prefectures. They also will serve as the directors of general affairs in governors' offices. (Kawamura I.,1994, p.79)

KONE

Although *Kone* ("connections") is not directly related to either *amakudari* or *shukko*, personal connections or veins of personal ties (*jinmyaku*) play an important role in Japanese daily life and is a key ingredient in the glue, which binds the ruling triad together. Even getting an appointment with a good doctor requires an introduction. This is also true for gaining employment in a good company. Without a personal recommendation, it is very difficult to gain entry. Japanese, who do not have the appropriate connections to big business may opt to enter a central ministry (1994 Interview Director EID/MITI JETRO New York)

Karel van Wolferen emphasizes that success depends on who one knows. He writes:

"In upper levels of society, the *kone* multiply to form whole networks of special relationships. These may derive from one-time favours, school ties or shared experiences, or may involve intricate mutual back-scratching deals." (1990, p.110)

Van Wolferen points to professional marriage brokers who arrange marriages between the daughters of wealthy industrialists and budding bureaucrats that perpetuate special cliques (*keibatsu*). Politicians will marry the daughters of older politicians to strengthen their position within the LDP and young bureaucrats marry the daughters of high-ranking bureaucrats to secure better positions within their ministries. He states:

"Without informal contacts the top administrators cannot fulfil what they are expected to accomplish. The actual power of a highly placed Japanese depends on his *jinmyaku*...A minister without an elaborate *jinmyaku* is worthless to his ministry and his clique within the LDP." (p 110)

Japanese, who are lower in the social hierarchy, must strive harder to cultivate connections and spend a great deal of time and energy in accommodating those people who are ranked higher than themselves in the effort to enter their group.

Wolveren looks at the marriages between daughters of prime ministers and sons of the presidents of large construction companies to illustrate the tight ties between the construction industry and the LDP. For example, former Prime Minister Nakasone's daughter married the son of the president of Kajima. Former Prime Minister Takeshita's relationship with the construction industry is illustrated by the marriage of his daughter to the son of the president of Kanemaru. His half-brother, who served as his secretary, married the daughter of the owner of a medium-sized construction company. Wolveren claims:

“Shortly after he became prime minister, Takeshita's own prefecture, Shimane, were included in the first draft of the 1988 budget.”

Wolveren also points to Ehime Prefecture as the beneficiary of Takeshita's administration: **“The local government of Ehime prefecture, which elected to the Diet the construction minister in Takeshita's first cabinet, was similarly happy to discover that its proposals for public works projects had been accepted in the first budget draft.”** (1989, p 119)

The case study on Ehime Prefecture at the end of this chapter shows how Ehime's governor used his connections in central government during Takeshita's administration and during the 1990s to aid in the procurement of subsidies for public works.

Close-ups of Amakudari, Shukko and Kone: Business and Government

The following three studies are given to illustrate the significant role that *amakudari*, *shukko*, and *kone* plays in the lives of business owners and bureaucrats. The studies are the result of empirical research executed by the writer from 1993-2001.

The research for the first study was conducted in 1999, 2000 and 2001. In 1998 the writer went to Japan to interview the owners of small and medium-sized businesses in the high-tech industries about how they were coping with the recessions. Officers of the Japan Finance Corporation for Small Business arranged the tour.¹³ After the initial meeting in 1998, the writer continued to communicate with some of the businesses, including the chemical company below. She returned to the chemical company in 2000 and 2001 to interview the president and CEO as well as some of his staff. After extensive observation, the writer understood that the right connections with government and big businesses are vital to the well being of smaller businesses.

Study of the Use of Amakudari and Kone By A Medium-Size Chemical Business¹⁴

Although solid management, a consistent corporate strategy, product diversification and expansion into overseas markets have been important factors for this chemical company's survival during Japan's prolonged recession, the founder and the current CEO also needed direct connections with central government and big business in order that their company sustains long-term growth.

Corporate Profile

The Tokyo-based company was established in 1941 as a manufacturer of specialty chemicals, produced for the military effort. The Ministry of Commerce and Industry administrated the chemical industry during the war and since the company produced for the war effort it remained in good standing with MITI after the war. This

¹³ www.jfs.go.jp

¹⁴ Interviews conducted in April 1998, December 200 and May 2001.

relationship helped to pave the way for accessing loans for R&D from MITI. The company received a number of subsidies from MITI for R&D between 1952-1977. The company currently ranks 37th in earnings among 537 chemical producers in Japan and 17th among chemical producers in Tokyo. It is an unlisted company. There are 700 employees, 170 staff is in Japan. Production facilities are located in Portugal and China. Sales offices are located in India, Malaysia, Thailand, Hong Kong, South Korea, Portugal, Switzerland and the Netherlands. Research and development are done in Japan.

The founder of the company, who was the current CEO's father-in-law, did not think it wise to compete with larger chemical manufacturers. His strategy was three-pronged; to open a niche in the Japanese marketplace by bringing in new technologies from overseas, to manufacture new chemical products that could be sold domestically and, eventually, in overseas markets and to expand operations overseas. For many years the company focused on the production of florescent paint, growing to a 60% share of the world market (presently 5% of corporate profits).

His son-in-law has continued this strategy. Twelve years ago, confident that his company had achieved a strong position in the domestic market, he began to take measures to internationalise the distribution of products and to diversify into other areas such as electronic components, pharmaceuticals and products connected to biotechnology. The company has two research facilities near Tokyo.

The company invests approximately 5% of annual profits in R&D. However, expenses for research are costly and additional funds, namely bank loans and subsidies from MITI (as stated above) or from MITI- run organizations that accommodate small and medium enterprises are necessary. The applications for such subsidies entail the submission of reports regarding the research and after due consideration, funds are released. Detailed accounts on the progress of the research are also required and the results of the research are MITI's domain. Although MITI contributed funds

amounting to 5% of perspective sales, the sums were insufficient and other loans were sought after from banks and MITI-run agencies such as the Japan Finance Corporation for Small Businesses.

In order to facilitate distribution in Europe and the United States, the company has engaged in a joint venture with Nissho Iwai, the giant trading company that has solid distribution channels in those areas. According to the president and CEO, the venture is beneficial to both firms because Nissho Iwai does not manufacture florescent paint. Nissho Iwai provides investment and distribution while the company provides the technological information and the production know-how. He feels that the best ventures occur between companies that rely the other's products or services. Corporate policy for joint ventures is that the company owns 50% or more of the stock to maintain control. The company also has joint ventures with Takeda Pharmaceuticals and Seiko in Japan and with Osan in Hong Kong.

The Use of Amakudari and Kone to Ensure Corporate Growth

1. Amakudari

The company received loans from the Japan Finance Corporation for Small Businesses over a number of years. Undoubtedly, having a former employee from one of MITI's Special Status Corporations on board to serve as the company's Senior Managing Director and General Manager of Executive Affairs gave the company a direct pipeline to the Japan Finance Corporation and to MITI for subsidies, licenses, permits and patens. The CEO advises that the company's legal fees for patent applications are substantial.

2. Kone

The CEO uses substantial time and energy cultivating the right mix of connections in both business and government. A graduate of Waseda University, he is a friend of former Prime Minister Mori, who is also a graduate of Waseda. The CEO is the president of his district's Chamber of Commerce and Industry (managed by MITI's

Industrial Policy Bureau) and is also the vice-representative of the Japan Finance Corporation for Small Business's Client's Association.

When his company tied up with Nissho Iwai, he hired one of its employees who had been posted in Portugal for many years and who knew the protocol for doing business in Europe. The hook-up is another direct link to MITI because Nissho Iwai, as a trading firm, is in MITI's jurisdiction and MITI officials take postretirement positions in the company. For example, Komatsu Kunio retired from MITI in 1984. As stated above in he took the position of advisor for Nissho Iwai after serving for two years as advisor for the Long-term Bank of Japan. He climbed to the position of vice-president at Nissho Iwai and then to vice-chairman. He also served simultaneously as the president of the Japan National Oil Corporation.

The CEO does not take his network for granted and works diligently to maintain and extend his connections. He knows that far-sighted corporate strategy and intelligent corporate management by no means guarantee success in Japan. He knows that the right connections is crucial to the survival of any business and he has wisely used the amakudari system and his connections to gain a firm position in not only the domestic market and but in overseas markets as well.

In any country having close connections with central government officials can lead to more business for local firms. However, it has become evident from government debt that funds from the fiscal stimulus packages released since 1992 served no more than to keep unemployment low and to build infrastructure that is not being used effectively.¹⁵ The writer focused on Ehime Prefecture because of the former governor's close relationship with officials in the ministries as Karel van Wolferen described above. The writer went to Ehime in 1998 and 2000 to conduct research regarding small business activity and to visit FAZ and the Kurushima Bridge to see how both local and public

¹⁵ See footnote 21

funds were being used. Ehime Prefectural government officers accompanied the writer on both visits.

Study of Ehime Prefecture Illustrating the Relationship Between Central and Local Government and Pork Barrel Patronage¹⁶

Iga Sadayuki, the former governor of Ehime, was a staunch Liberal Democrat and an officer in the prefectural government before he ran for governor. He was governor for twelve years until he lost the election in April 1999. He actively sought close relationships with the ministries, tapping into subsidies that afforded his prefecture a convention centre, an international airport, highways and the Kurushima Bridge that links Ehime with Hiroshima on the main island of Honshu.

Ehime is the largest of four prefectures on the island of Shikoku, the smallest of the four major islands of Japan. Located on the northwestern side of Shikoku, the smallest of the four major islands in the Japan Archipelago. Ehime is approximately 5,677 square kilometres and has 162.5 kilometres of coastline, the fifth longest in Japan. The population is a little over 1,500,000. The capital, Matsuyama, has a population of 450,000. (1999 Ehime Prefecture Government statistics)

Ehime's primary industries are agriculture, forestry and marine products. The prefecture has the highest production of mandarin oranges and the largest harvest of cultured pearls and fish. Ehime is a major producer of extruded fish products

Ehime's secondary industries are mining, construction and manufacturing of paper pulp and paper, textiles, marine equipment, industrial machinery, electrical equipment and electrical components. There is also shipbuilding and petroleum refining. Tertiary industries are the service and financial sectors and real estate.

¹⁶ Visits to Ehime organized by the Ehime Prefecture Government in April 1998 and December 2000.

Ehime's taxes generates about 36% of local taxes, making it reliant on central government loans and subsidies for public works, education, health and welfare and so forth. Ehime does not have enough industry to support the issuance of bonds.¹⁷

The Ties That Bind Ehime To MITI

Although a few of Japan's larger prefectures such as Osaka and Hyogo opened representative offices overseas in the early 1980s to promote regional businesses, most prefectural governments did not open offices until the mid to late 1980s when small businesses, were being encouraged by MITI to seek markets overseas. The easy access to low-interest rate loans and the confidence that their country was overtaking the United States economically encouraged small and medium-size enterprises to follow big business abroad. Local tax revenue and contributions from small business associations that were under MITI's management funded the one-man representative offices in some of the eighty overseas branch offices of the Japan External Trade Organization (JETRO). Regrettably, in most cases, the representatives were unprepared to operate in foreign environments and interact with foreign businessmen. Unlike their counterparts in the central ministries, they did not have the opportunity to study and live abroad. The language barriers and insufficient education made them fairly ineffective as representatives. Nevertheless, prefectures wanted to strive for the image of internationalisation and spent large sums posting representatives overseas, using JETRO offices as bases.

Governor Iga wanted overseas representation for his prefecture but Ehime's economy was not large enough to support an overseas representative office. Nevertheless, the former president of JETRO New York (1992-1994) and a close friend of Iga, created a position for the governor's son in the Research and Planning Division. The son, a civil officer of the Ehime Prefectural government, entertained his constituents when

¹⁷ In 1998 there were only sixteen prefectures out of forty-eight that issued local government bonds. Most of these prefectures either had large cities or enough industry that could guarantee enough tax revenue that would cover payment when the bonds matured. Central government bonds covered 98% of the public deficit while local government bonds, including municipal bonds, covered 8% of the public deficit.

they visited New York, but in reality he was considered a JETRO staff and not a representative from his prefecture. His duties were minimal. After spending one year at JETRO, he returned home to be assigned the directorship of the newly established Foreign Access Zone (FAZ). Another officer from Ehime Prefectural government succeeded him when he returned to Japan. Subsequently, there were five other officers from Ehime, who were posted annually at JETRO New York. The seat was closed in 1999 and an Ehime representative is now posted in JETRO's Hong Kong office since Ehime has closer trading ties with China than with the United States.

The MITI officer who was the Executive Director of JETRO New York (1992-1995) managed to cultivate a connection (kone) with Iga's son, a relationship that continued after he returned to MITI because he became the director of the Export Division in the International Trade Administration Bureau, which manages Foreign Access Zones (FAZ).¹⁸ MITI initiated FAZ in 1993 to answer the United States' demands that Japan open its markets to more imports. MITI wrote the Law on Extraordinary Measures for the Promotion of Imports and the Facilitation of Foreign Direct Investment in Japan and created the first FAZ in the port of Matsuyama, the capital of Ehime Prefecture.

The FAZ installation at Matsuyama¹⁹ was designed to serve many functions, including a distribution centre for the handling of imported goods, an exhibition hall, International Trade and Exhibition Messe (I.T.E.M. EHIME) and an imported goods centre. According to the I.T.E.M. brochure, the facility was built: "To promote local industries that serve Japan's increasingly international society." The exhibition area alone is 7,300 square meters.

In April 1993 a company was established to manage the facilities. The Ehime Foreign Access Zone Co., Ltd. is comprised of government organizations and private

¹⁸ www.jetro.org.jp/ov/e/faz/whats.html

¹⁹ See appendix 5 for Matsuyama Faz

corporations. The company constructed three exhibition halls (I.T.E.M. EHIME), one of which is the largest exhibition hall in the Shikoku-chugoku region. It has 4,5000 square meters of floor space and a 12-16 foot ceiling (October 2000 Foreign Access Zone Co. Ltd. pp 4). The hall is equipped to meet the needs of any event. There are conference rooms and projector facilities and simultaneous translation facilities. There is an Ehime Products and Tourism Centre that is divided into three zones exhibiting products from local industries. There is I.T.E.M. World Mart where imported goods are displayed. A JETRO Support Centre (e.g. JETRO branch office) is located on the same floor.

There is a second FAZ installation under construction. It intends: “...to gather trade-related firms in the “Ehime International Zone” established on the sea front of the Matsuyama port area. It also involves building of a new port and roads connecting the facilities to the expressway system. The result will be a comprehensive upgrading of industrial infrastructure.”

Pork-Barrel Patronage: Value for the Money or “empty boxes”?

Although Ehime was the first recipient of a FAZ, the facilities have not been used as much as had been anticipated. The Japanese refer to the exhibition halls and other facilities that have been built through public funding (both from central and local governments) during the past ten years but have not been utilized efficiently as “empty boxes.”

Since 1997 there have been a total of eleven international trade fairs, however, the facility (I.T.E.M.Ehime) lies vacant most of the time. When there are no exhibitions, there are no visitors to the other facilities located in the hall. The display in the World Mart has changed little over the past three years. The types of products displayed are mainly processed foodstuffs, wines and spirits, toys, sporting equipment, clothing and sundry items. There are few industrial goods.

The JETRO office, located in the same building often goes unattended.

A museum of modern art was built during Iga's administration and it is a beautiful structure, complete with mahogany bathrooms. However, there is not enough art to fill the rooms.

The Kurushima Bridge was opened to the public in May 1999 and is managed by Honshu-Shikoku Bridge Authority, which is deeply in debt.²⁰ Commuters still prefer to ride the ferry between Hiroshima on the main island of Honshu and Matsuyama because the Kurushima Bridge toll is too expensive. In his plans for reform of Special Status Corporations, Koizumi wants to merge the Japan Highway Corporation with two other highway-related construction public corporations before privatisation. He also would like to merge the Honshu-Shikoku Bridge Authority with these three entities. However, there is heavy opposition to this plan by LDP Diet members, who have vested interests in highway construction. They do not want the corporations, responsible for building roads in their constituencies, burdened with the debts of the Authority, which could effectively halt future plans for highway construction in their regions. (Bloomberg Professional Nov. 21, 2001)

Although Governor Iga was expected to maintain control over Ehime politics for many years, the continuing recessions encouraged voters to replace him in April 1999 with Kato Moriyuki, a native of Ehime, a Liberal Democrat and an ex-bureaucrat from the Ministry of Education. Reaction from local businesses was positive because Kato would give them a direct pipeline to central government (e.g. subsidies and contracts for public works). Nevertheless, Ehime like other prefectures is burdened with heavy debt and given the fact that national debt is also out of control, Kato may not be able to use his ties to central government effectively.²¹

²⁰ See Chapter 5 for explanation about Honshu-Shikoku Bridge Authority.

²¹ By 1999 many prefectures were experiencing the affects of the prolonged recession because of the sharp decline in corporate tax revenue. Gillian Tett and Nakamura Michiyo reported in the October 1, 1999 edition of the Financial Times that the Tokyo Metropolitan government, Kanagawa and Osaka prefectures announced that they were on the verge of bankruptcy: **“Such comments have fueled concerns that local governments may cut spending--and thus undermine central government attempts to boost growth through a stimulus package.”** In 1999, the residents of Tokushima

The Japan External Trade Organization, a MITI Special Status Corporation, has eighty overseas branch offices that serve as places for *amakudari*, *yokosuberi* and *shukko*. The writer conducted research on JETRO while working at JETRO New York from 1992-1998. During that period, the elite MITI officers who were posted in the office were generally excellent calibre but they had to have had the right connections to be sent to an office that was highly regarded for overseas duty.

Study of Amakudari, Shukko, and Kone at JETRO New York

It is said that when MITI personnel bureau announce to an officer that he will be posted as president of a JETRO overseas office, the officer understands that he is approaching the end of his career in his ministry. The post is viewed as a farewell gift from the ministry. The officers can either return to their ministries after finishing their tenure at JETRO or they may go to another Special Status Corporation or on to a position in the private sector. The MITI officer who was president at JETRO New York from June 1992-June 1994 had served as the director of the Policy Planning Office in the Minister's Secretariat. When he returned to MITI in 1994 he became the Deputy-Director-General for Global Environmental Affairs and a director of the Research Institute of International Trade and Industry. After retirement he took the position of president of the Electronic Industries Association of Japan, an industrial association under MITI management.

Prefecture, adjacent to Ehime, protested the construction of a dam, illustrating the growing opposition to the spending of stimulus packager funds on unnecessary construction. The Ministry of Construction was determined to go through with the project, financing it primarily with funds from FILP. The governor, a member of the LDP, fully supported the project. Nakano Naoko reported in the March 17, 2000 edition of the Financial Times that Tokushima residents were worried that the prefecture, already 60bn yen in the red, would become inundated in debt: **“The prefecture will have to pay for only 20 percent of the dam’s construction costs, but critics warn that few public works projects have managed to stay within budget, often ballooning to double initial estimates.”** The residents took their protest to the polls and over 90% percent of voters voted against the dam. Nevertheless, the Ministry of Construction announced that it had not given up the fight to build the dam.

His successor at JETRO New York in 1994 had a long-term relationship with JETRO, having been transferred (shukko) from MITI to JETRO headquarters to serve as the director of the Planning Division from 1986-1989. He returned to MITI for the next two years to serve as the director of the Industrial Standards Policy Division in the Agency of Industrial Science and Technology. In 1991 he became the president of JETRO San Francisco. It is unusual for an officer to serve for two consecutive terms as president of a JETRO overseas office but the officer had managed to procure a Green Card and he was sent on to New York. He retired after his four years as president of two JETRO overseas offices and migrated to IBM Japan as an advisor.

With the exception of the president, all officers who are posted by Japanese organizations at JETRO overseas offices are on temporary assignment (shukko). The position of Executive Director at JETRO New York is held by an elite, who is younger than the president and who is climbing up the ministry ladder. For example, the officer who served as Executive Director from 1979-1982 climbed to the top position of Vice-Minister of International Affairs in 1997. After leaving the ministry he became an advisor to the Japan Industrial Policy Research Institute and taught Japanese economics at Stanford University (Daniel Okimoto's section) for three months. He also became a Special Advisor to the Tokio Marine and Fire Insurance Co. In 2001 he took a position as the managing director of Toyota.

Kone

Both MITI and JETRO officers look at JETRO overseas offices are much sought after for assignment, especially the offices in Paris, London and New York. They call JETRO New York "the golden apple" because New York City is a popular tourist attraction among Japanese. Some officers are chosen for duty on merit but many have connections in the ministry or they may have connections through marriage or relations. For example, a non-career officer in the Research and Planning Division at JETRO New York from 1992-1995 was connected through his father who was also an officer in the ministry. A young career officer (31), who was married to the

daughter of an elite MITI official, was sent as a director in Industrial Research from 1994-1997, even though he knew nothing about the field he was to research (Washington, D.C. and national politics). Another career officer, whose father had been an elite officer in the Ministry of Foreign Affairs was posted in Research and Planning for three years to investigate patents in Washington, D.C. It is highly likely that he had been transferred because he had made an auspicious marriage to the niece of the president of Marubeni America, a giant trading company.

Having political connections with the LDP is also beneficial. The director of Research and Planning (1991-1995), a JETRO staff is the son of a former member in the Upper House of the National Diet. The director had been posted in the 1980s at JETRO New York for four years.

*An interesting example of *kone* is seen in the case of a JETRO officer whose father was the president of an oil company. After graduating from Keio University he entered JETRO and was sent for two years to study computer science at the University of Pittsburgh where he received his Masters degree. He returned to JETRO headquarters in Tokyo and was later posted to JETRO New York for four years (1992-1996). He returned to JETRO headquarters in June 1996 but in 1997 he elected to leave JETRO and go with his wife and two children (born in New York during his tenure at JETRO New York) to the United States and study at the University of Georgia.*

All of the above studies illustrate that connections are crucial to business people, politicians and bureaucrats for survival in the Japanese political economy.

Conclusion: Round and round and round it goes. Where it stops nobody knows

Amakudari, yokosuberi and kone act to establish a network of ex-bureaucrats in private and public enterprises and politics thus creating an organic interdependence between the

ministries, businesses and national and local political organizations. This interdependence is indicative of the Japanese system, a system that can be viewed as rigid and as defying reform because it is self-perpetuating.

Although *amakudari* is most often pointed to as the tie that binds the bureaucracy to business and politics, *yokosuberi* and *shukko* are the catalysts that put civil servants into positions in Special Status Corporations and public corporations. These positions can lead to permanent postretirement positions in these organizations and, also, to postretirement positions in the private sector as well (i.e. *amakudari*). Since Special Status Corporations and public corporations serve ministries specifically as the places for *yokosuberi* it is logical to conclude that ministries will establish corporations for *yokosuberi*.

The term *shukko* means “temporary transfer” and can appear to be a vehicle through which ministries send officers for periods of one to three years for duty in local governments or for duty in branches of their Special Status Corporations and public corporations located in the prefectures. However, in reality, these “temporary” posts can become permanent positions. In this way, the ministries can monitor local government activities and influence policies. The primary reason for Prime Minister Koizumi’s reform of Special Status Corporations is the drain on government funds. However, a significant reason to push for reform is that the privatisation or dissolution of Special Status Corporations and public corporations will help to loosen the ties that bind the national government ministries to local government. As long as the ministries can use their organizations for *yokosuberi* the issue of *amakudari* cannot be effectively addressed.

Although the majority of Japanese are in favour of the discontinuation of *amakudari*, the ministries need the system as a means to administrate policy and for postretirement positions. Unless the civil service system itself is restructured the *amakudari* system will

continue. Since the ministries are in charge of administering reforms, Special Status Corporations continue to flourish.

The March 28, 2002 edition of *Asahi Shimbun* carried a commentary on *amakudari* and the problems of reforming the civil service. It contended that no reform of elite bureaucrats would occur and that indeed *amakudari* was on the increase especially among the *kacho* class of bureaucrats.

CHAPTER 7

THE JAPAN EXTERNAL TRADE ORGANIZATION (JETRO): A SPECIAL STATUS CORPORATION

Introduction

The Japan External Trade Organization is one of MITI's primary Special Status Corporations. The chapter is divided into two parts. Part I discusses JETRO's formal role as an organization that promotes exports and international economic cooperation through various programmes. Part II examines MITI's objectives for maintaining JETRO through the positioning of its activities despite public criticism that the organization is no longer needed.

Part I: History and Functions

History

The Japan External Trade Organization (JETRO) is a government-supported organization and classified by government at a Special Status Corporation. The JETRO website gives a chronology of JETRO, stating that in 1951 the Japan Export Trade Research Organization was established. In 1954 it was reorganized as the Japan External Trade Recovery Organization. In his book *MITI and the Japanese Miracle* Chalmers Johnson credits Akuma Bunzo, the mayor of Osaka and a former member of the Ministry of Commerce and Industry (MITI's former name) together with Sugi Michisuke, the chairman of the Osaka Chamber of Commerce, for JETRO's inception in 1951. Their objective was to help revive the Japan's postwar economy by encouraging small businesses to export goods and to survey foreign markets. The organization offered services such as export promotion and information on foreign markets such as the United States and the U.K. MITI accepted the organization, posting personnel in management positions. In 1956 MITI took over the management of the organization and chartered it as a public corporation in the current name the Japan External Trade

Organization or JETRO. It is an operating arm of MITI. MITI opened JETRO's first overseas offices in the late 1950s. Chalmers Johnson states:

“However, its post-war 1958 legal status as a public corporation rather than as an agency of government has sometimes gotten it into trouble in the United States. During the late 1950's JETRO set up in Washington an organization, wholly staffed by Americans called the United States—Japan Trade Council but failed to register it under the Foreign Agents Registration Act of 1938. As a result of this oversight, in 1976 the U.S. Department of Justice sued the Trade Council for civil fraud, charging that 90 percent of its funds actually came from MITI via the New York office of JETRO. It also agreed to file as a foreign agent and to identify its publications as coming from Japanese government sources.” (1982, pp. 231-232)

By 1958 JETRO established the Institute of Asian Economic Affairs. Two years later the institute was established as a public corporations and renamed Institute of Developing Economies (IDE). In 1971 yet another organization was established, the International Economic and Trade Information Center.

In 1975 JETRO operated twenty-four trade centers and fifty-four offices in fifty-five countries, testimony to the fact that Japan had become a major entity in world markets. MITI also used the offices as listening posts keeping track of foreign regulation on commerce and industrial standards, patent applications in anticipation that any new patents could be applicable to Japanese industries, and impending laws that might affect Japanese trade.

The JETRO website states:

”In the first half of the 1980s, however, as Japan's trade surplus continued to grow and international trade friction intensified, JETRO made a 180-degree reversal and began promoting imports entering Japan, a primary mission that continues to this day.”⁶

⁶

.jp

By 1980 Japan was showing a marked trade surplus with its leading trading partner the United States. There was significant pressure from the United States to deregulate domestic markets and raise import quotas for such goods as electronics, agriculture and automobiles. Realistically, JETRO's role as a promoter of Japanese exports no longer could be considered as relevant to Japanese businesses as in the 1960s and 70s. Also, as an agency that collected data on foreign economies and markets JETRO was in competition with large Japanese multinationals and research institutes that conducted independent surveys.

MITI began to re-orchestrate JETRO functions so that the organization would come to serve primarily as a promoter of imports and internal investment. In 1983 JETRO organized a task force to look at promoting imports. In 1984 a second task force for the promotion of international economic cooperation between industries was formed. In 1984 activities such as trade fairs was initiated with imports fairs in Nagoya, Yokohama and Kitakyushu. Thus the corporation continued to operate and branch offices continued to proliferate. In 1989 JETRO established a "sister organization" the Institute for International Trade and Investment.

Currently there are eighty overseas offices in fifty-eight countries and thirty-five domestic offices. There are 1,300 employees.⁷

⁷ *ibid*

FUNCTIONS

JETRO claims that its activities focus on supporting imports and investment to Japan:

“The Japan External Trade Organization (JETRO) offers a wide-ranging support for importing into Japan, thereby helping to strengthen harmonious economic relationships between Japan and other nations.”⁸

During the past ten years JETRO has revised old services and added others, designed to promote investment in Japan. Also, services that were only accessible through JETRO offices a few years ago now can be accessed through the Internet. The services are directed to small to medium-size businesses that would like to export goods and services to Japan but do not know the regulations for entering Japan nor are they familiar with the consumer culture.

1. Publications

JETRO supplies to the general public a range of marketing surveys, magazines that show consumer preferences, books on how-to-do-business in Japan, import procedures and economic data. For example, JETRO publishes the “JETRO White Paper on Foreign Direct Investment” and “JETRO white Paper on International Trade.” JETRO promises that it:

“...fully mobilizes its information and know-how to respond to trade and investment inquiries at offices around the world.”⁹

JETRO’s information can be obtained at a JETRO office library or on databases that are accessible on the web. The market surveys include many products ranging from processed foodstuffs to apparel to sporting equipment. Source materials on the Japanese economy, trade statistics and MITI White Papers are available at JETRO offices.

⁸ ibid

⁹ .ibid

2. Media

JETRO launched a fifteen-minute television program in June 2001 that can be viewed in Canada and the United States either by cable or on Internet TV. The program's title, "Inside/ Outside Japan" is named after the JETRO New York newsletter. Topics for the inaugural program were "Looking at Free Trade Agreements" (NAFTA) and "The Future of Regional Economic Integration in Asia."

3. Import Promotion

JETRO has among its import promotion services trade fairs, "senior trade advisors" who are posted at overseas offices, the Trade Tie-up Program (TIPP), the Tiger Gate Project, the Japan Corporation for Foreign Direct Investment (FAZ), FAZ Support Centers in ten of Japan's Foreign Access Zones, and the Business Support Centers in major Japanese cities.

Trade Fairs

JETRO participates in trade fairs that are industry specific where businesses can display goods and meet prospective buyers. For example, there are trade fairs for construction and housing, automobiles and parts, computer industries, electric, electronic and communication equipment, food and beverages, health care products, furniture, sporting equipment and so forth.

Senior Trade Advisers

JETRO inaugurated the senior trade adviser program in 1990 in the United States. In an address to the Japan Society in New York City in 1993, Toyoshima Toru,¹⁰ the Chairman of JETRO, explained that this program was an extension of the "import products specialist" program, which sends staff overseas for two months to hunt for products that have potential markets in Japan:

¹⁰ See chapter 6, p. 178 for information on Toyoshima

“A senior trade advisor is stationed here for two or more years, usually working with the commerce department or economic agency of a given state. The advisor’s job is to visit small businesses, identify products and actively promote them for export to Japan.” (*Inside/Outside Japan*, November 1993).

By 1994 there were twenty-one trade advisers stationed throughout the United States. There are currently twenty-seven, providing, MITI with an extensive network in state governments. Some of them have been employees of Japanese multinational trading firms or manufacturers and others are JETRO senior staff. Mr. Toyoshima gave an example of the success of the program.

“A medium-sized manufacturer in Clearwater, Florida, developed an electronic anti-rust system, which one of our senior trade advisors decided would have great potential in Japan. The adviser was right. In two years of 1991 and 1992 the manufacturer sold a total of 80 thousand units. Furthermore, the Export-Import Bank of Japan extended a loan of 1.5 million to the company to be used for capital investment. As some of you may know, in April 1990 the Exim Bank of Japan introduced a program designed to increase imports into Japan and provides financing to American companies with products that are likely to sell well in Japan. The Florida company was the first to have such financing.”

JETRO FAZ Support Centers

JETRO claims:

“JETRO invites business people to Japan to the Export to Japan Study Program, which offers seminars for furthering their understanding of the Japanese market and the chance to meet face-to-face with potential Japanese partners. In addition, JETRO welcomes foreign missions that visit to develop business.”¹¹ The foreign missions visit Foreign Access Zones (discussed in chapter 6)¹² to show how JETRO promotes exports.

Trade Tie-up Program (TIPP)

JETRO calls this program:

¹¹ *ibid*

¹² www.jetro.go.jp/faz

“Internet-based business solution system that mediates between Japanese and overseas corporations to find suitable business partners.”

TIPP is another extension of past programs for the promotion of joint ventures between foreign and Japanese businesses. There are also databases listing potential Japanese importers and exporters:

Tiger Gate Project 2001

“The Tiger Gate Project 2001 is a JETRO initiative to offer various forms of support to venture companies actively working or planning to work in high-tech fields such as IT. This year, JETRO is launching “Venture Incubation in the USA,” and “International Techno Business Forum” as the major project of the Tiger Gate Project.” ¹³

This program focuses on tiny venture businesses that seek capital to develop and market inventions. Some of these begin in university incubators where entrepreneurs, who may be professors teaching at the university, can develop inventions along with students. Such incubators exist at New York State University (Farmingdale and Stonybrook). Japanese companies may inject capital into these ventures if the technology is applicable to the companies’ needs. The Tiger Gate Project encourages this kind of tie-up and the program has commenced in California.

JETRO through Tiger Gate conducts many forums and seminars to encourage networking among American and Japanese businesses engaged in telecommunications. JETRO calls the International Techno Forums “Achievements in 2001.” The forums were held in several major metropolitan areas in both Japan and in the United States.

Foreign Investment in Japan Corporation (FIND)

JETRO states that Find, which promotes itself as “Your Foothold in the Japanese Market,” assists:

¹³

[/ma/tigergate/](#)

“...foreign companies and foreign affiliates assess and fully develop their potential in Japan. Established on the basis of the Japanese government policy of supporting foreign companies entry into Japan and facilitating their smooth operations here.”¹⁴

FIND is a private corporation that was established in 1993. Its activities closely resemble the ones that JETRO offers to help foreign companies to do business in Japan except that it also claims to help businesses already established in Japan to expand operations. Find states:

“500 million yen of capital was provided by the Japanese government (Industrial Structure Fund) and a further 445 million yen was invested by powerful businesses in the private sector and industry associations. Find is able to provide a range of supportive services through their team of in-house specialist staff, coupled with the cooperation and collaboration of institutions from the public and private sectors.”¹⁵

FIND claims that it has helped two hundred foreign companies gain access to the Japanese market and success stories can be accessed on the web. The company admits that it has connections with MITI, JETRO, the Industrial Structure Improvement Fund, the Development Bank of Japan and other public corporations.

Among the thirty-one stockholders are MITI industrial associations such as the Electronics Industries of Japan (EIAJ), the Japan Electrical Manufacturers Association and the Japan Electronic Industry Development Association. A MITI subsidiary, the Industrial Structure Improvement Fund is also a stockholder. Among the private stockholders are Toyota Motors Corp., Mitsubishi Chemical Corp., Nissho Iwai Corp., Sumitomo, Corp, IBM Japan, Ltd., Kobe steel, Ltd. Tokyo Electric Power CO. Japan, Sanwa Bank, Ltd. Dai-Ichi Kangyo Bank, Ltd. Nissan Motors Corp., Marubeni, Corp. and Mitsui & Co. All of these companies represent industries in MITI's jurisdiction.

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¹⁵

Business Support Centers

JETRO claims:

“To help newcomers to Japan, JETRO operates Business Supports (BSCs) in major cities such as Tokyo, Osaka, Yokohama, Nagoya, Kobe and Fukuoka to provide free and temporary basis, office space and other support, including consultants to advise on how to enter the Japanese market.”¹⁶

In his speech, Mr. Toyoshima expressed the hope that the Business Sport Centers would act as “base camps” for entering the Japanese market. Opened in 1993 the BSCs offer to foreign business people promoting their wares to Japanese businesses:

“...free office space with consulting services and more! The centers are staffed with advisers who provide complimentary consulting services on exporting to Japan and doing business there”¹⁷

There is also exhibition space provided in each BSC where exporters can display goods to the public.

4. Promotion of International Economic Cooperation

MITI has come to use JETRO to promote “international awareness” of the Japanese economy, market and business practices. There are JETRO-sponsored Japanese language programs at universities. JETRO also encourages Japanese businesses and local governments to offer internships to students.

The Japan Economic Foundation

The Japan Economic Foundation (JEF) was founded by MITI in 1981 **“...to enhance mutual understanding between Japan and other countries.”¹⁸** It is an example of foundations that are spawned by Special Status Corporations. The foundation publishes the bimonthly magazine Journal of Japanese Trade and Industry, which provides information about the Japanese socio- economic environment The magazine is free and

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¹⁷ ibid

¹⁸

is sent to organizations and individuals whose interests center on Japan. Other activities include the Japan Study Program for International Executives (JASPIE). “Prominent people in the economic arena” are invited to Japan to visit companies and meet leaders in government and industry. The UK-Japan High Technology Forum is an annual event that is supported by the British Department of Trade and Industry and MITI. Toyoshima Toru, the chairman of JETRO in 1993 is now the chairman of JEF. Former Administrative Vice-Minister Tsutomi Tomio, who was referred to in chapter 5, serves as a Special Advisor.

5. Promotion of Government Economic Policy

During the past ten years JETRO representatives (e.g. MITI officials) have assured audiences that Japan’s economy was recovering and touting the release of stimulus packages as cures for the ailing economy. In his address to the Carnegie Council of Ethics in March 1993, JETRO New York President Tsukamoto Hiroshi assured the audience that Japan’s economy was on track:

“I am aware that Americans think that Japan’s economy is in the doldrums. Yet, Japan continues to grow, its unemployment remains below 2.5% and its budget deficit as a share of the GDP is 1.5% in contrast with the 4.9% of the United States. And the \$86 billion stimulus package that went into effect earlier this year is showing results.” (April 1993)

All of the stimulus packages released since 1993 were heavily invested in infrastructure projects such as bridges, dams and highways. The FAZ projects also benefit from funds from stimulus packages. JETRO itself has benefited from revenue from the stimulus packages. In his speech titled “Change and JETRO’s Role” he gave at the New York Japan Society in October 1993 JETRO Chairman Toyoshima Toru stated that the third stimulus package of \$58 billion dollars **“...included budget increases for JETRO’s new projects.”**

Six years later, as the recession continued, JETRO New York Executive Director Nishiyama Hidehiko in his speech titled “The Current Economic Situation and Business

Opportunities in Japan” given at a JETRO seminar in New York City (March 16, 1999) stated that:

“in addition to earlier stimulation measures worth \$133 billion and a previously planned \$58 billion tax cut, last November the government announced a third supplemental budget package of more than \$167 billion Overall, the program will help Japan raise demand by 2-3%, so as to achieve a positive growth rate in FY 1999 and engineer a recovery by FY 2000. By FY 2001m we expect to see demand to shift from public to private sector-led growth.”¹⁹

Until the late 1990s MITI officials in top management positions at JETRO kept a relatively low profile, preferring to meet privately with government officials, leading academics and business leaders. As Japan’s recession continued, however, the officers became more active in explaining and defending government economic policies to a wider audience. Nowadays when they visit JETRO overseas offices MITI officials address various influential groups. There is usually an assessment of the current state of the Japanese economy and then a promotion of JETRO’s activities in the promotion of trade. Hatakeyama Noboru, the present Chairman and CEO of JETRO, addressed the Center of Strategic & International Studies (CSIS) in Washington, D.C. on April 26, 2001.²⁰ “A Reassessment of Japan’s Economy, Trade Policies and Economic Interaction with the US” gave a relatively positive picture of Japan’s economic conditions. As a representative of the Japanese government Mr. Hatakeyama stated:

“In my personal view, Japan’s economy as of now is not and will not be as bad as is thought to be. What matters will be the Japan economy for the second half of this year and thereafter.”²¹

Some of the reasons that Mr. Hatakeyama gave for his positive outlook were that government spending on public works was changing to private fixed investment, which, according to Mr. Hatakeyama, was 7.6% higher in the fourth quarter of 2000 than the same time in 1999. He said that orders for machinery were still going up and that:

¹⁹

²⁰ In 1999 JETRO joined with CSIS to study the effects of an aging population

²¹ www.jetro.org/newyork

“Even in private consumption, the demand for home electricity was 5.6% higher in Jan.-Feb. than a year earlier, although this might have been unusually high because of our cold winter this year.”²² .

Mr. Hatakeyama endorsed the government’s continued policy to release fiscal stimulus packages to induce consumer spending, even though stimulus packages released during the previous ten years had accomplished little more than accumulate debt both at the national and local levels: **“A stimulus package totaling about \$200 billion is the centerpiece of its economic recovery effort.”** The chairman enumerated the various components of the package such as reductions in personal and corporate taxes. He also stated: **“Public investment in infrastructure, another major component, has already begun to kick in.”²³**

To show that foreign businesses have opportunities in the Japanese marketplace, Mr. Hatakeyama said that:

“...many sectors of the Japanese market are growing rapidly right now and offer especially attractive opportunities to U.S. providers of products and service. The list of “hot areas today includes environmental, healthcare, particularly for the elderly, and Internet and e-business related.”

At the end of his speech Mr. Hatakeyama promoted of JETRO’s services by reminding the audience that:

“JETRO is probably the best source of information in what’s happening in Japan and where the best opportunities are for foreign businesses. Above all, keep in mind that our Senior Trade Adviser, stationed in Raleigh, Mr. Shibata, is highly qualified and eager to assist you.”

²² Increase in machinery orders could be attributed not to expectations in increased demands but to the fact that during the recession, to conserve cash, companies delayed the purchasing of new equipment.
18. www.jetro.org/newyork

Despite Mr. Hatakeyama's positive predictions regarding Japan's economic recovery, the Bank of Japan recognized publicly in October 2001 that the Japanese economy had entered its third recession.

To engage foreign approval of economic policy, JETRO has joined forces with prominent universities to put on seminars such as the Joint Conference on Regional Trade Agreements December 2001 at the John Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS). JETRO New York president Urata Masutaru gave the opening remarks along with SAIS Dean Dr. Paul Wolfowitz. The panel discussed the "multinational trade regime embodied in the WTO" and the future of U.S.-Japan trade relationship.²⁴

Another example of JETRO promotion of government economic policy is JETRO's contributed to the support of a symposium at the University of Edinburgh held on November 30, 2001. "The Kyoto University Symposium on the Changes in the Japanese Economy Facing the New Century." Although these contributions aid foreign universities to conduct symposiums they also serve to cultivate a positive image among foreigners of JETRO, which helps MITI to keep its Special Status Corporation alive.

Part II: JETRO and MITI's OBJECTIVES

The Bureaucracy's Resistance to the Reform of Special Status Corporations

The Opinion Page of News Asahi on January 9, 1995 ran a story about the difficulties that Prime Minister Murayama Tomichi's Administration was having in convincing the ministries to consolidate some of the smaller Special Status Corporations. It points to the proposal of the now defunct Sakigake Party for the dissolution of both the Price Stabilization of Silk Yarn and Sugar Corporation and the Promotion of Animal Husbandry Corporation, Special Status Corporations that are under the management of the Ministry of Agriculture and Fisheries. The ministry objected to dissolution, claiming

that these corporations would act to continue to protect consumers by providing strategy that would maintain stable prices. However, the ministry did contemplate consolidating the two corporations.

The article also points to the reticence of other ministries to restructure their Special Status Corporations. It contends that at the very outset of the hearings MITI voiced disapproval, wanting to know if the restructuring was related to the total number of Special Status Corporations or if it was related to the ways they were being financed. In 1993 MITI had rejected the third hearing about administrative reforms and Hashimoto Ryuutaru, the Minister of Commerce and Industry supported the ministry's stance at that time and continues to do so.

Asahi notes that the ministries were changing the objectives of their Special Status Corporations, adding new roles. *Asahi* called this behaviour "the skill at disguising" (*henshin no gijutsu*). It holds JETRO up as an example, an organization that had been established fifty-eight years before for the purpose of promoting Japanese exports. "Now when you phone, the receptionist answers, 'JETRO, the promoter of imports.'"

Since the 1980s, MITI has indeed revised JETRO's duties and expanded operations so that it can continue using the organization. As was reported in the prior chapter that MITI uses JETRO for *amakudari*, *yokosuberi* and *shukko*. MITI uses JETRO for other purposes as well. Ezra Vogel writes:

"To represent their interests within congressional and administration circles in Washington. Japanese hire former American government officials of both parties as lawyers, consultants and public relations specialists. They send and receive goodwill missions. Prime ministers make speeches urging Japanese to buy foreign goods, which frank Japanese acknowledge may be aimed more at foreign audiences. Japanese bureaucrats in JETRO (the Japan External Trade Organization) help arrange 'import fairs' of boutique goods, food products and other goods that have at best minor significance in the trade balance." (1986, pp. 761-762).

MITI officials at JETRO overseas offices act as representatives of the Japanese government, espousing government economic and social policy. MITI officers use JETRO overseas branch offices to monitor and report on economic and political policies that will influence Japanese trade. (Johnson C.,1995, p.23) Foreign agents based at their countries' embassies and consulates ordinarily do this type of work. Since MITI officers are posted at the Japanese embassies, consulates as well as at the Japan Chamber of Commerce and Industry, which, like JETRO, maintains offices around the world, in essence they can perform the same duties as the officers are doing at JETRO. .

The *Asahi* article states that MITI changed JETRO from an export promoter into an import promoter. The JETRO's makeover into an import promotion organization in the early 1980s gave it a new lease on life. However, the effectiveness of JETRO's programmes have been questioned by dissatisfied users particularly, the viability of the data bank that lists hundreds of potential importers of a wide range of products, which was recently discontinued for reasons unrelated to complaints²⁵ and which will be disclosed later in this chapter. It is an illuminating exercise to take a second look at some of JETRO's publications as well as the JETRO programmes that were described in Part I of this chapter.

Much of the literature has been discontinued because JETRO is again undergoing another makeover (discussed later in this chapter) but they are a good illustration of how JETRO has been dealing with foreign business people who want to enter the Japanese market. The literature is detailed but simultaneously ambiguous, leading readers to believe that access to the Japanese market is a simple procedure.

²⁵ The most common complaint from business owners who had tried to contact the potential importers listed in the data bank was that their inquiries were never answered even after numerous attempts to reach them. (observed by writer and fellow staff who worked in JETRO's New York's Trade Inquiry Section where business owners used data banks.

JETRO's Approach to Potential Importers: Does JETRO Promise More Than It Can Deliver?

Publications: Detailed But Ambiguous

When Karel van Wolveren wrote "The Japan Problem" in 1986, analysing how Japan was dealing with America's demands to reduce its surplus by opening up markets to American goods he claimed:

"In Japan quite often—and always more frequently than in the West—what is true on paper is not true in practice. Japanese spokesmen widely advertise the fact that a number of foreign firms that have tried hard enough have been successful in this market. These firms are well-known because they belong to a small sample always mentioned in this context. A select few foreign firms receive assistance to serve as fresh examples of Japanese openness." (1986/1987 p. 293)

1. *A Survey on Successful Cases of Foreign-Affiliated Companies in Japan (1989)*

The thirteen manufacturers were asked questions about how they prepared for entering Japan and about operating in Japan. Although the companies surveyed were very positive about being in Japan, readers would not be able to contact any of them to confirm the authenticity of the information or to find out more about doing business in Japan because none were identified by name but merely by main industry product, location of the headquarters, location in Japan and capital investment.

2. *The Challenge of the Japanese Market 1990*

The book is a colourful layout of companies that have succeeded in Japan. However, the companies reviewed already had brand recognition among Japanese before they entered Japan because Japanese tourists had purchased the products on trips overseas. Imported luxury goods have traditionally found a lucrative market in Japan because consumers connote expensive brand-name imports with quality and elegance. Purchases of expensive imports also have a certain snob appeal as well. The companies reviewed produced luxury goods, including Baccarat Pacific, Bausch & Lomb Japan, Bussan Lladro, Cartier Japan, Jaeger, Cycles Peugeot Sales Japan, Rolex Japan, Reebok Japan,

Rolex Japan, Mont Blanc, Dunhill, and so forth. The majority of the companies entered the marketplace through partnering with large Japanese trading companies (a common route for foreign companies) who distributed the products through finely tuned distribution channels. Trading companies such as Mitsui, Mitsubishi, Sumitomo and Marubeni pursue foreign manufacturers if they are certain that there is a ready market for their products. Even now, in Japan's recessive economy, the Japanese continue to purchase these luxury goods. Some of the companies such as Cartier, Dunhill, and Van Cleef & Arpels have been able to break away from Japanese control and operate 100% independently.²⁶

Small business owners who were new to the Japanese market may have imagined after reading the publication that since Japanese consumers enjoyed expensive goods foreign goods their products that the same type of goods, but less expensive, would find a lucrative market also. This is a logical assumption but not applicable to the Japanese market where brand recognition plays a significant role in assisting businesses to penetrate the Japanese market

3. Lists of Japanese Enterprises Promoting Imports 1991

JETRO literature that states that many Japanese companies want to procure foreign-made goods can be construed as ambiguous. An example of this is seen in the publications that JETRO's Import Promotion Department issued. The first two chapters are devoted to the promotion of JETRO's export promotion services and to Japanese business practices and procurement procedures. The third section of the second chapter "Requests of Suppliers made by Japanese Enterprises" lists three unidentified companies as willing procurers. "Company A" is an automobile manufacturer, who claims an "open door" policy, stating:

²⁶ JapanConsuming April 2002 p.1

“Parts, material, and equipment are quite varied and we procure them from all over the world. It goes without saying that we will make impartial evaluations from the overall view of quality, price, delivery, technological capacity, management policy, etc. “ (p.14)

The management of “Company B,” an electric utility company, stresses the importance of fairness in selection of supplies and is searching for: **“capacity with existing facilities, technological capacity, and management.” (p15)**

“Company C,” an electric appliance manufacturer, hopes to make a **“contribution to society,”** and cooperate with suppliers, intending to **“set goals without compromises.” (p 16)**

The three companies hope for **“mutual trust”** and pledge **“equal opportunities”** for potential suppliers.

The third chapter, “Guide to the List of Japanese Enterprises and Prospective Products” includes **“315 prospective products that 86 enterprises may wish to import.”** The majority of the companies listed are large multinationals and affiliates of large firms, all in the industrial sectors that MITI oversees. Nisshin Steel Co., Ltd. claims that it procures iron ore and coking coal and that: **“Active companywide effort is underway.” (p 134)**

Although no volume is stipulated, Mitsubishi Motors claims that it is actively promoting the procurement of auto parts and accessories. (p.108)

Mitsubishi Kasei Corporation, a producer of petrochemicals states that it will: **import when an opportunity arise.” (p.106)**

Kawasaki Heavy Industries as well as the majority of the companies listed did not have procurement guides in English at the time of publication, making it extremely difficult for foreign firms to communicate with the prospective procurers.

The forward in the 1992 edition of List of Japanese Enterprises claims:

“...through these efforts and other efforts, JETRO is effectively helping to increase the flow of goods being imported into Japan. At the same time, JETRO provides strategic support to influential people in foreign countries, including business people and officials, who seek to increase exports to Japan. JETRO also supports global trade and economic exchange.”

In this volume the phrases “when the opportunity arises” and “active countrywide effort underway” are extensively used by potential importers.

4. Success is Yours (1996)

JETRO reassures novice importers to Japan that entry into Japan is not difficult if certain processes were followed. The confectionery company and producer of the popular Jelly Belly, Herman Goelitz, Inc. was used as an example of how a foreign processed food producer successfully entered the Japanese market. However, small or medium sized businesses that do not have the same high visibility and brand recognition as Goelitz before they attempt entry are at a distinct disadvantage. Goelitz was way ahead of the game before entering Japan because the Jelly Belly was already popular among Japanese who purchased the confection while visiting the United States. The report revealed that Sony Plaza was the distributor. Any association with Sony Corporation would ensure success however Sony Corporation would be adverse to risk a tie-up with manufacturers that did not have a solid track record. JETRO did not participate in facilitating Goelitz’s entrance into Japan. Nonetheless, since JETRO did not state otherwise, readers may have assumed that JETRO had been involved.

5. Focus (January-February 2002)

Focus is JETRO’s bimonthly magazine. It is distributed in all of the countries where there are JETRO offices. The contents vary from issue to issue but generally there are sections devoted to Japanese market trends, culture, reports on Japan’s industry and trade and so forth. The January-February 2002 issue can be seen as illustrative of the

positive picture JETRO draws of Japan in terms of importing and investment opportunities.

The cover story, "Reform drive brings new business opportunities" states that major structural reform is under way:

"Seven concrete reform programs ...including privatisation and deregulation, support for challengers (shift to a social system that emphasises individual ability), and strengthening o the insurance system...In addition budget drafting by various national government ministries and agencies is to be overhauled. Long-term plans for public works are to be reviewed, as is the earmarking of revenues for particular types of public works spending, and revenue sources are to be shifted from the national government to the regions" (p 3)

The story states that the principle behind the reform is that the private sector, local authorities will be obliged to carry more of the burden that has previously been handled by the public sector. (p 3)

Focus gives no further details about the reforms. There are specifics given regarding the reform of the Postal Accounts Agency or Special Status Corporations and public corporations, two of Koizumi's pet reform projects. Under the heading "Timetable sets the reform order and pace" is the statement:

"...the administration on September 26 announced a tentative Advanced Reform Program and Reform Schedule, which is a timetable indicating the order and pace of the specific reform measures." (pp. 3-4) There is no mention of when reforms will actually be initiated and there is no information given that shows readers where they can access the timetable.

By quoting Yamaguchi Nobuo, the chairman of the Japan Chamber of Commerce and Industry Focus assures readers that Japan is a good place for doing business and for investment:

“The schedule for implementing the Koizumi reforms has been shown concretely to a certain degree; I expect this to have a favourable effect on the market as well.” (p.4)

Yamaguchi, as the spokesman for an organization that is under MITI management, promoted two of MITI’s Special Status Corporations: the Japan Finance Corporation for Small Businesses and the Japan Small and Medium Enterprise Corporation,. He warned that private financial institutions are not able to refinance loans of small and medium-sized businesses.

“I hope that the full forces of the government-affiliated financial institution will be marshalled to provide a firm safety net keeping sound small and medium-sized firms from being pulled under through chain-reaction bankruptcies.” (p. 4)

This statement could be regarded as pointing to continued control by MITI over the small and medium-sized manufacturing sector.

Under the heading “Reform makes Japan more attractive” the articles promises the possibility of deregulation.

“The portion of structural reform in which business executives actually have the greatest hopes is deregulation...This is because there is a very strong possibility that the removal of regulatory restraints will allow new businesses to be born and provide direct stimulus for demand.” (p. 5)

Focus does not give any time frame for deregulation nor what kinds of deregulation may be implemented but it does admit that the American Chamber of Commerce in Japan has been after Japan to: **“to reduce the level of its regulations.”** (p. 6) The European Business Community as well has echoed these demands. Focus suggests that deregulation may happen because of meetings last October between high-ranking officials from Japan and the EU. At the meeting the EU representatives demanded that Japan develop a “greater transparency” for investment in Japan and that METI (i.e. MITI) can be asked in

advanced by businesses wanting to enter Japan: “...whether their planned business activities would be considered in violation of Japanese law.” (p. 6)

Despite the uncertainty regarding the time table of future reform and deregulation the article under the heading “Benefits from the entry of foreign firms” claims: “If deregulation progresses, all sorts of ideas for new businesses should become possible.” One of the possibilities given is the operation of medical institutions and farms by joint-stock companies. Coincidentally, these two sectors are not in MITI’s jurisdiction. Any deregulation in the agriculture or health services industries would effectively erode the territory of the Ministry of Agriculture, Forest, and Fisheries and the Ministry of Health, Labour, and Welfare respectively.

Focus claims that the majority of Japanese are supporting Prime Minister’s Koizumi’s platform for reform (70% as of January) and that businessmen approve as well. Focus predicts that by 2004 Japan’s GDP should be 1.5% “in real terms” and 2.5% “in nominal terms.” (p.4) The article admits that Koizumi is facing growing resistance to his plans, his opponents emphasising that he must deal immediately with Japan’s deepening recession such as tackling the problem of non-performing loans. The article omits telling readers that the ministries are responsible for the administration of the reforms.²⁷

JETRO has a web site “Invest Japan” that it promotes with a small package, which includes a CD-Rom for visiting the web site. The advertisement on the package claims:

“Now’s the time! The Japanese government has been actively promoting foreign investment in its marketplace and the investment environment has changed dramatically in recent years. The Japanese government pursues positive deregulations of its economy...The Japanese government is currently undergoing structural reform of an unprecedented scale.”

²⁷ Koizumi’s popularity rating have dropped significantly since January to below 50% and he is now being seen as being ineffective in implanting his reforms.

The advertisement claims the success of foreign companies that have entered risky areas such as finance and insurance but the names of companies are not listed.

6. Japan Trade Directory 2002-2003 (with CD-Rom)

The directory has been published annually since 1990. The current edition lists 2,000 businesses that JETRO claims are: “...looking for export/import services trade and other international business opportunities.”²⁸ A common complaint among American business people who want to export their goods and services is that many of the companies do not reply when contacted.²⁹

7. Directory for Setting Up Enterprises in Japan (July 2000)

Published annually, the book lists companies by region (12) and business (16) describing each business and including point of contact. Again, Japanese companies fail to communicate when contacted by prospective importers.

Trade Promotion Programs: More Image Than Substance?

1. The Business Support Centers (BSC)

The BSC were created by Hirai Sumihito, a JETRO officer who was the director of Public Relations at JETRO New York (1991-1995). To promote the BSC JETRO New York teamed up with the New York State Department of Economic Development (NYSDDED) and organized a market tour of Japan for small business owners who were members of the National Minority Business Council (NMBC). Recipients of New York States Global Market Service grants (GEMS), the businessmen and women were given the opportunity to display their goods (fashions, accessories and ceramics) at a BSC in Tokyo to potential buyers. A boutique owner from Harajuku, a trendy fashion area in Tokyo, was escorted by JETRO to the BSC and he placed a small order for some of the products.

²⁸

²⁹ Personal observation while working for three years in “Trade Inquiry JETRO New York

A press conference was staged on January 26, 1994 to announce the success of the trip. The owner of the Harajuku boutique was flown to New York to participate. All of the owners, who were of African descent, displayed the goods that they had displayed in Tokyo. There was: “...millinery from Xenobia and Natisha& Armour Hat Co., women’s fashions and accessories from W.W. Chey New York Co., Fussin Inc...” (*Inside/Outside Japan*, April 1994, p 6) Statuesque African American women decked out in African headdress and heavy African jewellery modelled the fashions. With the exception of a ceramics collection, the products were inappropriate for Japanese market because petite Japanese women prefer conservative French and English fashion.

Noel Copeland, the Jamaican ceramicist whose products did fit into the Japanese market, was the only member of the delegation to return to Japan. Invited to exhibit his dishes and furniture at a Kobe gallery the following October, he sold everything he exhibited. Upon his return to New York he gave his evaluation of the BSC at a private interview.

“The Business Support Center is a good idea but it needs some PR work. The location isn’t ideal. It’s in a big office building and there is not a lot of traffic outside of the building. The whole third and fourth floors have different boutiques. I was there around lunchtime and only two or three people were walking through. The exporters who were exhibiting their work were just standing around. I spoke to two of them and they were losing money because there wasn’t enough traffic. I think that one was from Morocco and one was from America. I think that JETRO either has to publicize the place or find a different location in order for businesses to succeed. I spoke to the people and they were frustrated,”³⁰

2. *The Foreign Investment in Japan Corporation (FIND):*

In his book *Troubled Times* Edward Lincoln writes that it had been anticipated that FIND would concretely assist in foreign investment but the organization received criticism because:

³⁰ Noel Copeland, 1995, interview JETRO New York

“...its advice is limited to recommending tie-ups with its member firms (for which Find receives referral fees). Furthermore, as a government organization it was not really an independent voice for merger and acquisition advice. Foreign firms were less in need of advice or introduction to potential business partners than in a dismantling of the real obstacles to acquisitions.” (p.192)

As seen in the description of FIND in Part I the members on FIND’s board of directors represent major companies within MITI’s jurisdiction and MITI- related organizations.

3. Trade Tie-up Program (TIPP) and the Tiger Gate Project 2001:

These programs are recent additions to the JETRO export promotion programs and it is still too early to evaluate their effectiveness but it is worth noting that the Tiger Gate Project hooks up American high tech small businesses that are being nurtured in university incubators with Japanese firms in search of new technologies,

What JETRO Does Not Tell Prospective Importers

As a government supported organization that promotes government policy it is appropriate that JETRO approaches potential importers with a positive scenario of Japan’s markets, implying that they can successfully penetrate the Japanese market if they are willing to adapt their products to fit Japanese consumer preferences and to tie-up with a Japanese distributor for easier access to the market. JETRO urges companies to find Japanese partners to facilitate marketing and distribution since most foreign firms are unfamiliar with the system. On the other hand, mention is never made of potential problems that an importer may face if he hooks up with a distributor who happens to produce the same item. A California wine producer found that entrusting distribution to a Japanese wine producer was unwise because the Japanese wine producer became his competitor.

Surprise, Surprise

In the late 1980s Mercian, Inc., a major Japanese winemaker was jostling for number one position in the domestic market with its leading competitor Suntory. Suntory,

anticipating a burgeoning wine market, had begun buying wineries in famous wine producing regions In 1986 the company purchased a winery in Sonoma, California. Mercian followed by purchasing Markham Vineyards in the nearby Napa Valley. Mercian had been importing and distributing Louis Martini wine, a premier Napa Valley wine far superior in quality to Markham. Markham Vineyards is located on the same road as Martini. Mercian replanted the vineyards and completely renovated the plant and buildings. The kacho, who was in charge of the Louis Martini account was also in charge of Markham and travelled often to California to oversee operations. It was evident that he wanted to be given full responsibility for Markham. When Louis Martini visited Japan in 1988 for a ten-day promotional tour, the kacho refused to attend him and the writer, who had entered Mercian a few months earlier as a member of the wine division, was assigned to act as market guide and interpreter. During the tour, Martini discussed with her marketing tactics for his wine in Japan and ways of approaching Mercian management because sales for his wine had not been remarkable. He also knew that Mercian had bought Markam Vineyards and worried about competition, although, the quality of the wine at the time was inferior to Martini.³¹

The writer, who felt that Mercian should continue distributing Martini wines until Markam wines had improved, suggested to Martini that he publish a small cookbook designed to showcase his wine with easy-to-prepare dishes. Martini liked the idea and when Mr. Martini met with the director of the wine division to discuss future strategy, he requested the promotional cookbook with the hope that sales would improve. The director of the wine division appeared to be enthusiastic about the project, agreeing to split the costs of publication fifty-fifty. The writer was put in charge of cookbook. Martini was satisfied that Mercian would push sales of his wine and returned to California the following day.

³¹ Markham has won international awards for excellent in recent years

The writer had accompanied Martini to various retailers to show him where Mercian was selling his wines. When he visited the shops, Martini saw an array of his wines on the shelves. After he left Japan, the write revisited the shops to survey the pricing of other wines. To her surprise, Louis Martini wines had been replaced with Mercian domestic wines, obviously an early indication that Mercian would replace Martini wine with its own Markham. Nevertheless, she proceeded with the cookbook as planned.

At the outset there were several obstacles. First, the small public relations company that was assigned to assist in the project knew nothing about California and wine. Second, the other staff in the wine division did not participate. In fact, they complained that the cookbook should showcase Mercian domestic wines, despite the fact that the wines consistently received low-ratings from Japanese. 10,000 copies were printed and delivered to the wine division. The books were put away and there was no effort to distribute them. At the writer's prompting they were distributed to Mercian sales offices throughout Japan but no strategy had been devised for their use. As the promotional activities for Markham increased, the promotion for Louis Martini decreased. Ironically, the American consultant, who Martini had hired to engage in contract negotiations and who shared an interest in a California winery, also approached Mercian to distribute his wine. Not only was Martini in competition with his Japanese distributor but with his American consultant as well. Mercian no longer distributes Martini wines.

The Power of Persuasion: MITI Promotes Government Economic and Industrial Policies

Van Wolveren writes:

“ When ‘beliefs are dependent on socio-political circumstances, and ‘reality’ is something that can be manipulated, it is fairly easy to maintain fictions... The dire need for better ‘mutual understanding’ is frequently and enthusiastically endorsed. But *wakatte kudasai* means ‘please

understand' in the sense of 'please accept my explanation, regardless of whether it has some basis in fact. It connotes acceptance and tolerance.' (1989 p.10)

The speeches that have been given about fiscal stimulus packages as a means to trigger Japan's flagging economy are examples of this type of promotion.

One MITI officer, who served as president of JETRO New York from 1992-1994, was particularly innovative in his approach to promoting government policy. Tsukamoto Hiroshi was an active president who succeeded in creating a positive image of MITI and JETRO using a method that differed from past presidents, who primarily relied on networking personally with national and state government officials, businessmen and academics. Tsukamoto preferred to supplement his networking activities with a newsletter, Inside/Outside Japan.

Tsukamoto initiated the publication of the monthly newsletter that was sent unsolicited to American opinion leaders in government, business and academia. The concept for Inside/Outside Japan³² must be attributed to the Executive Director of Research and Planning but Tsukamoto took the idea and used the newsletter for disseminating information of Japanese business and promotion of government policy. The paper did not focus fully on promotion of government policy. Rather, it was an effort in promoting the image that JETRO (e.g. MITI) was a sophisticated and well-versed organization whose officers understood Americans and their political economy. Simultaneously, the paper's tone promoted to readers the importance of "mutual understanding" and acceptance of the Japanese way of governing and doing business. More importantly, the paper was, in effect, an attempt to revise JETRO's image (*henshin gijutsu*). Whether intended or not, it also succeeded in making the recipients more aware that MITI and JETRO were synonymous.

³² For on-line issues:

One year after the first issue was released, Tsukamoto enclosed a letter in the July 1993 issue. It read in part:

“JETRO New York began producing this publication back in July 1992 with the goal of bringing attention to American opinion leaders aspects of Japan that tend to be overlooked in the United States. Japan is a complex nation undergoing many changes in its social relations and its mobility and diversity—at an intense pace. Seldom has Japan been static in its long history, and again it is grappling with momentous decisions; international responsibility versus participation and domestic versus individual happiness, to name only a few.”

“Inside/Outside Japan” was sent to such scholars as Hugh Patrick and Gerald Curtis (Columbia University), Chalmers Johnson (University of California, San Diego), Ezra F. Vogel (Harvard), Kent E. Calder (Princeton), Daniel I. Okimoto (Stanford) Joseph Nye (Harvard), Nathaniel Thayer (SAIS, John Hopkins), Ronald Dore (Imperial College), Leonard Shoppa (University of Virginia), and Gary Saxonhouse (University of Michigan). It also was sent to congressmen and senators and to journalists at leading newspapers and magazines.

In the majority of issues, the other articles pertained to Japanese society and culture. There were highly positive pieces on Japanese marketing techniques and industrial leaders thus giving Tsukamoto a comfortable setting for expressing himself in a literate and persuasive manner on the Japanese economic environment. It is an interesting exercise to analyse a few of these articles to illustrate Tsukamoto’s adeptness at promoting the value of fiscal stimulus packages.

In the very first issue (July 1992) he promised that Japan’s economy would recover and promoted the release of the first stimulus package:

“Real estate prices continue to drop, vacancy rates of new office buildings remain high, banks are competing among themselves trying to dispose of bad loans, manufactures are struggling to reduce excess capacity and personnel...

This is not a description of the United States a few years ago, but Japan today.

Seven-Five-Three is a traditional Japanese festival for congratulating children on turning seven, five, or three years of age. But the term is now used to forecast Japan's economic recovery: real estate will take seven years, banks five, the securities market three before regaining their footholds.

The bursting of the economic 'bubble' seriously injured the United States; now it is injuring Japan no less. " Tsukamoto humbly admitted that the Japanese government was too optimistic in its original forecast of economic recovery and was now going to release a recovery package to ignite the economy.

"The recovery plan, announced on August 28, provides for \$86 billion to achieve four main goals: (1) expand spending on public housing; (2) increase loans to small businesses (3) promote investment in plant and equipment (4) to give financial institutions incentives for depreciating Bad debts. The package includes \$250 million earmarked for promoting imports."

To the naive reader, the release of a stimulus package would seem to be an effective means to the revitalize the economy but to readers who knew how funds were distributed visions of pork-barrel politics and the waste of public funds would have come to mind.

Tsukamoto ended with a bit of American-style philosophy:

"How can we get out of this adversity? Benjamin Franklin said: 'So what signifies *wishing* and *hoping* for better Times? We may make these Times better if we bestir ourselves. *Industry need not wish, as Poor Richard says, and He that lives upon Hope will die fasting. There are no Gains, without Pains.*' "

Ten years have passed since Tsukamoto wrote his piece. Although the Japanese, as individuals, have yet to feel the full effects of the recession, Koizumi has warned the Japanese that economic reforms will demand sacrifices and commitment. However, Matsuba describes Japan as:

“...an affluent and conservative society in terms of both income and assets, where wealthy people form a majority and, of course, it is most unlikely that they hope for, or will accept a radical social change.” (2001, p.208)

Lincoln warns that the failure to reform will lead to a “cyclic recession.” And the individual households will suffer. (October 2001, p.5)

In the December 1992 issue Tsukamoto took advantage of the image that many Americans had at the time, including Johnson, that Japan’s economic strength was due to its industrial policy:

“As the new Administration [Clinton] contemplates ways of strengthening U.S. competitiveness, ‘industrial policy’ seems to be on the lips of many policy makers. In devising and pursuing industrial policy, however, it is important to recognize that a government’s role in fostering industrial competitiveness is limited.”

In a single sentence Tsukamoto dismissed any questions that MITI was able to force its policy on Japanese industry because of built-in control mechanisms such as *amakudari* and MITI’s industrial associations that are never revealed by government officials. However, he did admit that there was a:

”...joint effort between government and industry to find what may lie in the future and respond to it appropriately.’

Inside/Outside Japan began to bring a new image to JETRO New York and put MITI more into the public eye. However, this was not necessarily a positive thing because it also brought JETRO into the limelight via *Sankei Shimbun* (discussed below) exactly a year after Tsukamoto returned to Japan. Subsequently, the paper gradually shied away from any subject that might be considered controversial, focusing more and more on cultural issues.

Promotion of Industrial Policy With a Scottish Twist

Tsukamoto's talents as a spokesman for MITI were showcased in a speech he gave on March 10, 1993 to the members of the Carnegie Council on Ethics and International Affairs. Although Tsukamoto did not announce his government's intention to release another fiscal stimulus package two weeks later, it was auspiciously timed. The speech was included as a Special Supplement in the May issue of "Inside/Outside Japan" in which the announcement for the stimulus package was made.

In his address "MITI and Human Values" Tsukamoto managed to connect MITI's Vision for the 1990s, ("Creating Human Values in the Global Age"), the release of another fiscal stimulus package with Andrew Carnegie's "Gospel of Wealth"³³ while simultaneously presenting his ministry as a compassionate and caring organization bent on helping the Japanese to realize a better quality of life.

Although it would take some stretch of the imagination, comparisons can be made between MITI, a Japanese bureaucracy, and Andrew Carnegie, a Scottish immigrant from Dumfermline who became the father of the American steel industry. He founded Carnegie Steel, the forerunner of US Steel in 1869, a year after the beginning of the Meiji Restoration. He also made his fortune in iron, coke and chemicals. MITI's ancestor, the Ministry of Agriculture and Commerce, began nurturing Japan's steel industry in the late 19th century.³⁴

³³ Carnegie's "Gospel of Wealth" was used at the suggestion of the writer

³⁴ Harold C. Livesay writes in his biography of Andrew Carnegie that he: "**publicly advocated and often practiced the doctrine of free enterprise in business, but supported tariffs, sometimes joined pools, and finally sold out to a combine expressly formed to eliminate competition in the steel industry.**" (1975 Andrew Carnegie and the Rise of Big Business Little, Brown and Company pp 5)

Also, Carnegie, along with other American industrialists like John D. Rockefeller and John Clay Frick, his business partner, did not object to certain types of government protection such as stiff patent laws. (Joseph Frazier Hall Andrew Carnegie New York Oxford University Press pp. 642)

15. Japanese taxpayers may view some of JETRO's administrative costs for 2000-2001 on the web. As stated in the first chapter, the budget for Special Status Corporations are funded by investments from the Postal Savings Agency and, therefore, Special Status Corporations do not have to disclose their budgets. Additional funds are available as well from tax revenue. The Ministry of Finance assigns an annual

However, here any similarity between Carnegie and MITI ends and the dissimilarities begin because Carnegie's wealth came out of his own pocket. The parks, libraries, schools, hospitals, meeting halls, universities and concert halls were personally financed. Japanese government fiscal stimulus packages are publicly funded.

Tsukamoto introduced himself to his audience by mentioning his recent visits to the Carnegie-Mellon Institute in Pittsburgh and Carnegie Hall in New York, both highly visible examples of Andrew Carnegie's philanthropy. Then he got down to the subject of his speech, "creating human values as a form of industrial policy." Introducing his ministry as a firm but gentle guide of Japan's industry, he said that MITI was sometimes called "notorious" but that he was uncertain of the term's origins:

"Perhaps it has to do with the way Japan's economy developed rapidly in the past five decades and MITI's supposed role in that development, which is often expressed by the very term 'industrial policy.'³⁵

Tsukamoto spoke of Japan's competitive spirit as the driving force behind Japan's industrialization after the Meiji Restoration, quoting the first sentence of the first essay in Carnegie's "Gospel"

"The problem of our age is the proper administration of wealth." He reflected: "Though Mr. Carnegie was a great philanthropist, in his *gospel* he did not preach a 'kinder, gentler,' attitude. He

budget for each ministry. However, it is generally known that the ministries increase their budgets by pressuring their support groups both in industry and in politics to contribute more funds. MITI's supporters include ex-MITI bureaucrats, who as members of the LDP serve in the national and prefectural Diets, the small and medium-sized business sector, which MITI regulates, and from industry, both retail and manufacturing. These extra funds are not divulged to the public and the ministries can use them at their discretion such as expanding operations of Special Status Corporations. For example, although Mr. Noguchi stated that 75% of JETRO's budget came from public funds, he did not reveal how the remaining 25% was generated.

³⁵, Officers from other ministries use the term 'notorious MITI' to point to MITI's propensity to go after other ministry's territory in order to expand jurisdiction.

was hard-nose arguing, at one point that ‘no substitutes [for the law of competition] have been found: and while the law may sometimes be hard for the individual it is best for the race because it insures the survival of the fittest.’

Tsukamoto’s reference to Carnegie’s generous but “hard-nosed” character was savvy because it linked MITI’s use of administrative guidance.

He insisted that post-war industrial policy included cooperation but there was a catch:

“Competition is important, but a body of people—be it family, a company, or a society—cannot hope to function and grow without cooperation among its members.”

Tsukamoto was inferring that companies cooperated with MITI’s guidance to form cartels or to fix prices in order to ward off competition from foreign firms.

Carnegie’s tract on the distribution of wealth had a Socialistic tone to it:

“...under its sway we shall have an ideal State, in which the surplus wealth of the few will become, in the best sense, the property of many, because administered for the common good, and this wealth, passing through the hands of the few, can be made a much more potent force for the elevation of our race than if distributed in small sums to the people themselves.” (Hall 1975 p.807)

Likewise, MITI’s Vision and MITI’s role can be characterized as Socialist. Tsukamoto told his audience that post-war industrial policy had focused on catching-up with the western powers and on increasing

“... Japan’s competitiveness in the global marketplace. Each of these Visions, in that sense, was a ‘how-to’ guide on a grand scale.”

In his speech Tsukamoto assured the audience that “creating human values” was very much a part of industrial policy:

“after all, industrial policy—at least practiced by MITI—is aimed to increase prosperity or a sense of well-being in the nation.”

He claimed that MITI was aware that the Japanese were not enjoying the fruits of their labour and that the Vision for the 1990a was to:

“...shift the focus from ‘how-to’ to ‘what-for.’ ” He listed some of the objectives of the Vision:

“...greater consumer-orientation and protection, further promotion of recycling, creating greater employment opportunities and increasing security for the elderly, and pushing for advancement of women’s social and professional status. The vision also calls for vast improvement of ‘social infrastructure,’ including housing (no more ‘rabbit hutches,’ please), and a massive attempt to reduce excessive concentration in Tokyo and encourage regional development...the vision sets forth goals that must be achieved to secure long-term economic development that is essential to the enhancement of human values.”

Tsukamoto, as a government spokesman, stated a recurring theme: Although Japan’s economy might be regarded as being stagnant Japan was still experiencing some growth (1.5% GDP) and that the first fiscal stimulus package of \$87 billion was proving an effective measure to spur on the economy.

MITI’s Progeny: JETRO

During the last decade there have been claims in both the Japanese and American press that JETRO as an organization set up to promote imports does not fulfil the function effectively and that in reality MITI is manipulating JETRO for its own purposes.

Interestingly, a front-page story by Washington, D.C. correspondent Komori Yoshihisa in the June 13, 1995 issue of *Sankei Shimbun*, a major daily, triggered a series of articles questioning JETRO America’s activities.

In his article “Is JETRO Running Wild?” (*Jetero boso?*) Komori criticized the president of JETRO New York, Noguchi Nobuya, for his editorial in the April 1995 issue of Inside/Outside Japan, a JETRO New York monthly publication. The newsletter was sent unsolicited to influential people in business, academia and government. According to Komori himself a recipient of the newsletter, William C. Triplet II, aid to Republican Senator Robert Bennet (member of the Senate Committee on Foreign Relations) who also received the newsletter, objected to Noguchi’s analysis of former Secretary of Defence Robert McNamara’s book In Retrospect: The Tragedy and Lessons of Vietnam, in which McNamara re-evaluated America’s policies during the Vietnam War.

In his editorial, Noguchi wrote:

“Finally, on this 20th anniversary of the end of the war, he has made public his close examination of how he and other policy makers were gradually pulled into a dubious war. It is in this process that he repeatedly admits his mistakes. This is a courageous act. I cannot recall a single instance from among Japanese policy makers who, following Japan’s defeat, did anything remotely similar.”

Komori claimed that Triplet was enraged with Mr. Noguchi’s reference to the Vietnam War as a “dubious war,” stating that it was inappropriate for the representative of a foreign trade organization to criticize American policies. Komori maintained that Noguchi, the president of an organization established to promote foreign trade and economic cooperation, was trying to change JETRO’s image by assuming the role of political analyst. Komori contended that there was opposition in the Diet to the continuation of JETRO because it no longer served a purpose, was a waste of tax revenue, and had become, in essence, a second Ministry of Foreign Affairs (*daini gaimusho*)³⁶

³⁶ The article sent shock waves throughout JETRO New York. Noguchi was obviously shaken because of what he felt was a personal attack by Komori. The following day at 6: PM after most of the officers had left the office Komori visited the office where he had a meeting with Noguchi to “apologize.”

The monthly magazine *Sentaku* followed suit in its July edition, carrying a photograph of the April issue of *Inside/Outside Japan* and an article (authored anonymously) claiming that the reasons for Triplet's criticism was due to U.S. irritation with JETRO's activities in the United States. *Sentaku* contended that the CIA and FBI were always keeping an eye on JETRO New York's elite directors in Industrial Research (*sangyo chosain*) for activities at JETRO branches scattered throughout the United States. The two agencies perceived the directors as CIA-type agents from Japan and that their status was ambiguous because they were neither foreign diplomats nor employees of private corporations. The article stated that there was suspicion among members in the Congress that the directors of Industrial Research engaged in industrial espionage. *Sentaku* pointed to Naito Masahisa as the first MITI official to be a director of Industrial Research at JETRO New York. (p. 86) In February 1994 *Sentaku* had covered the scandal surrounding the dismissal of Naito from MITI. (The incident and the reasons for his dismissal are discussed in chapter 2)

The October 10, 1995 edition of *Nikkei* carried an article by Steven L. Harman who wrote that The New York Times had reported that the CIA and the National Security Agency had tapped the conversations of Japanese trade representatives and automobile manufacturers during the 1995 trade talks in Geneva proving that Japan was engaged in industrial espionage in the United States. Harman discovered that the FBI was focusing its investigation at JETRO Los Angeles and JETRO San Francisco, questioning former local staff about their bosses' activities:

'This is a routine part of the jobs of such Japanese posted in the United States' says an American woman, who worked for one of the Japanese agencies in California and who as questioned by the FBI about the suspicious activities of her boss.'

According to Harman, Okamoto Yukio, who held the number two position in the Ministry of Foreign Affairs' North American section, stated: "this kind of eavesdropping is quite natural."

Perhaps to give balance to the October 21, 1995 issue of *Sankei Shimbun* to the *Nikkei* report announced that the CIA also identified Australia, Canada, Germany, France, Great Britain, Italy, and Spain as countries that also conducted industrial espionage in the United States. France was pointed as being the most active. The article added that the CIA contended that JETRO appeared to be a substantial information organization.

The December 20, 1995 issue of the magazine *Sapio* also published an article about JETRO New York, questioning whether or not MITI officers engaged in industrial espionage. (pp 88-90)

What's It All About, JETRO?

The February 16, 1997 issue of *U.S. News and World Report*, a major weekly, continued to probe JETRO's authenticity as a promoter of imports with an article by William J. Holstein who sharply questioned JETRO U.S.A.'s true function. In "With Friends Like These" Holstein described JETRO as:

"...a uniquely flexible organization that defies American definition. Representatives of MITI, the key agency guiding Japan's international economic push, can float in and out, as can representatives of major Japanese companies." (p. 47)

Mr. Holstein claimed that JETRO U.S.A. did not function as a promoter of American exports to Japan but that it was a sophisticated commercial intelligence-gathering agency. He suggested that the promotional materials and activities served to disguise the true reasons for JETRO's presence. He charged that the organization:

"...is playing a far more complex and sometimes deceptive game, a growing body of critics alleges. They say that JETRO's U.S.A. operations—with an annual budget of at least \$30 million and 160 employees—are the linchpins of a pervasive information gathering effort, aimed at tapping into American technological treasure chest and learning how U.S. innovation works. 'At best, the Japanese are being disingenuous when they say that JETRO's primary job is promoting American

exports' says Edward Lincoln, former advisor to U.S. Ambassador to Japan Walter Mondale.”
(p.46)

Holstein wrote that although JETRO denied claims made by the FBI that JETRO operates as an intelligence agency in the United States he maintained:

“Indeed, the Federal Bureau of Investigation has been watching JETRO for years. The bureau declines to comment but sources say that the feds regard JETRO as the most sophisticated commercial intelligence-gathering body operated by a foreign government on the U.S. soil.” (p.46)

Holstein contended that there was a danger that products invented by American small businesses were being appropriated by the companies with whom they had teamed up. He held as an example the Clearwater, Florida entrepreneur, Donald Lewis and his electronic devise that JETRO claims to have successfully marketed in Japan in its publication, Success in the Making. Toyoshima Toru had told audiences at the New York Japan Society in 1993 about the support Mr. Lewis received, including funding of \$250,000 for expansion from the Japan Import Export Bank (related in Part I of this chapter). However, Mr. Holstein painted a different picture. According to Holstein, Toyota had agreed to use Lewis's device but a few days after the company had started using the product, Lewis received word from the Japanese distributor that he should sell his stake to Toyota. Lewis felt pressured to sell out because Toyota was a huge and influential company (pp. 47-48)

MITI officials continue to insist that JETRO is an import promotion organization. When Holstein interviewed Iizuka Kazunori, the president of JETRO New York, Iizuka stated emphatically: **“ We are promoting U.S. exports to Japan to reduce the trade gap between us.”** (p. 46). However, Edward Lincoln told Holstein:

“Their [JETRO] core mission hasn't really changed much...Helping Japanese companies with their investments, working on the acquisition of American technology, and gathering political intelligence

on Washington—these are really the reasons that justify their existence. They just prefer it if we didn't view them that way.” (p.48)

Sankei Shimbun article addressed two issues regarding JETRO's current operations. First, JETRO was no longer serving as a trade promotion organization and MITI was changing JETRO's duties so that it could move into other areas (*henshinjutsu*). Second, MITI was manipulating JETRO into a secondary Ministry of Foreign Affairs, implying that MITI was using JETRO to wrest away territory from the Ministry of Foreign Affairs. The articles in the three other publications cited above all point to alleged industrial espionage activities,

JETRO's New Role in the 21st Century: Again, MITI's "skill at disguising"

The devaluation of the yen and the declining trade deficit with Japan's trading partners may alleviate some of the burden on MITI to continue JETRO's image as a promoter of imports. Indeed, MITI is phasing out much of the import promotion literature and the potential importer data bank.³⁷ JETRO will once again take on the more comfortable image of promoter of Japanese small to medium-sized business exports again.³⁸

However, this time around it is irrational because Japanese multinationals can market and distribute exports. Also, since small businesses are ailing, MITI will have to offer substantial assistance to potential exporters.

JETRO: Expansion of Territory

Masahisa Naito was the first MITI officer to be posted as the director of Industrial Research at JETRO New York. He negotiated with the United States Trade Representative (USTR) in Washington, D. C. for the Japanese semiconductor industry in the 1980s with his colleague former Administrative Vice Minister Tanabashi Yuji. He as well as his successors commuted regularly to the Watergate office of the

³⁷ Information out of JETRO London (April 2002)

³⁸ JETRO's main program for import promotion will be the Trade Tie-up Program (TTP)

Manufactured Imports Promotion Organization (MIPRO), a MITI organization³⁹.

During his time in Washington, D.C. Naito cultivated a *jinmyaku* (human network) of American political, academic and business leaders.

After he was fired from MITI in April 1994 Naito took the position as the Marks & Murase Professor, participating in the Asia Law and Policy Studies (ALPS) program at Georgetown University. In an article announcing the appointment, the 1994 Fall issue of the Georgetown Law did not mention Naito's dismissal but stated instead:

“Masahisa Naito, who recently retired from the number two career post in Japan’s Ministry of International Trade and Industry, was in residence at Georgetown during the spring semester as the Marks & Murase Professor.” (p 7)⁴⁰

On April 7, 1994 Naito addressed an audience at the Law Center. He described the relationship between the bureaucracy and the Japanese and reminisced about the attitudes of staff working in MITI during Japan's rapid economic growth period and the change of attitudes of bureaucrats in the execution of their duties and the motivations regarding the formulation of policies, protecting territory for personal benefit and not for the good of the State:

“Evidence of the role of the bureaucracy is in the implementation of laws—eleven thousand laws and regulations. For over a hundred years, the Japanese have relied upon a higher power (*okami*). Since there was no true individualism in place, the people demanded that government take the responsibility for their social and economic problems. The result was that the ministries were granted new administrative power. Businesses feared retribution through the implementation of these laws. Even though the laws were not directly enforced, there was continuous contact with bureaucrats thus giving the ministries additional power. The work encompassed more than merely

³⁹ In the MITI 1994 Handbook, the profile of MIPRO reads: **“MIPRO was formed in February 1978 for the purpose of supporting advanced countries expand their exports of manufactured goods to Japan, thereby, contributing to the promotion of international trade and industry.”** (pp. 25)

⁴⁰ It is interesting to note that the law firm of Marks & Murase has provided legal services to JETRO. Carl J. Green, the director of the ALPS was appointed as Senior Representative of Hitachi Corporation in Washington, D.C. on February 3, 1997, a position he still holds.

management. It was deeply involved with the destiny of the People. Consequently, the work facilitating this kind of administration beckoned the best and the brightest youth. Even though the situation has deteriorated, men of high calibre are entering the ministry. Along with the changes in the institutional curriculum, 'excellence' is now being defined in terms of submissiveness to the system rather than for the good of the People. The Japanese bureaucratic system worked well while it served clearly for the purposes of 'overtaking the American economy.' However, as Japan has become prosperous and individual needs are put before state values, the system has lost its effectiveness. Now each agency aspires to its own purpose and 'turf consciousness' has become strong. This behaviour increases the obstacles to a free market economy."

Naito was implying that the Japanese did not want to take the initiative and bear responsibility for their own destinies thus passing the burden to bureaucrats. However, the fear of retribution (fear of a higher power) was inherent in the social system and was not linked to the apprehension by businesses that they would suffer the consequences if they did not cooperate with MITI's guidance. His reference to "turf consciousness" no doubt applied to confrontations between Japanese ministries for control over territory as seen in the jurisdictional disputes between MITI and the Ministry of Posts and Telecommunications (MPT) in which he participated. Johnson relates:

"But MITI has a serious problem. It is losing jurisdiction. Unfortunately for MITI, telecommunications circuits are clearly within MPT's jurisdiction." (1987 p.186)

However, Naito's "turf" also means postretirement positions and ministerial power.

Scot Callon describes the ministries' tussles over jurisdiction:

"Japanese government agencies tend to be jealously territorial, and when jurisdiction overlaps, the most common result is a bare-knuckle brawl for control.

The more territory within a ministry's jurisdiction (e.g. manufacturing sectors, health, education, construction, etc) the more prospects for *amakudari* and *yokosuberi*.

Johnson agrees:

“A bureaucrat’s security and livelihood became dependent on maintaining or expanding his ministry’s jurisdiction. Shrinking jurisdiction threaten not only the bureaucrat’s active-duty positions but also their amakudari prospects, since a ministry needs clients and captive organizations to hire those of its circumstances thus produce and intensify ‘territorial consciousness’ (*nawari ishiki*) punctuated—in Sakahibara’s words—by ‘gangster-like struggles over jurisdiction (*yakuza no nawari araso*) throughout the state bureaucracy.” (1982, p. 74)

According to Naoko Nakamura in an article for the March 31, 2000 edition of the Financial Times the number of postretirement positions in private enterprises had decreased:

“The traditional Japanese practice called ‘descent from heaven’ or *amakudari*, in which bureaucrats go to work for private companies they previously supervised hit a record low last year, according to the latest data from the National Personnel Authority.”

However, Stockwin states that the statistics released by the National Personnel Authority: “...conspicuously leave out account of those re-employed in state-run corporations and other public entities.” (1999, p. 107) JETRO has increased in value to MITI not only as a source for *amakudari* but for *yokosuberi* as well since *yokosuberi* positions can either become permanent positions or lead to other positions in JETRO-related institutions

A major reason that MITI has been able to continue JETRO is that the organization is used for the promotion of government economic policy, policy that has been planned by MITI and MOF and supported by the LDP. MITI actively uses JETRO’s overseas branches as vehicles to promote Japanese government’s economic policies by sending elite officials to JETRO offices located in countries where there are large markets for Japanese goods and where Japanese economic and trade policies are susceptible to criticism. For example, throughout the United States, Japan’s largest trading partner, JETRO operates eight offices. The spokesmen are usually the presidents of the offices (*shocho*) because they deal primarily with the public.

JETRO: Value For Money?

According to JETRO New York President Noguchi Nobuya, seventy-five percent of JETRO's budget is generated from public funds.⁴¹ According to JETRO annual operating cost for JETRO's eight American branches is \$30 million (Holstein 1998 p. 46). The sum covers salaries and benefits for local staff, JETRO and MITI officers, and daily operations of the offices that include rent, office supplies, legal fees, etc. However, this sum does not include relocation and housing expenses for all officers. The officers from other organizations receive salaries and living expenses from their individual organizations. Their assistants' salaries are also paid by their organizations through JETRO. The \$30 million covers promotional events and seminars but it does not cover JETRO's import promotion materials, which are published in Tokyo, nor does the money pay for the research done by the other organizations.

JETRO claims that all of the officers, who are considered to be on sabbatical, conduct research for their organizations at overseas branches. However, MITI and JETRO officers do little of their own research but rely heavily on consulting companies and research institutes. For example, at JETRO New York, such research institutes as Brookings and the Berkley Round Table on the International Economy (BRIE: University of California) are on retainers and smaller consulting companies that are based in Washington, D.C. and New York are also on contract. Law firms that employ Japanese nationals are used as points of contact with American government and business leaders.

The offices from other government organizations at JETRO New York rely almost entirely on outsourcing research projects because they are unfamiliar with the American political economy, the consumer culture and, also, they do not speak English well enough to conduct independent research. Local staff, many of them recent college

⁴¹ October 1995 "Nobuya Noguchi on How Small U.S. Companies Get Help from JETRO on Cracking the Japanese Market" Japan Economic Survey

graduates, do some superficial research. JETRO New York management as well as management at the other overseas offices do not encourage officers to roam far from JETRO. On the contrary, MITI does not want them exposed too much to American life for fear that they will have difficulty readjusting to their society after they return to Japan⁴² or they would find life outside Japan more to their liking and decide not to return. There have been incidences where JETRO officers have chosen to stay in the United States after obtaining Green Cards. The majority of officers at JETRO overseas offices are considered “on sabbatical” and they are not expected to engage in comprehensive research. Their duties related to the promotion of their organization and receiving delegates from their organizations are also light.

However, some officers look at JETRO New York as a way to further their careers. Although most representatives are not strictly evaluated on their performances at JETRO, some directors use their time to network with future employers (*amakudari*) or publish books in their fields. The director of Research and Planning from 1992-1996, who spoke good English, spent most of his time out of the office and on the road meeting American politicians, academics and economists. He published several books regarding Japanese-American economic relations.

In order to justify the offices (e.g. maintain territory) MITI tries to fill as many seats as possible in JETRO overseas offices. The director of EID/MITI at JETRO New York (1992-1995) admitted:

“There are many people in this office who do not want to return to Japan. Staying at JETRO on business is a very unique experience, including the nice income. The directors can have a nice

⁴² The lack of exposure can effect the interpretation of foreign societies. For example, the officer who represented Kyoto Prefecture government at JETRO New York for three years (1995-1998) culled most of his information about America from newspapers and television broadcasts. When he helped a group of producers of traditional foods and crafts in Kyoto exhibit their wares at a large exhibition at the World Trade Center he gave his views on American consumerism. He warned them that traditional products from Kyoto would not sell in the American marketplace because most Americans watched TV all day, ate spaghetti out of cans and drank large quantities of beer.

lifestyle so that's maybe the reason they do not want to go back to Japan." (Interview January 1994 JETRO New York)

While on duty overseas the officers enjoy the one to three-year respite from their organization and group pressure and a lifestyle afforded them as officers on overseas duty. Since the officers have little to keep them occupied, they are free to come and go from the office, unheard of in a regular work environment.

Conclusion: Here a JETRO, There a JETRO, Everywhere a JETRO, JETRO

In 1975 JETRO operated twenty-four trade centres and fifty-four offices in fifty-five countries. Since the number of offices has grown to eighty overseas offices in fifty-eight countries the theory can be advanced that as MITI's territory along with the number of postretirement positions in the private sector slowly decreases, the value of JETRO for *amakudari*, *yokosuberi* and *shukko* increases.

In addition the manipulation of JETRO's role of a promoter of Japanese exports into a promoter of foreign imports and foreign investment and now once again into a promoter of Japanese exports is due, in part, to the ministry's desire to create more territory not only for *amakudari* and *yokosuberi* but to engrave its signature around the world and wrest power away from the Ministry of Foreign Affairs and the Ministry of Finance. In his article for *Sankei Shimbun* Komori voiced the opinion of Diet members that JETRO had become a second Ministry of Foreign Affairs (*dainijimusho*). Although Kumano Hideaki took exception to the *Nikkei Shimbun* interviewer's question if he did not think that MITI was taking on responsibilities ordinarily done by MOF and was becoming the "second Ministry of Finance"⁴³ MITI's new name the Ministry of Economy, Trade and Industry (METI) suggests otherwise. Even the Senior Trade Advisor programme, which Toyoshima Toru referred to in his speech to the New York Japan Society, extends MITI's network across the United States.

⁴³ See Chapter 2 for review of Nikkei book *Kanryo Kishimu Kyodai Kenroku*

Also, as a means to monitor local government authorities, MITI strengthens JETRO by contriving additional duties for the thirty-six domestic offices. For example, The BSC is an extension of JETRO, using JETRO staff. JETRO branches support the twenty-two FAZ installations. Since MITI officers are transferred to JETRO domestic branches (*shukko*) they are able to monitor local government activities. MITI's close ties to Ehime Prefecture's (discussed in chapter 6) is an appropriate example of this type of control that not only MITI but other ministries are able to exert through their corporations.

The JETRO web page "Japanese Ministries and Agencies" reveals that METI (e.g. MITI) has bureaus in eight regions in Japan; METI Hokkaido, METI Tohoku, METI Kanto, METI Chubu, METI Kansai, METI Chugoku, METI Shikoku, and METI Kyushu. As was explained in chapter 4 on METI, the ministry is intent on becoming more involved in regional development and JETRO, as an arm of METI, helps METI control, directly and indirectly, local government policy regarding industrial and economic development.

In an effort to reduce the drain on public spending, MITI could easily consolidate activities with the Ministry of Foreign Affairs and the Ministry of Finance. It is logical to assume that JETRO's functions that do not relate to the promotion of imports and exports (e.g. research and surveillance of political economies and trade policies) could be executed in cooperation with the Ministry of Ministry of Foreign Affairs since MITI officers are already posted in the embassies and consulates. JETRO has become a major supplier to the foreign public of information on Japanese culture. However, Japanese embassies and consulates also have well-stocked information centres that are open to the public. Here again, consolidation of this function is appropriate.

The Japanese Chamber of Commerce and Industry is under MITI's Industrial Policy Bureau management with offices worldwide. Duties that are ordinarily consigned to JETRO could surely be facilitated through these offices so that substantial amounts of

public funding would be conserved. This is particularly relevant because much of the research done at JETRO foreign branches is farmed out to consulting companies.

Forecasts for JETRO

JETRO is said to be phasing out much of its import promotion activities and once again turning to the promotion of small business exports due to the falling yen. This would seem to be a return to its original functions. However, there are two reasons why this step is illogical. 1) Small businesses are ailing and cannot afford to adapt products for global markets. Efforts to export would entail substantial subsidization by public funding. 2) Small business exports can be marketed and distributed effectively by the giant trading companies thus alleviating the need for MITI to guide small business owners

JETRO's future role as a government-supported export promoter will be secondary to the roles that it presently plays.

1. Through JETRO's overseas offices MITI officials will continue to promote government economic policy to foreign opinion leaders, a role that is also in the realm of the Ministry of Finance.
2. MITI officials will continue operate as commercial attaches out of JETRO offices even though it is usual for foreign embassies and consulates to house commercial attaches.
3. JETRO overseas offices will continue to disseminate to the general public information on Japanese culture, markets and economic data despite the fact that the Ministry of Foreign Affairs disseminates similar information through its embassies and consulates.
4. JETRO staff will continue to research foreign political economies with the ongoing assistance of law and consulting companies even though MITI officers who are posted

in embassies and consulates can easily execute similar research as well as monitor foreign legislation related to trade and industrial standards.

6. Despite proposed future cutbacks import promotion activities, the Business Support Centers and JETRO FAZ Support Centers in Japan will continue to operate because MITI needs to maintain a presence throughout Japan.

In the final analysis since JETRO's operations can be consolidated with other organizations this leaves JETRO with little to contribute the economic well being of the Japanese. JETRO offices are essentially "empty boxes" or "virtual offices." However, as one of its main signature cards both inside and outside Japan MITI is determined to continue JETRO regardless of the cost and the Japanese will continue to support the ministry's use of JETRO.

CONCLUSION

The Japanese call their governing system a “ruling triad”- the bureaucracy, politicians and business. The most influential body is the bureaucracy, which was established in the 1880s and entrusted with substantial powers by government to bring Japan’s feudalistic economy into the twentieth century and into the same league as the industrialized Western countries. The bureaucracy continued to control Japan’s industry throughout World War Two. After Japan’s defeat the Supreme Command of the Allied Powers (SCAP) gave the bureaucracy extraordinary powers to restore Japan’s war-torn economy, putting into place a conservative government so that the United States would be assured of an ally in the Pacific where it could position military bases in order to contain Communist expansion in East Asia. The Liberal Democrats (LDP) dominated the National Diet from 1955-1993 and then again returned to power in 1996. In general ministerial policies have been continuously supported by the Diet and ministerial guidance has been generally accepted by business.

This support mechanism is grounded in a network of formal and informal relationships between bureaucrats, businessmen and politicians, which is secured and, also, perpetuated by *amakudari*, a system, which allows civil servants to take postretirement managerial positions in the private sector and in publicly funded institutions. *Amakudari* to the private sector can serve to ensure acceptance of ministerial guidance by private corporations. *Amakudari* to public corporations can serve to facilitate the migration of civil servants to positions in the private sector. Officially civil servants cannot take positions in the private sector for two years after they have retired from their ministry but they can take positions in publicly funded institutions known as Special Status Corporations and public corporations to wait out the two years before entering private corporation.

The Japanese accepted *amakudari* as a part of the civil service system before the 1990s because the economy was doing well but the bursting of the “bubble economy” and the

ensuing recession triggered growing opposition to *amakudari* because the system also acts to ossify the political economic system and to inhibit the adaptation to the demands of a constantly changing environment of the global economy.

Public opinion polls conducted in 1994 and 1995 by two major Japanese newspapers indicated that 60% of the subjects surveyed wanted the system abolished. There is growing concern that the ministries establish and use their public corporations as means to assist civil servants to parachute into the private sector and as vehicles that may control economic and social policy at the local level as well. These corporations, which Iishi Koki call “the parasite that is consuming Japan,” are illustrative of how the bureaucracy can dominate Japan’s political economic environment.

Non-performing Reforms

The forecast for Japan’s future as a global economic power is bleak. The annual growth rate during the 1990s was 1.3% compared to 3.9% during the late 1980s. During the last decade government released 120 trillion yen of fiscal stimulus packages and the Bank of Japan lowered its official discount rate from 6.75% to 0%. None of these measures have alleviated Japan’s recessive economy. In 2001 Japan’s GDP contracted 0.5%, the first annual drop in three years. In the last quarter there was a 12% plunge in corporate capital spending. Manufacturing output plummeted to 15% from its mid-2000 peak, a thirteen year low. There is \$130 trillion in outstanding bad loans and \$120 billion in corporate debt. A pessimistic view is that one-third of all corporations are not viable, however, if these corporations were to fold there would be huge pressure on the work force and on production.

There was a 30% drop in the production of IT-related electrical machinery. Reflecting the global slump in the high tech sector, corporate losses among such high tech companies as Fujitsu, Hitachi and Toshiba has resulted in announcements of huge cuts in employment. 400,000 jobs disappeared in September, the largest decrease since 1973, bringing the total of 1.5 million jobs that disappeared in 2001. According to

government sources about half a million workers will lose their jobs within the next two to three years as banks try to solve the non-performing loans problem. Cuts in public works spending will cost 650,000 construction workers their jobs. However, this estimate may be on the low side because the same source, claims that structural reforms are progressing.¹

The New York Times reported on March 26, 2002 that a Japanese government report announced that property prices fell 5.9% last year, the fastest decline in nine years. It was the eleventh consecutive year that real estate prices had dropped. Commercial property fell by 8.3% and is presently 62% below peak value registered in 1990. The banks refuse to sell property that was used for collateral because they are waiting for prices to rise again. Government hopes that deflation, the weakening yen and the fact that Japan's trade surplus is steadily decreasing will encourage manufacturers to export more, a strategy that has been fundamental to the planning of economic and industrial policy during postwar economic growth. However, Yasutaru Yamamoto, an economist at Sumitomo Life Research Institute warns:

“Relying on external demand to pull the economy forward will only bring about another weak recovery. These problems are structural, and it’s hard to see full-fledged recovery until these are resolved.”²

The Japanese still believe in their value system and have yet to feel the real sting of the economic slump. They are purchasing government bonds, believing that their investment is secure.³ It is improbable that significant change is likely to occur soon.

¹ March/April 2002 Journal of Japanese Trade and Industry p.21

² March 9, 2002 Japan Times Online

³ According to the Ministry of Finance “Planned Bond Issuance for FY 2000” report 23% of bonds offered are 10-year bonds and 5-year Discount Bonds, Public Offering Bonds (i.e. 30-year, 20-year, 6-year, 2-year bonds and Treasury Bills) comprised 41% of the bonds offered. These bonds, totaling 65%, are distributed in the Private Sector. MOF’s Trust Fund Bureau comprised 21% of the bonds, Postal

Prime Minister Koizumi has proposed reforms that encompass three areas: 1) fiscal reforms 2) state-sector reforms 3) tackling the non-performing loans. In an effort to ease mounting public debt, which was 130% of GDP for 2001 and is in danger of rising to 140% of this year's GDP, and to ease public spending, Koizumi wants to privatize state-run banks such as the Postal Savings Agency and downsize drastically the Fiscal Investment and Loan Program, the two bodies that fund public works programs and public corporations. Koizumi is also intent on eliminating or consolidating Special Status Corporations as well, proposing a cut of government subsidies of 5 trillion yen. However, as was noted in the second chapter, Koizumi's proposals are meeting with stiff resistance from members of his own party and from the ministries as well. So far, only four Special Status Corporations out of the 163 Special Status Corporations are slated for consolidation and three for elimination. Four of the highway construction-related-Special Status Corporations are to merge and the Urban Development Corporation, the Housing Loan Corporation and the Japan National Oil Corporation will be eliminated. All of these corporations are heavily in debt.

Koizumi's reforms also include the regulation of *amakudari* in both private industry, Special Status Corporations and other public corporations but here too he faces stiff opposition because of the vested interest of bureaucrats, politicians and businessmen. Indeed, most reforms have been stymied because, as was pointed out in the February 16 issue of the Economist:

“These groups stand to gain from the fiscal gravy train that has rattled along unhindered throughout the slump. Just as important, these factions are constantly battling each other, over which should bear the blame and financial costs of fixing the problem.” (p.26)

Savings comprised 6% and Bank of Japan bonds amounted to 9%. These bonds totaling 35% are distributed by the Public Sector.

Since the lawmakers are among the members of these groups reforms are in a state of political limbo. Japanese voters, who have allowed the Liberal Democrats to dominate the Diet for most of Japan's postwar history, feel helpless to deal with these factional frays. Indeed, they themselves are part of the mechanism that frustrates reforms. Lincoln claims that the majority of Japanese have vested interests. (October 2001, p. 2)

Small and medium-sized enterprises that employ 78% of the work force and that engage in 99% of Japan's business activity are staunch supporters of the LDP. Manufacturing businesses both *keiretsu* and independent that rely on procurement contracts from bigger Japanese businesses and, therefore, domestic demand are folding as orders have dropped dramatically during the last ten years. Larger companies are not only procuring cheaper parts from Korea, Taiwan and Malaysia but, also, they are pulling manufacturing operations out of Japan and setting up plants in Asia and in countries where labor and operational costs are far less than in Japan. The hollowing out of Japan spells the disintegration of the *keiretsu* system and painful times for smaller independent enterprises that have not developed sales and distribution networks abroad as the medium-sized chemical producer whose case is discussed in the fifth chapter.

The rate of bankruptcy among small businesses has risen dramatically since 1998, peaking in 2000. METI attributes the bankruptcies directly to the bursting of the asset inflated bubble and the ways that loans were made to small businesses before the recession began. In the mid-eighties local, metropolitan and state-run banks pursued small business owners and entrepreneurs with many types of low-interest, long-term loans. Now that banks are calling in loans and becoming stricter in assessment of loan applications, small business owners are naturally anxious about how reforms will affect them and their families. The reform of the Postal Account Agency and the downsizing of FILP indicate less accessibility to loans and subsidies through such MITI-run public corporations as the Japan Finance Corporation for Small Businesses that have doled out subsidies and long-term loans (up to twenty years) at low-interest rates since the late 1950s.

Traditionally in Japan small business owners have identified so strongly with their companies that they would prefer closing than tying up with other small businesses in order to continue. Even merging with larger business is not a usual solution for avoiding bankruptcy. Most big business leaders want to support Koizumi's reforms and members of the Japan Federation of Economic Organizations (*Keidanren*) express vocal support. On the other hand, members of Chamber of Commerce and Industries whose members are small and medium-sized business owners have an entirely different attitude and prefer to support the status quo rather than risk their families' immediate futures.

The Japanese Diet must have the political will to make policy that will begin to pull Japan back from the brink of disaster. However, the social mechanism that can create this resolve simply does not exist in Japan's political system. It has been pointed out throughout the thesis that since the Meiji Period, the Japanese political economic system has been characterized as a web of interconnecting formal and informal personal relationships between government officials, businessmen and bureaucrats. The organic interdependence can paralyze decisive policy making during a crisis, nevertheless, these elements are inherent to Japanese society. Van Wolferen contended twelve years ago that the Japan's governing system is still rooted in the 1950s with a *de facto* one-party system continuing to dominate the electorate:

The problem today is that Japan is dragged too forcefully in one direction, for lack of a mechanism to set new priorities. The political give-and-take among the System's components interferes with the nation's need to deal with the rest of the world." (1990 p.48)

The case remains the same today because no mechanism exists in the Japanese socio-political system that thwarts this political give-and take. In 1990 Japanese in the banking industry predicted that within ten years some banks and public universities would go bankrupt. Their predictions have come true but instead of restructuring, troubled banks merge thus postponing necessary restructuring.

Van Wolferen wrote in 1990:

“The American-designed Japanese constitution does not define a political system in which laws prevail over authorities. Japan is ruled through highly informal structures of government and bureaucratic authority, which dovetail with so-called *jinmyaku* (personal network) relations and transactions unregulated by law, among clusters of elite.” (1990, pp. 46-47)

He maintained that Japanese civil society was politically weak and ineffective as a mechanism for change. He also claimed that like bureaucrats everywhere, Japanese bureaucrats identify themselves through their efforts to bring power to their ministries:

“Unless changes could conceivably bring further advantage to their own bureaus, bureaucrats will endeavor to work for the status quo.” (1993, p.45). Since Japan’s bureaucrats are administering reforms, the process will go at a snail’s pace.

Lincoln also believes that significant reforms would not be forthcoming:

“Unlike the United States or other countries where political dissatisfaction led to electoral outcomes that brought deregulation and a reduction in the economic role of government, in Japan the bureaucrats themselves have been granted the mandate for change.” (2001 pp.5)

Lincoln wrote that even though there was a recent major reshuffling of the ministries, it amounted to: **“...moving pieces of various ministries around within the ministerial structure,”** (p.5) Furthermore, there has been no real effort made to address the bigger problem of government’s role in Japan’s economy. It can be suggested that sincere promises that reforms will be initiated can promote the image that reforms will be implemented.

Proposed Reforms of Special Status Corporations and JETRO

The recessions and burgeoning public debt has brought about popular recognition that the ministries are using their Special Status Corporations for *amakudari* and as listening

posts in the prefectures, a mechanism that directly links central government to local governments, allowing elite bureaucrats to monitor local government policy. Japanese, who are members of opposition parties and also members of the media began objecting to the uses of Special Status Corporations for these specific reasons.

The ministries' determination to maintain the status quo and thus protect vested interests is aptly illustrated in the preservation of Special Status Corporations and other publicly funded organizations. Whether Koizumi's intended overhaul of Special Status Corporations will actually be implemented is a question that has yet to be answered. In 1995 when the Murayama Coalition government reviewed Special Status Corporations for reform MITI was reluctant to cooperate. Indeed, the name of one of the ministry's corporations slated for dissolution, the Japan National Oil Corporation, will be eliminated but in name only because its operations will be transferred to another MITI Special Status Corporation, the Japan Metal Mining Corporation.

The Japanese press claims that in order to maintain their Special Status Corporations the ministries manipulate the activities, substituting or adding activities. This is called in Japanese "*henshin gijutsu*" or the skill at disguising." The Japan External Trade Organization, established in 1954 and taken over by the MITI in 1958, is a good example of how a ministry can orchestrate the functions of one of its major Special Status Corporations in order to ensure its continuation. JETRO's original mission was to promote Japanese small business exports but by the early 1980s Japan's trade surplus made the organization no longer practical. Nevertheless, since MITI had come to rely on JETRO for functions other than export promotion, it transformed JETRO into a promoter of imports, later into a promoter of direct investment and international economic cooperation, and this year, again changing JETRO's focus to promoter of exports in order to continue operations.

Japanese press and journalists maintain that MITI uses JETRO not only for purposes of *amakudari* but also for functioning in roles overseas that had been done in the past by

both the Ministry of Foreign Affairs and by the Ministry of Finance. In essence MITI uses JETRO to snatch territory away from other ministries. In the United States where there are seven JETRO' offices, the CIA and FBI charged that JETRO staff was involved in industrial espionage activities. More significantly, foreign businesses and government officials were wary of JETRO's claims that it effectively functioned as an import promotion agency.

It is popularly believed in Japan that JETRO is an import promotion organization but the Japanese are surprised when they hear that JETRO has as many as eighty overseas offices and thirty-six domestic offices. If they were made aware of JETRO's extraneous uses, the expense incurred for maintaining these offices and for import promotional activities that are said to be ineffective, the majority would be appalled but they would not protest. After all, JETRO has existed for almost fifty years and is being managed by a bureaucracy to which they have deferred power since the Meiji Restoration. Since the Japanese have a strong institutional memory it is highly probable that JETRO will remain unscathed by structural reforms when and if they do occur.

In his speech⁴ at Georgetown University Naito Masahisa defined the reasons why the majority of Japanese have consistently acquiesced to bureaucratic rule. Naito explained:

“For hundreds of years the Japanese have relied upon a higher power (*okami*). Because there was no individualism in place they demanded that government take responsibility for social and economic problems. The result was that the ministries were given much power. Businesses feared retribution through the implementation of their laws. Even though laws were not enforced directly, bureaucrats were in constant touch with businessmen, thus giving more power than was necessary.”

The Japanese' reliance for centuries on either an emperor, a military or the bureaucracy to govern them and the innate fear of retribution if they do not submit to edict or

⁴ The excerpt from the speech was taken from the original manuscript, which Naito brought with him to JETRO New York after he had been dismissed from MITI. The circumstances surrounding his dismissal are covered in chapter two.

guidance clearly shows why Japan's present socio-political system defies change.

Elements explicit to this system are:

- 1) A rigid hierarchical socio-political system with a bureaucracy that was invested with the powers to plan and implement Japan's economic development without being subject to legal sanctions.
- 2) The close cooperation between business, the bureaucracy and the Diet that began during the Meiji Restoration. The finely tuned relationship continued before and after World War Two. Known as "the iron triangle," it is one of the dominant features of the current governing system.
- 3) A conservative party that has dominated the Diet since 1955 and that has consistently supported the bureaucracy's policies.
- 4) The network of ex-bureaucrats throughout business and government that is perpetuated by the *amakudari* system, which greatly enhances bureaucratic power to enforce policy at both the national and local levels as seen in the use of policy instrument "administrative guidance".
- 5) The significant social pressures to accept policy and bureaucratic guidance.

Forecast for Japan

Although during the last fifty years the Japanese have achieved remarkable economic growth, their socio-political system has not developed at the same pace to support the internal social changes that have come as a result of this rapid growth. The system also cannot support adaptation to external pressures as well. The Japanese seem to be locked into a system that still resembles the prewar model yet their circumstances have changed dramatically. All energy was concentrated on catching up with the United States and becoming a world economic power but little analysis was given to how economic

growth was affecting the future Japanese socio-political system. An example that aptly illustrates this problem is the use of fiscal stimulus packages for public works. Hundreds of miles of roads and highways and bridges were constructed, providing companies with lucrative contracts and workers with employment but how these roads would serve the Japanese, operational costs and maintenance were not considered. In other words, highways and bridges were built for the sake of being built.

Too Little Too Late

Continued political bickering among vested interest groups is causing political gridlock and interfering with the implementation of substantial structural reforms. The economy may seem to revive at times due to external demand but basic structural reforms must be initiated before there is a solid and pervasive recovery. In the early 1990s during the Hosokawa and Maruyama administrations voters had great expectation that government would do something to ease the effects of the bursting of the “bubble” but they were disappointed to find little change resulted even with electoral reforms and the release of fiscal stimulus packages. Indeed, they later discovered that government was compelled to further subsidize public works projects being financed by the stimulus packages because construction that had been contracted out to construction companies by Special Status Corporations managed by the Ministry of Construction went over budget.

Dealing With External Pressures

The government's reactions to external pressures (*gaiatsu*) that Japan may face vary. The most significant external factor that would serve to pressure the Japanese to initiate change is the competition from other economies in world markets. For example now that the United States has levied a 30% tariff on steel imports, Japanese steel companies, which experienced big losses last year, will face even stiffer competition from Korean steel producers in Asian markets. Many government officials regard the rapidly developing economies in Asia, especially China, as potential threats to Japan's economy. Some believe that Japan should form a free trade zone with neighboring countries such as Korea, Taiwan, Hong Kong and Singapore.

Another opinion held by conservatives in government is that Japan should insulate itself from the competition of the rapidly developing Asian economies by strengthening protectionist policies. They predict that China will be the United States' future philosophical and economic rival and that there is a real danger of a military conflict between the two countries and that Japan, as an ally of the U.S., would be dragged into the fray. However, these worries are far-fetched because China is plagued with numerous problems such as extreme poverty in the inland provinces and rampant corruption in both government and business and cannot be conceived as a major threat to Japan in the foreseeable future

Internal Pressures that Should Spur Change But Probably Will Not

1. Personal Bankruptcy

It would seem that if enough Japanese experienced personal bankruptcy they would be shaken out of their political malaise. Although on the average Japanese have a high percentage of personal savings they also have outstanding loans. When household wage earners are laid-off they will no longer be able to pay off family debts. If they purchased their homes or apartments during the bubble economy, they would have paid highly inflated prices, borrowing heavily. If they were to sell property now at currently deflated prices they would not be able to pay off their loans. Also, they may not have

the funds to pay inheritance taxes to receive property willed to them by their deceased relatives.

Nevertheless, failure to meet mortgage payments may not persuade Japanese to pressure government to hasten structural reform because they are reticent to admit to bankruptcy because of the social stigma attached to it. They will prefer to live with solvent relatives or to borrow money from relatives.

2. Failure of the Social Security System

There is the recognition among the younger generation that government will no longer be able to support the social security system because of the falling population. Parents who are sixty-five years or older receive full benefits and rely on the consistency and security that the present system provides but their children no longer trust the system and try to avoid paying into the system. If the welfare system were to go bankrupt, the aging population, which comprises one-third of the population might pressure government to take action.

3. Disintegration of Job Security

Although most small businesses could not afford to guarantee lifetime employment, until recently the larger corporations guaranteed jobs. However, in order to avoid expensive employment benefits, companies now are outsourcing work and hiring workers on contract, which is making the job market more competitive. The young Japanese executive class with exceptional skills and secondary degrees from foreign universities no longer feel the pressure to remain loyal to one company and may change jobs mid-stream but the job crunch makes most workers nervous about secure futures.

4. New Nationalist Movement

Along with continuing corporate bankruptcies and rising unemployment there is a growing discontent that is serving to drag an already conservative electorate further to the right. There is some concern among Japanese and foreigners alike that Japan might resort to a military confrontation with neighboring countries. The New Nationalist

movement, which is gaining political strength, could use the xenophobic tendencies inherent to Japanese society to incite civilians to believe that Japan should be strong both economically and militarily to stave off the threat of aggression from foreign powers (as was the edict of Emperor Meiji). Although the younger generation would probably acquiesce to serving compulsory military duty for one or two years, the majority, who want to continue living a peaceful and comfortable life, would not want to commit themselves to military action.

It is now apparent to western commentators who originally believed Japanese government officials who promised reforms that the Japanese political economic system is so rigid that it cannot deal the economic crisis. The May issue of the “Oriental Economist” predicts another decade before Japan rights itself.⁵ A more pragmatic figure would be twenty years. The National Personnel Agency is now running an appeal on the Internet to private companies for jobs for retiring bureaucrats. The ad states: **“Use the talents and skills of retiring civil servants!”**

In Japan’s case “structural reform” points to a major overhaul of the system itself and this process will take many years. What is fundamental to this process is an intense participation by voters at the grass roots level but this has yet to occur because there is no vehicle in the socio-political system to promote this kind of participation. Also, opposition parties that were at opposite ends of the philosophical spectrum are now converging as the LDP platform encompasses all of their platforms. The Japanese are in a political limbo.

Less Isolation From the Political Process

Until recently, the Japanese were fairly isolated from the political process. They perceived their elite bureaucrats and politicians as existing outside of their world and unreachable. Some Japanese, who are educated at high-ranking universities like Tokyo University, voice opinions about policy issues but the majority of voters have not

⁵ “The Japan that can Recover” (p.3)

wanted to commit themselves. Voters tended to cast their votes for personalities rather than for issues. In the early 1990s there were movements by politicians in the National Diet during the Hosokawa and Murayama administrations toward reforms that could have stopped the evolutionary process of Japan's economic deterioration but many Japanese feel that the opportunity was lost when the LDP returned again to dominate the Diet in 1996.

There are several trends that may point to a growing awareness of the political process and an active role by the electorate in Japanese politics in the future: 1) Diet sessions are now being televised daily and voters can watch their politicians in action. 2) Grass roots movement against central government policies concerning unnecessary infrastructure work as was pointed out in chapter seven has been occurring but these episodes are still the exception to the rule. The Japanese lack the confidence and drive that is needed to inspire major change.

Older Generation v.s. Daydreaming Younger Generation

The generation of Japanese that grew up during the war years or were part of the baby boomer generation wanted economic recovery and prosperity and willingly allowed bureaucrats to guide them. They believed that their government could protect them from economic disaster and they are amazed and shocked by the events of the last ten years. Nonetheless, they feel that they are survivors, having recovered from the devastation of a war, two energy crises and a recent earthquake and that they will survive the economic downturn, leaving government to find a solution. They are very conservative and do not want change because they fear that they will lose what they have worked so hard to achieve. They have transmitted this conservatism on to their children but, also, they have given them the physical comforts that they did not have.

The generation that was born in the 1970s and 1980s did not experience the hardships of their parents and thus take life in stride. They are not concerned with the end of the system that guaranteed job security because they simply look for another job. Called

“parasite children” they live with their parents, take blue-collar jobs to earn a small income while they look for their “dream jobs” which they believe will give them personal satisfaction but which may never materialize given Japan’s serious economic state.

New Blood In the Bureaucracy but...

Kozo Yamamura contends that the power and turf of the ministries is decreasing rapidly in the 1990s because of the 1995 law that officially prohibits oral transmission of “administrative guidance” and because of the Public Information Act. He feels that these laws will fundamentally change bureaucratic behavior. (1997, p. 312) However, the bureaucracy will not give up territory without a struggle as has been illustrated with the resistance to the streamlining of Special Status Corporations and public corporation.

The bureaucracy will remain strong, however, some younger elites, who have received foreign education and MBA degrees, are opting to leave the ministries and go into business or academia. Their incentive is the concern that in the future such compensation as *amakudari* into top Japanese companies may decrease along with prospects of a lucrative double salary. This exodus may seem to deplete the brain trust in the bureaucracy but elite hopefuls will fill the empty slots simply because of the competition in the job market. From a positive standpoint, a more diverse graduate population from other universities besides Tokyo and Kyoto may actually break the Todai Clique barrier and revitalize the atmosphere in Kasumigaseki. However, conservative policies will prevail along with “turf consciousness.”

Japan’s economic woes were originally attributed to macroeconomic reasons emanating from inflated real estate and stock prices. The possibility that structural problems and flaws in the Japanese system itself were contributing factors generally was not considered until fiscal stimulus packages not only failed to ignite the economy but also sent government debt skyrocketing. Japan’s prolonged economic stagnation has finally brought into the open the fundamental reasons for the inability of the Japanese to take

decisive measures to bring about an economic recovery. What economists and political scientists have come to understand is that in order that substantial reform can be initiated, Japan's socio-political system will have to change as well.

Direction of Research

Special Status Corporations and public corporations are illustrative of the basic nature of Japan's political economy. The subject is relatively new and further investigation should prove to be an effective method of gauging the progress of structural reform in regards to the civil service system and ministerial power. The streamlining of these organizations could indicate that the ministries are growing weaker as elected officials at both the national and local levels push for an end to public funding because of government debt. On the other hand, a stable number could indicate that the ministries are determined to maintain their corporations and, despite a decrease in public funding, other sources, perhaps from private industry, are being tapped to guarantee continued operation.

Research of Special Status Corporations and public corporations as vehicles that promote bureaucratic control of Japan's economy may be a more effective method of observing the Japanese economy than through quantitative methods since statistics collected in Japan regarding industrial output have been proven overly optimistic and thus unreliable. The Financial Times reported on March 13, 2000 that the figures on Japan's GDP were incorrect because of problems in the way data was being collected. The main collector of economic statistical data, the Economic Planning Agency (EPA), had made major revisions in the statistics it released on Japan's GDP and that there was a discrepancy in the quarterly figures and monthly figures. Also, MITI released figures that portrayed production had increased in order to show that demand was strong while the EPA's statistics showed that demand had declined:

“Such discrepancies are not unique in Japan; the IMP says many other countries face ‘data issues’. But they appear to be worse in Japan than in most industrialized countries partly because there is no single statistical agency with responsibility for the numbers.”⁶

⁶ Gillian Tett March 13, 2000 “Recession or recovery; the figures don't add up” Financial Times

A few weeks after the article appeared, the late Prime Minister Obuchi Keizo called for a total overhaul of statistics collection.

It is hoped that the Public Information Act and media coverage will make accessing information about Special Status Corporations and public corporations easier and thus facilitate research. Nevertheless, Japanese academics are still reticent to probe into this area and researchers may have to rely on Japanese magazines and books rather than on academic literature for reference material.

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Ministry of Economy, Trade and Industry: www.meti.go.jp

Ministry of Finance: www.mof.go.jp

Ministry of Public Management, Home Affairs, Posts and Telecommunications:

www.soumu.go.jp

Special Status Corporations

Electric Power and Development Corporation:

Japan External Trade Organization: jetro.org.jp

Japan Highway Corporation:

Japan Finance Corporation for Small Business:

Japan National Oil Corporation:

Japan Small and Medium Enterprise Corporation:

Japan New Energy Development Organization:

APPENDIX 1

THE MINISTRY OF ECONOMY, TRADE AND INDUSTRY

APPENDICES

About METI

HISTORY OF METI

The post-war reconstruction period ... the years of high economic growth ... the present. The history of METI reflects the history of Japan itself. From the time when you were born to the future which you will create, METI will be steadily working beside you.

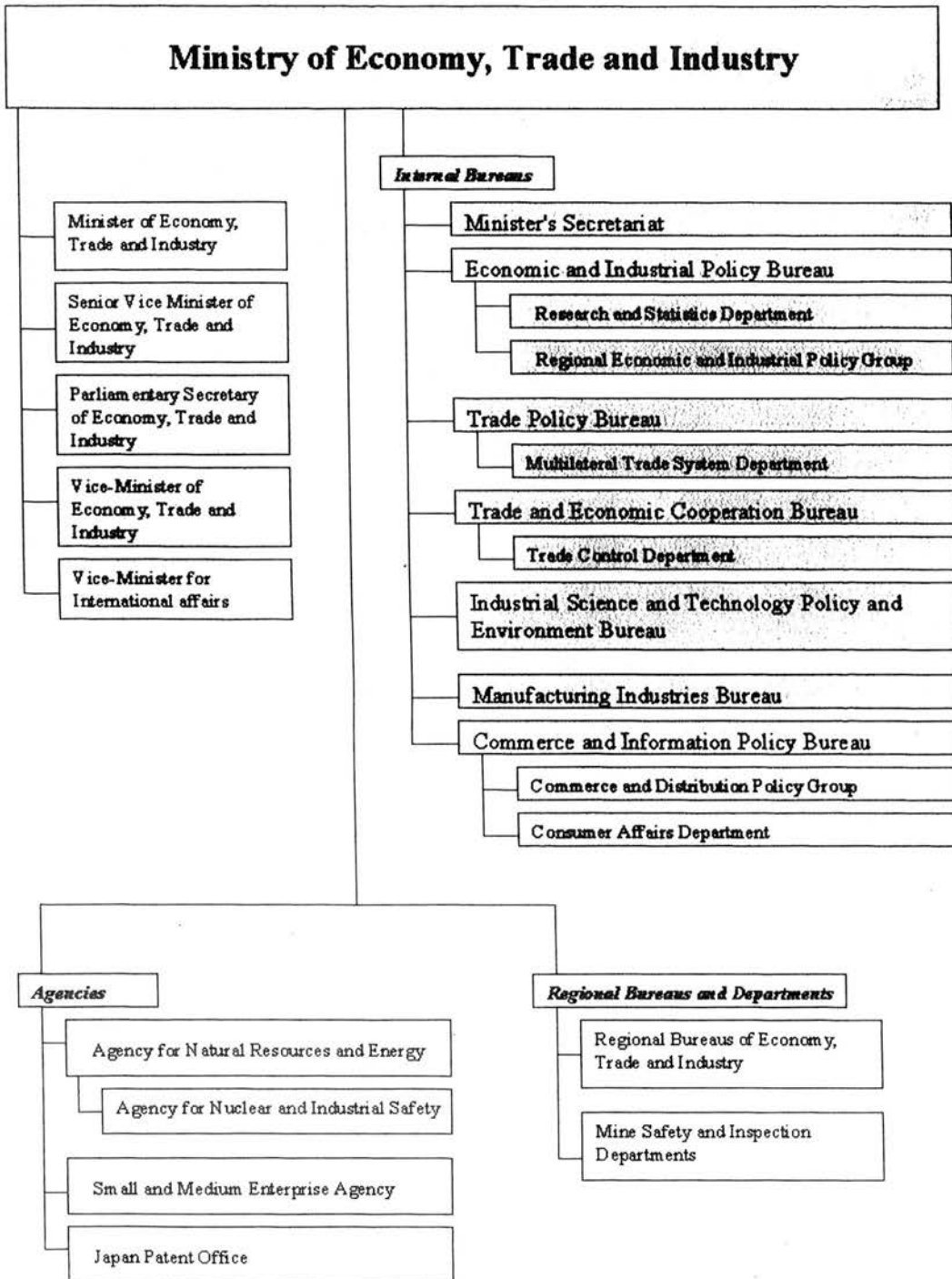
End of WWII	1945	
Promulgation of Japanese Constitution Electric rice-cookers emerge on the market	1946	Revival of the Ministry of Commerce and Industry
Single currency rate of 360 yen/\$1 Dr. Hideki Yukawa awarded the Nobel Prize	1949	Adoption of priority production system
Signature of Treaty of Peace with Japan and the Japan-U.S. Security Treaty	1951	Establishment of the Ministry of International Trade and Industry
Start of television program "Sazae-san"	1955	
Japan joins United Nations "End of the post-war period" becomes a catchphrase	1956	Japan joins GATT
Tokyo Tower completed 10,000 yen bill issued	1958	
Marriage of the Crown Prince	1959	Establishment of JETRO
Public demonstrations over the U.S.-Japan Security Treaty	1960	
Assassination of President Kennedy	1963	Plan to liberalize trade and currency
Tokyo Olympic Games First color TVs sold	1964	Establishment of the Basic Law on Small and Medium Enterprises
Prime Minister Eisaku Sato visits U.S. Agreement on the return of Ogasawara	1967	Industrial Structure Council launched
300 million yen incident Auto sales pass the 10 million mark Kasumigaseki Bldg. completed	1968	Formulation of Public Nuisance Countermeasures Basic Law First stage of capital liberalization (second in 1970s, etc)
Japan's GNP becomes second in the world	1969	Formulation of Basic Law on Consumer Protection
Japan Expo	1970	
Dollar shock	1971	

Return of Okinawa Japan-China diplomatic relations restored	1972	Creation of 1970s Vision
Oil shock	1973	Signature of Japan-U.S. Textile Agreement Establishment of Agency of Natural Resources and Energy Major organizational reform of MITI
Former Prime Minister Sato awarded Nobel Prize Novel "Nippon Chinbotsu (The Collapse of Japan)" becomes a best-seller	1974	Measures to combat the oil crisis and escalating prices
Okinawa International Ocean Expo	1975	Petroleum Supply and Demand Optimization Law
Lockheed scandal	1976	Emergency Law for Stabilization of National Life
Narita Airport opened	1978	GATT Tokyo Round (up to 1979)
	1979	
Tokyo Summit	1980	
Record-lending stores emerge	1981	Formulation of 1980s Vision
Tokyo Disneyland Opens	1983	Voluntary regulation of auto exports to U.S. begins
Tsukuba '85 (Science Expo) opens Hanshin Tigers top baseball rankings for the first time	1985	Formulation of Technopolis Law
Skyrocketing yen; strong yen recession	1986	Import expansion measures, creation of an action program
National rail company split up and privatized Satellite broadcasts begin Space-shuttle Challenger blows up Equal Opportunity Promotion Law launched Stock prices skyrocket	1987	GATT Uruguay Round Japan-U.S. Semiconductor Agreement concluded Maekawa Report Measures to combat yen appreciation and structural adjustment following Plaza Accord
Tokyo Dome completed Seto-Ohashi Bridge opened	1988	Emergency economic measures taken for domestic expansion (fiscal measures worth 6 trillion yen)
Collapse of the Berlin Wall Consumption tax launched	1989	Measures taken to address global environment issues
Unification of East and West Germany	1990	Launching of APEC, Japan-U.S. Structural Impediments Initiative
Collapse of the Soviet Union Gulf War Birth rate falls to 1.57	1991	Gulf crisis countermeasures Creation of 1990s vision

Completion of EC market integration Barcelona Olympics Collapse of the bubble	1992	Law for Promotion of Utilization of Recyclable Resources (Recycling Law) formulated (amended to the Law Concerning the Promotion of Effective Utilization of Resources) Formulation and amendment of distribution-related laws such as the Large Stores Law
Marriage of the Crown Prince	1993	Rio Earth Summit Publication of the Report of the WTO consistency of Trade Policies by Major Trading Partners
Rice shortage Formulation of political reform bill	1994	Tokyo Summit Largest-ever package of comprehensive economic measures (project scale of 13.2 trillion yen)
Great Hanshin-Awaji Earthquake	1995	Uruguay Round negotiations concluded Seventh APEC Ministerial Meeting held in Osaka
Atlanta Olympics First Asia-Europe Meeting held	1996	Formulation of the Law on Temporary Measures to Facilitate Business Innovation and the Temporary Law Concerning Measures for the Promotion of the Creative Business Activities of Small and Medium Enterprises
The First Meeting of the WTO Cabinet Conferences (Singapore) COP3 in Kyoto	1997	
Nagano Winter Olympics	1998	
G8 Kyushu-Okinawa Summit Meeting	2000	

About METI

Organization of METI



The Restructuring of METI

for Logical Consideration, Effective Action and an Emphasis on Results

The Ministry of Economy, Trade and Industry has restructured its organization in the following ways, in order to carry out our policies based on our new mission.

- 1 Promoting Economic Restructuring with the Aim of Understanding the Total Economy, both Microeconomic and Macroeconomic:
- 2 Promoting Regional Economic Development:
- 3 Developing a Structure With Improved External Economic Relations:
- 4 Greater Integration of Industrial Policy and Technology Policy and Coordination with Environmental Policy:
- 5 Responding to Industrial and Economic Realities from a Broader Perspective:
- 6 Enhancing Information Technology and other Economic and Social Infrastructure and Making the Economy More Responsive to Consumer Interests:
- 7 Ensuring a Stable Energy Supply Consistent with Both Environmental Protection and Efficiency Concerns:
- 8 Enhancing a System of Provisions Fundamental to Technological Development and the Protection of Intellectual Activity:
- 9 Enhancing the Economy through the Growth and Development of Independent Small and Medium Enterprises:
Promoting More Efficient, Better Operation through Devolution:
Reorganizing for Faster Decision –Making and More Flexible Management:

[Details](#)

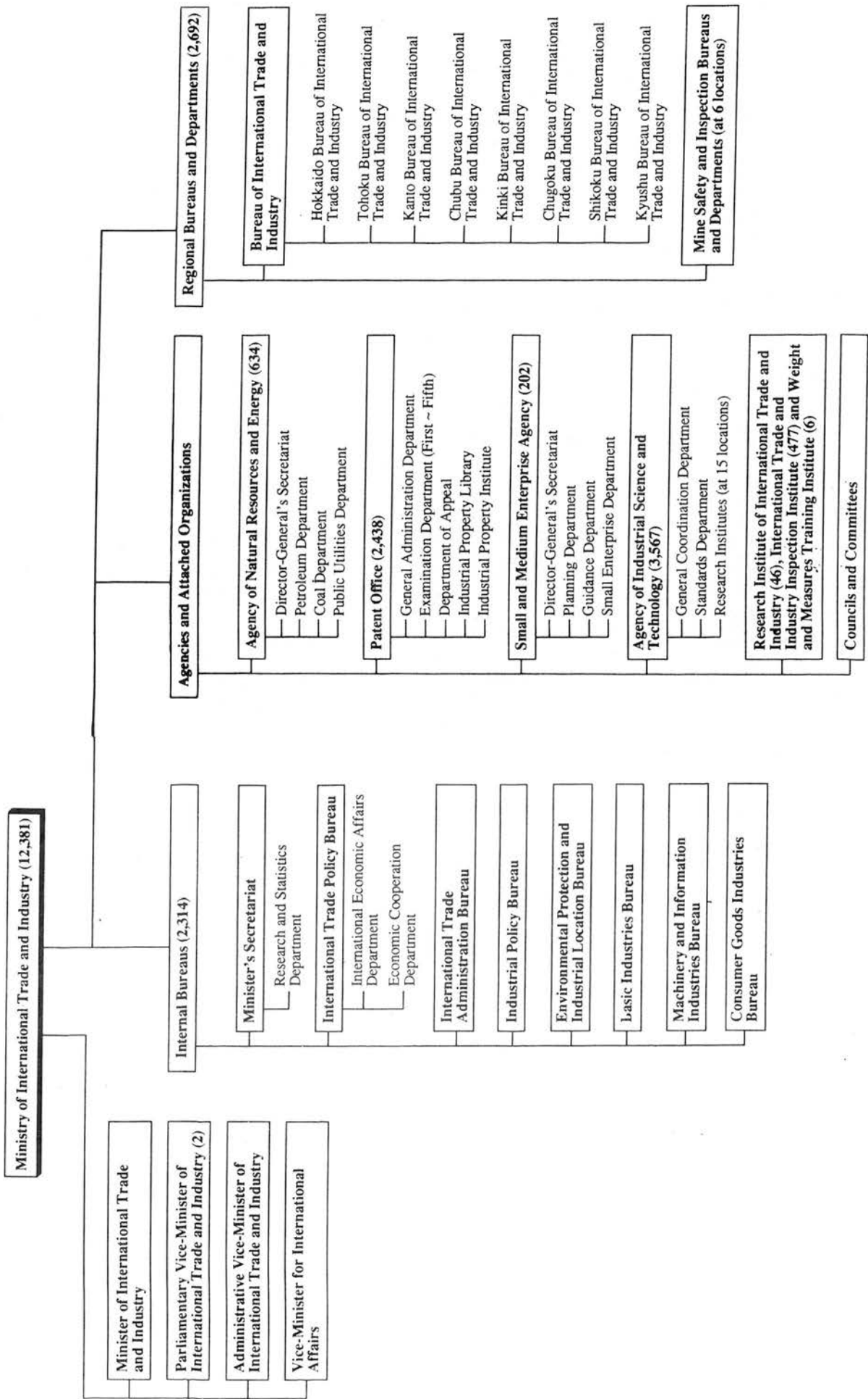
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APPENDIX 2

THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

Organization of MITI

MITI is organized so as to facilitate the effective implementation of concrete measures in line with the Ministry's basic policies.



APPENDIX 3

MERCIAN, INCOPORATED

Brief History

December 1934	Showa Brewery Co., Ltd., is established in Tokyo
April 1935	Production of alcoholic beverages begins
September 1937	Production of <i>Sanraku</i> synthetic sake begins
March 1946	Production of <i>shochu</i> , a distilled spirit, begins
March 1957	Production of feedstuffs begins
May 1961	The Company merges with Nisshin Brewery Co., Ltd., and acquires the Mercian label
July 1962	The Company merges with Ocean Co., Ltd., acquires Ocean brand whisky and changes its name to Sanraku Ocean Co., Ltd.
January 1966	Production of the agricultural antibiotic, <i>Kasugamycin</i> , begins
September 1969	Production of the medical antibiotic, <i>Josamycin</i> , begins
November 1972	Concludes an import and distribution agreement for Tio Pepe brand sherry with Gonzales Byass S.A. of Spain
May 1973	Acquires distributorship for Japan of wines produced by Gustav Adolf Schmitt GmbH of Germany
October 1973	Acquires distributorship for marketing Tokay brand wines from Hungary
October 1977	Concludes an import and distribution agreement with Jim Beam Brands Co. of the U.S. for the Canadian whisky, Windsor and the bourbon whiskey, Old Crow
December 1981	Marketing of the anticancer agent, <i>Aclacinomycin</i> , begins
January 1982	Distributorship for Japan of the wines produced by Maison Albert Bichot, S.A. of France is acquired
January 1984	Distributorship for Japan of the cognac produced by Rémy-Cointreau S.A. of France is acquired
March 1984	Concludes import and distribution agreement for Rhine wines with Administration Schloss Reinhartshausen of Germany
April 1985	Company name is changed to Sanraku Co., Ltd.
October 1987	Premium wine producer, Markham Vineyards of Napa, California, U.S.A. is acquired
January 1988	Forms a sole-agency agreement with William Grant & Sons Ltd., Scotch whisky distiller, to sell Glenfiddich single-malt whisky and Grant's blended whisky in Japan
June 1988	Sales of the anticancer agent, <i>Pirarubicin</i> , begin
July 1988	Concludes an agreement for the import and distribution of the French champagnes produced by Pommery
October 1988	Concludes an import and distribution agreement with Crus & Domaines de France, and purchases Château Reysson, a winery in Bordeaux, France
May 1989	Sales of <i>Original Peachtree Fizz</i> , a low-alcohol beverage, begin
December 1989	Concludes business relationship with seven Italian wine makers, including Bersano S.p.A., to increase selection of Italian wines for marketing in Japan
July 1990	Sales of Chinese Shaoxing wine, Gu Yue Long Shan, begin
	Establishes a joint-venture company, Shenzhen Main Luck Pharmaceuticals Inc., with a Chinese pharmaceutical company to produce anticancer drugs for the Chinese market
September 1990	The Company's name is changed to Mercian Corporation
January 1993	Begins import and distribution of wines produced by Viña Concha y Toro S.A. of Chile
June 1994	Introduction of <i>Bon Marché</i> , a moderately priced table wine, triggers rapid expansion of the wine market in Japan
July 1995	Mercian Karuizawa Museum of Art opens
November 1996	Begins importing and distribution of wines produced by Bodegas Trapiche S.A. of Argentina Katsunuma Winery becomes the first in Japan to receive ISO 9002 certification
December 1997	Receives ISO 9002 certification for Tomakomai Plant, thus completing awards of certification to all our plants and wineries
September 1998	Begins import and distribution of wines produced by Robert Mondavi of California, U.S.A.
October 1998	Katsunuma Winery achieves ISO 14001 certification, the ISO's standard for environmental management systems
January 1999	Begins import and distribution of wines produced by Frescobaldi of Italy
June 1999	Begins import and distribution of wines produced by Montana Wines Limited of New Zealand



Global Supply Network

Mercian's international network spans more than 20 countries and includes seven production facilities, of which two are wholly owned, while the remaining are affiliates in which our equity holding is up to 50%. We are also closely associated with more than 50 producers abroad.

Challenging economic conditions in recent years have increased the popularity of dining and socializing at home in Japan. This trend has bolstered demand

for alcoholic beverages for in-home consumption. By maximizing our ties with overseas producers, we continue to expand our selection of top-quality imported wines and whiskies.

To enhance our pharmaceutical operations, we have forged ties with several leading pharmaceuticals manufacturers abroad, and currently market a variety of drugs produced in cooperation with these companies.



France
 Laboratoire Roger Bellon S.A.
 Germany
 Pharmazeutische Spezialpräparate m.b.H.
 Austria
 Pharmazeutische Arzneimittel Ges. m.b.H.

South Korea
 Dong A Pharmaceutical Co., Ltd.
 India
 Khandelwal Laboratories Ltd.
 Australia
 Faulding Pharmaceuticals

People's Republic of China
 Shenzhen Main Luck Pharmaceuticals Inc. (above photo)
 Main Life Co., Ltd.
 Taiwan
 Lynnros Industrial Co., Ltd.

Canada
 Canadian Whisky
 Windsor Distillery Co.
 Jim Beam Brands Co.

Wholly owned production subsidiaries (in red) Associated companies (in black)



Bourbon Whiskey
 Jim Beam Brands Co.
 Rum
 Jim Beam Brands Co.
 Rum
 Jim Beam Brands Co.
 Vodka
 Jim Beam Brands Co.

United States

Robert Mondavi
 Markham Vineyards

Chile
 Argentina
 Bodegas Trapiche
 Viña Concha y Toro S.A.

PRC
 Beer
 Tsingtao Brewery Company Ltd.
 Shaoxing Wine
 Shaoxing Yellow Wine Group Co.

France

Château Reysson
 Fournier Père et Fils
 Wings
 Jean-Pierre Moueix
 Chéreau Carré S.A.
 Kuentz Bas S.A.
 Crus & Domaines de France
 Champagne Pommery
 Maison Albert Bichot S.A.

New Zealand

Greece

Australia
 Mildara Blass Ltd.

Montana Wines Limited
 D. Kourtakis S.A.

Domestic Network

- Branch Offices
- Subbranches
- Plants
- Research Facility

- Hokkaido
- Tohoku
- Kanto
- Tokyo Metropolitan
- Kanagawa
- Chubu
- Kansai
- Chugoku
- Kyushu
- Okinawa



APPENDIX 4

THE JAPAN EXTERNAL TRADE ORGANIZATION

JETRO History

- 1951 Japan Export Trade Research Organization established.
- 1954 Above organization reorganized as Japan External Trade Recovery Organization.
- 1958 Above organization rechartered as Japan External Trade Organization (JETRO) and overseas public relations and advertising programs for Japanese companies inaugurated. Institute of Asian Economic Affairs established.
- 1960 Institute of Asian Economic Affairs reorganized as special nonprofit organization.
- 1969 Institute of Asian Economic Affairs renamed as Institute of Developing Economies (IDE).
- 1971 International Economic and Trade Information Center established.
- 1974 *Focus Japan*, JETRO's first periodical for overseas readers, published.
- 1980 Provision of information for Standards Code of General Agreement on Tariffs and Trade (GATT) inaugurated.
- 1982 Cooperation with Office of Trade and Investment Ombudsman to settle complaints inaugurated.
- 1983 Task force for import promotion formed.
- 1984 Task force for promotion of international cooperation between industries formed.
- 1985 Made in USA Fair in Nagoya and other large-scale import fairs in Tokyo, Yokohama, and Kitakyushu organized.
- 1987 Asia Forum established to promote Asian regional trade.
- 1989 Institute for International Trade and Investment, a sister organization, established.
- 1990 Upgraded programs for import expansion inaugurated and Local Internationalization Centers established.
- 1991 Programs to promote foreign investment in Japan inaugurated and Robotics Exhibition in London organized.
- 1992 Seville Universal Exposition Japan Pavilion managed and Japanese Trade and Industrial Exhibition in Moscow organized.
- 1993 First Business Support Center established in Tokyo and first Foreign Access Zone Support Center established in Kitakyushu.
- 1994 Nine Import Squares and four permanent sites for imported

nousing exhibitions established in major cities of Japan.

- 1995 Annual Survey on Actual Conditions Regarding Access to Japan inaugurated.
- 1996 Region-to-Region Initiatives for Mutual Industrial Development and Asian Industrial Network Project inaugurated.
- 1997 First Conference on ASEAN Auto Supporting Industries and first JETRO Debate Contest organized, and Japan Pavilion at 12th Indian Engineering Trade Fair managed.
- 1998 JETRO-IDE Joint Symposium organized and Japan Pavilion at Lisbon World Exposition managed. JETRO and IDE merged.
- 1999 Economic mission dispatched to Nigeria, African Exhibition organized and Technology Tie-up Promotion Program (TTPP) inaugurated.

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- [Technology Interchanges](#)
- [Developing Countries](#)
- [International Interaction](#)
- [Research](#)
- [Information](#)
- [Publishing](#)
- [Organization](#)
- [History](#)

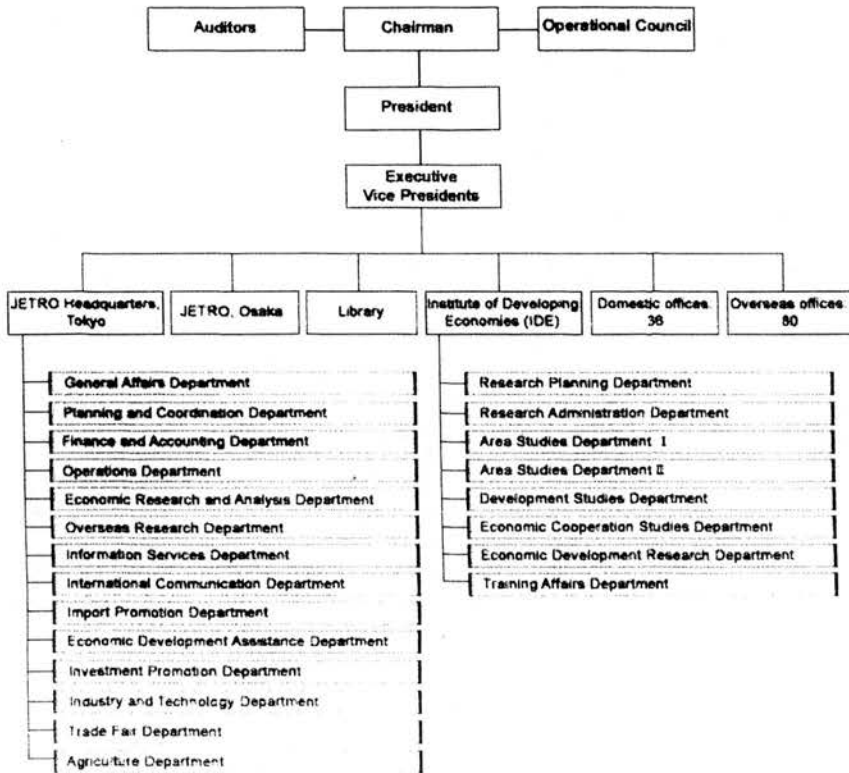
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Developing Countries	International Interaction	Research
Information	Publishing	Organization
History		

JETRO Organization



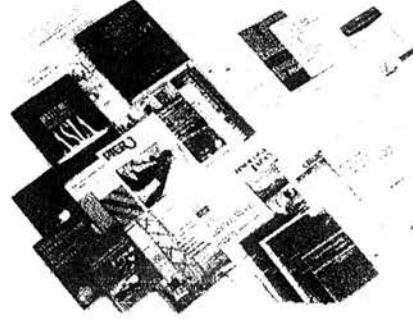
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Developing Countries	International Interaction	Research
Information	Publishing	Organization
History		

Publishing

JETRO publishes a long list of periodicals, market reports, fact books, business guides and numerous other materials to assist foreign business people doing business in and exporting to Japan. Most publications are produced in English, and sometimes in other selected languages, and are made available through JETRO offices



around the world. JETRO also produces videotapes about doing business in Japan and other subjects of special interest to foreign business-people and government officials involved with the Japanese economy.

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Outline of JETRO Activities

Trade Entering Japan	International Investment	Technology Interchanges
Developing Countries	International Interaction	Research
Information	Publishing	Organization
History		

Information

Inquiries

JETRO fully mobilizes its information and know-how to respond to trade and investment inquiries at offices around the world. Companies frequently request JETRO's help, for example, when searching for foreign business connections, selecting candidates for international business tie-ups and comparing investment climates overseas.

We maintain a system of advisors who can draw on years of experience to capably answer inquiries about diverse subjects, including Japanese import procedures, investment incentive programs of foreign governments and labor conditions.

Our overseas offices provide foreign companies and public organizations, including chambers of commerce and industry, with information about Japanese companies interested in importing of investment.

JETRO Libraries

JETRO has a wide variety of information in its two libraries. One, located at JETRO headquarters in Toranomon, Tokyo, offers the latest information and data on economics, business, trade and investment, as well as extensive materials such as business directories, tariff schedules, periodicals and much more.

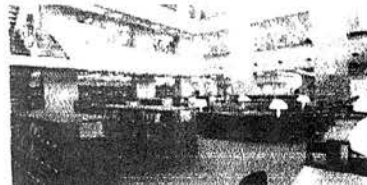
The library of IDE, located in Makuhari, Chiba, has a wealth of material issued by overseas research institutes and international organizations for research on developing countries. The library is one of the nation's largest repositories of journals, newspapers, maps and other printed materials of developing countries.

Information from both libraries is fully catalogued and much of it is compiled into electronic databases, which will be intergrated.



Library at JETRO Headquarters

→ Map



Library at Institute of Developing Economies

→ Map

major overseas offices, and
through our homepage.



JETRO Business Japanese Proficiency Test (Tokyo)

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other support, including consultants to advise on how to enter the Japanese market.

We also certify people with extensive experience in the importing field to serve as international trade advisors, thereby creating a nationwide network of reliable consultants for Japanese companies interested in importing.

Improving the Business Environment

JETRO conducts surveys in order to assess the degree of accessibility of the Japanese market for foreign companies. In particular, these surveys are to determine if barriers to foreign goods exist in specific industries. The surveyed Japanese industries are assessed from an international perspective by comparing them with counterpart industries in the United States and Europe. Recommendations are approved by an Advisory Council of nine professors, mostly economists, from Japan, the U. S., the Netherlands and the United Kingdom, with the majority being foreign professors. Industries surveyed so far include chemical products, pharmaceuticals, telecommunications equipment, assistive technology devices, regulations and domestic costs related to the distribution of imported goods, non-prescription medicines, and inward foreign direct investment.

Introducing New Products

JETRO dispatches specialists on overseas assignments lasting about one month, during which time they look for foreign products that have potential for import into Japan. Samples of these products are brought back for promotion through exhibitions targeted at Japanese buyers.



JETRO Imported Automobile Showroom
(Mita, Tokyo)

In cooperation with foreign governmental organizations, JETRO organizes import fairs in Japan and helps foreign companies, especially those new to the market, participate in Japanese trade fairs to display their products and meet potential customers. We also operate permanent exhibition sites, including the JETRO Imported Automobile Showroom, JETRO Imported Housing Exhibition Site and JETRO Housing Materials Center.

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Outline of JETRO Activities

Trade Entering Japan	International Investment	Technology Interchanges
Developing Countries	International Interaction	Research
Information	Publishing	Organization
History		

Trade Entering Japan Supporting Exports to Japan

The Japan External Trade Organization (JETRO) offers wide-ranging support for importing in Japan, thereby helping to strengthen harmonious economic relationships between Japan and other nations.



Export-to-Japan Study Program seminar (Tokyo)

The list of JETRO's export-to-Japan support activities is extensive. We post, for example, Japanese market experts (Senior Trade Advisors) on long-term assignments to developed countries in Europe, North America and other regions, where they offer advice on doing business with Japan. They also create export opportunities by providing advice on developing products for the Japanese market and facilitating direct contact between foreign and Japanese companies.

JETRO supports export campaigns conducted by developed countries through organizing trade exhibitions, holding seminars on exporting to Japan and conducting advertising and promotional activities.

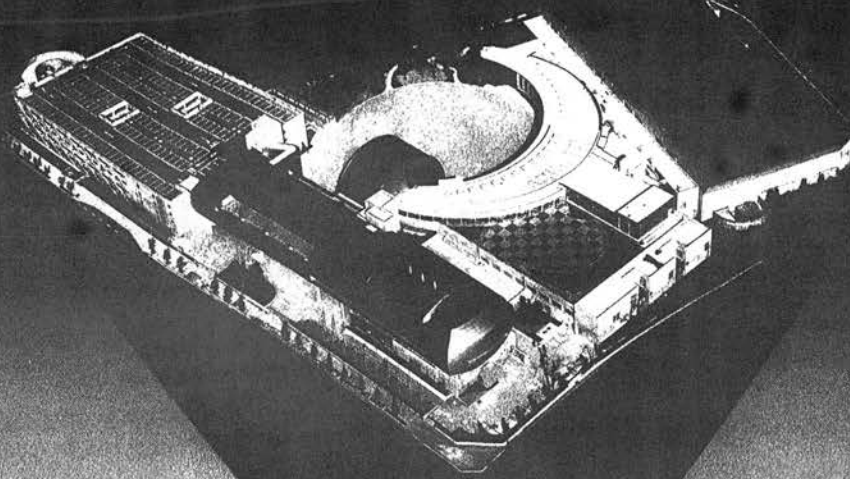
We manage the Trade Tie-up Promotion Program (TTPP) system on the JETRO homepage (www.jetro.go.jp) to help Japanese and foreign companies find partners for international business, including export/import trade, technology tie-ups and other partnerships. Companies register information about the kind of international business they are interested in conducting and the system then uses this information to search for potential partners that match their specific interests. Whenever a match is made, emails are automatically sent to both companies to inform them how to establish direct contact

This and other import-promoting services are also available at JETRO FAZ Support Centers in 10 of Japan's 22 Foreign Access Zones (FAZs). JETRO invites business people to Japan in the Export to Japan Study Program, which offers seminars for furthering their understanding of the Japanese market and the chance to meet face-to-face with potential Japanese partners. In addition, JETRO welcomes foreign missions that visit Japan to develop business.

To help newcomers to Japan, JETRO operates Business Support Centers (BSCs) in major cities such as Tokyo, Osaka, Yokohama, Nagoya, Kobe and Fukuoka to provide, on a free and temporary basis, office space and

APPENDIX 5

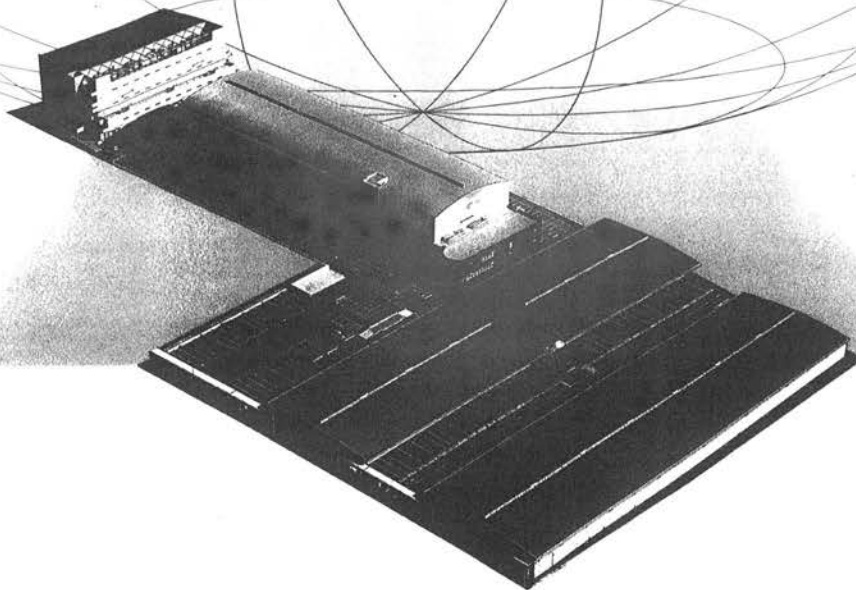
MATSUYAMA FOREIGN ACCESS ZONE and KURUSHIMA BRIDGE



EHIME

Steering the Ehime FAZ Program to Success

FAZ



愛媛エフ・エー・ゼット株式会社

Ehime Foreign Access Zone CO.,LTD.

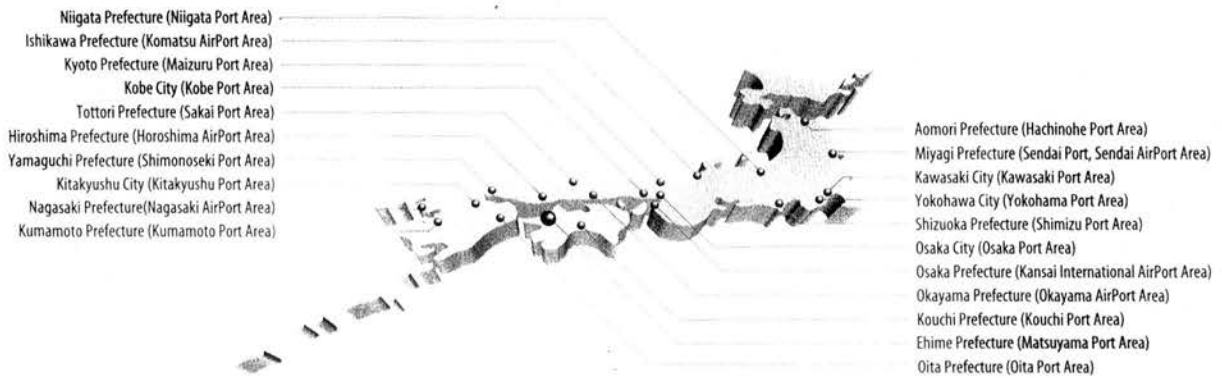
Hand in hand with its FAZ, Ehime is

What is a Foreign Access Zone (FAZ)?

In accordance with the Law on Extraordinary Measures for the Promotion of Imports and the Facilitation of Foreign Direct Investment in Japan (Import Promotion/Foreign Direct Investment Law), foreign access zones have been set up in harbors, airports and surrounding areas as "import promotion areas" to facilitate the importation of foreign products. The third sector is taking the lead in constructing or otherwise providing the infrastructural facilities for promoting imports. In the case of the FAZ in Ehime Prefecture, it is the Ehime Foreign Access Zone Co., Ltd. which has assumed this responsibility. The company is engaged in providing **1** facilities (storage, cargo-handling and other such facilities) to support the distribution of foreign products, **2** import support facilities (imported goods exhibition facilities, imported product information center, design-in center, etc.), and **3** import processing and other infrastructural facilities for promoting imports. Accompanying these projects, the company provides services to expand and facilitate the importation of goods by, for instance, offering import-related information, leasing import-related equipment, and managing imported cargo.

In addition, the company promotes the distribution of imported cargo.

21 areas approved as FAZs under the regional import promotion plan



Company Outline

Company Name:

Ehime Foreign Access Zone Co., Ltd.

Directors:

Moriyuki Kato, Chairman of the Board
Yoshikazu Ichimiya, President

Date of Establishment:

April 30, 1993

Business Office Address:

1-28, 2-chome Okaga, Matsuyama City,
Ehime Prefecture

Capital:

3,427 million yen

Investors:

48 organizations and corporations

Business Lines:

- Management and operation of infrastructural facilities (warehouses, cargo-handling equipment, permanent exhibition hall for imported goods, offices) for promoting imports
- Renting of loading/unloading equipment, freight-handling machinery and vehicles
- Management and operation of international economic exchange facilities (international trade fairgrounds, parking lot)
- Planning and staging of trade fairs, exhibitions and other events
- Importation and exportation and sale of agricultural and fishery products, processed foodstuffs, textiles, industrial goods, forestry, mining products and liquor
- Brokerage services for import and export transactions, provision of information, and representation for filing with the authorities and other business formalities
- Sale of ship and automobile fuel oils and their parts
- Publication of printed materials and provision of information geared toward international economic exchange
- Provision of translation and interpreting services
- Nonlife insurance agency services
- General or specific personnel dispatch services
- All other operations relating and incidental to the above

Basic Policy

Import center for Seto Inland Sea wide-area economic zone and Shikoku

Ehime FAZ is making full use of the geographical characteristics, the wide range of coastal shipping functions and other features of the city of Matsuyama, which is the import center for the Seto Inland Sea economic zone and Shikoku, in order to function as a trade center.

Revitalizing of industry by improved logistics efficiency

Processed agricultural and fishery products, fruit juices, processed foodstuffs, textiles and industrial goods from South Korea, China, Taiwan and Southeast Asia can now be directly unloaded at the port of Matsuyama. Such goods would otherwise have to have been conveyed by secondary transportation in trucks, ferries and coastal ships from Kobe, Osaka, Kitakyushu and other ports. In this way, distribution costs are reduced and business concerns in the prefecture are revitalized.

Promotion of globalization through international industrial cooperation

Through its commitment to stage international trade fairs, exhibitions and other events and integrate information pertaining to commercial and physical distribution, Ehime FAZ encourages the introduction of new information industries and physical distribution-related industries, it opens up new business opportunities in the Seto Inland Sea wide-area economic zone and Shikoku, and it promotes globalization and the revitalization of business.

How the FAZ program will be specifically promoted at Ehime FAZ

Under the Ehime FAZ program, many and varied branches of overseas and regional data and information will be collected through the events and activities held at "ITEM Ehime" and the "I-LOT complex" which lie at the heart of the FAZ. Import and export business activities will be supported by processing and releasing this data and information.



Information service for trade and overseas investments

Advice and information will be offered on laws and systems concerning investment, trade, personal importation, international dealings, management issues, etc.

Global network support

Regional information from overseas sources where investment or trade opportunities are expected to be forthcoming will be provided through networks of tenant overseas organizations, JETRO, Ehime International Business Association, trade concerns, and so on to provide advice and information support.

Staging of seminars on import/export, overseas investments, etc.

Seminars will be held by individuals with specialized expertise and entrepreneurial experience to train personnel using the most up-to-date information and knowledge on international industrial interchanges.

Release of FAZ information

Information on the functions, facilities, customs clearance and import/export situation relating to Ehime FAZ will be released. Information will also be released to a wide area covering Shikoku and the Seto Inland Sea economic zone by linking up with the FAZs outside the prefecture, JETRO and other bodies.

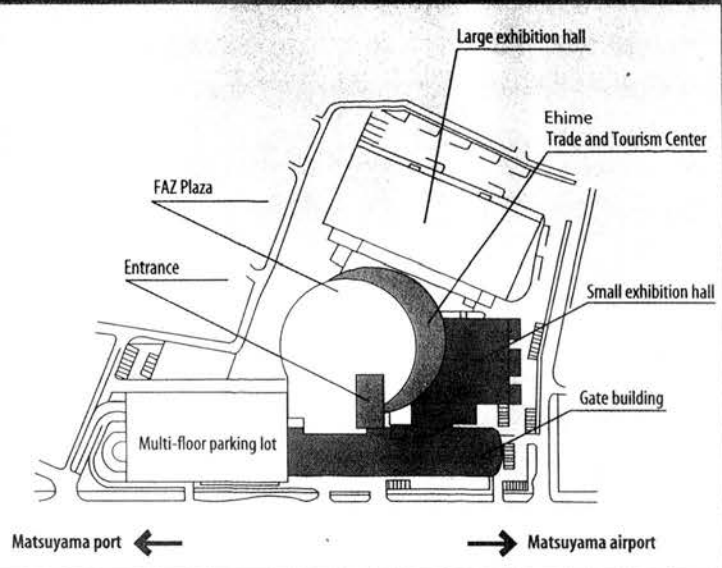
Collection and dissemination of global information

Information magazines will be published, globalization-related documents, video presentations, printed matter, etc. will be collected and distributed.

This comprehensive convention complex with the largest exhibition hall in Shikoku can accommodate almost any kind of event.

ITEM Ehime is a multi-purpose facility: it can be used to stage everything from large-scale international trade fairs to exhibitions, presentations, receptions, workshops, large-scale seminars and conferences. From this location, information from all various parts of the world and from all over Ehime prefecture is relayed. The ITEM World Mart provides opportunities to shop for imported goods while the JETRO corner offers a little taste of personal importation. In the Ehime Prefecture Trade and Tourism Center, works of the industrial arts and items made locally in the prefecture are on display for on-the-spot sale, and Tobe ware china-painting and indigenous product fairs are held. At this center, information on sightseeing locations, events, accommodations, transportation and on businesses and industries in the prefecture is also available.

Facility Facts and Figures

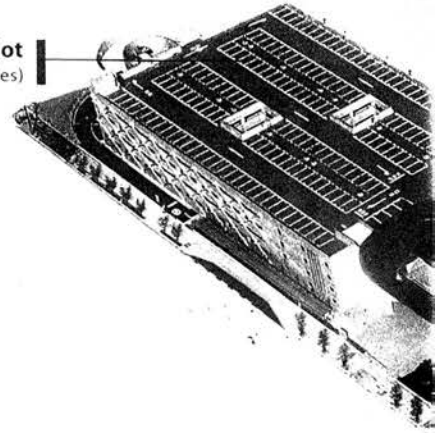


Large exhibition hall	Accommodates 200 standard international booths; can be partitioned into 3 sections.
Small exhibition hall	Accommodates 63 standard international booths; can be partitioned into 2 sections.
FAZ Plaza	Ideal for staging a wide range of events as an outdoor exhibition area.
Business Support office	Business and trade related bodies and corporations.
Cubicle offices	Foreign government offices, international institutions, and resident foreign diplomatic representatives.
JETRO FAZ Support Center	Provide information and services on the economic situation of foreign countries, import, trade business and foreign investments.
Conference rooms	Ideal for business discussions, parties and seminars.
ITEM World Mart	Display and on-the-spot sale of imported goods.
Restaurant	Where cuisines from all other world can be enjoyed.
Ehime Trade and Tourism Center	Display and on-the-spot sale of items made in the prefecture; sightseeing exhibition hall.



FAZ Plaza Outdoor Exhibition Area
(3,500 square meter)
Available for outdoor exhibitions and even

Multi-floor parking lot
(for 800 vehicles)



Gate building

- Business Support office
- Cubicle offices
- JETRO FAZ support center
- Large conference rooms (200 square meters or two rooms each with 100 square meters)
- Small conference rooms (50 square meters x 4; partitioning can be changed)
- ITEM World Mart (500 square meters)



Conference Rooms

#1 to #6 are available, and they can be flexibly adapted to suit the scale of the proceedings. They are equipped with the most up-to-date video devices as well as tri-lingual simultaneous interpreting facilities for international conferences.

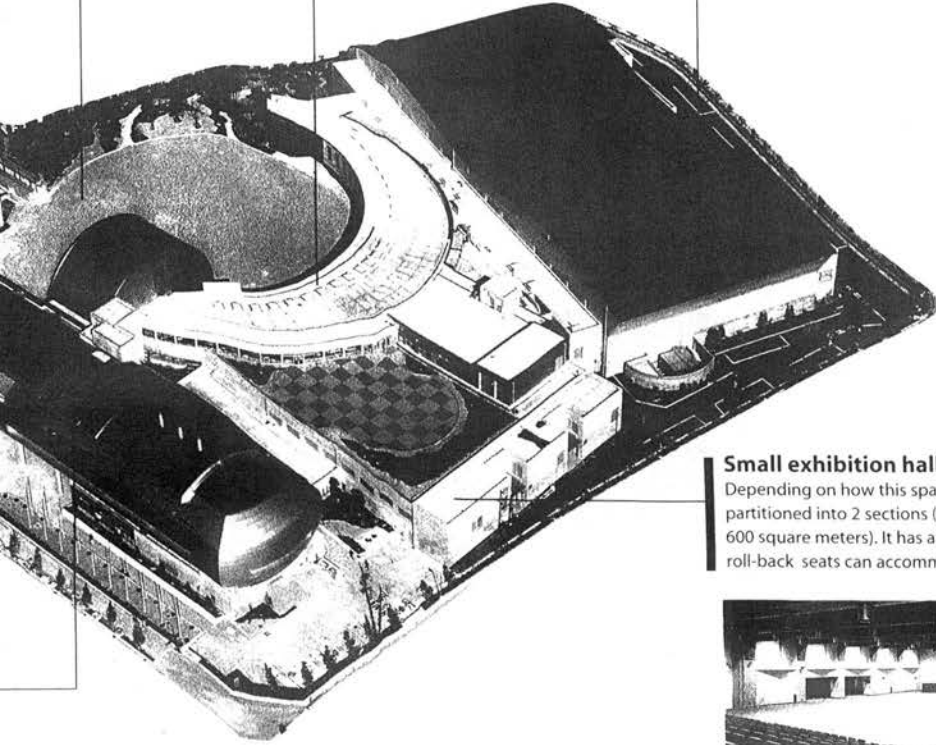


Cubicle offices

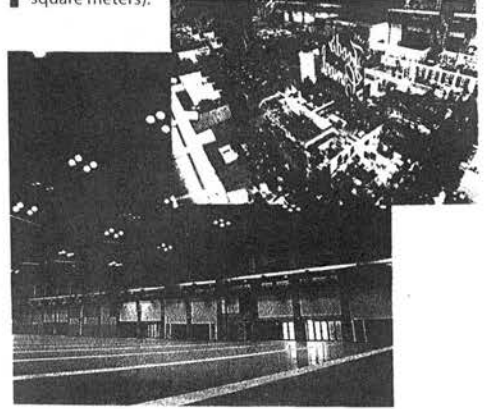
These offices can be used by the representatives of foreign governments, organizations and business concerns as centers for initiating constructive interchanges with Japan. Using their complete assortment of facilities, international networking can be promoted.

Ehime Prefecture Trade and Tourism Center

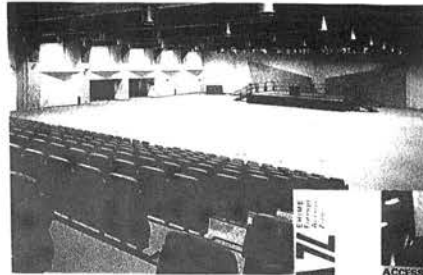
(1,800 square meters)
 Exhibition and sale of products made in Ehime Prefecture
 Ehime Prefecture's industrial exhibition hall
 Tourism exhibition hall



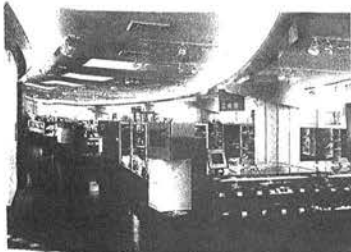
Large exhibition hall (4,500 square meters)
 This hall is the largest of its kind in Shikoku, and it can be used for multi-purpose events. Depending on how its space is to be used, it can be partitioned into 3 sections (to make available floor areas of 4,500, 3,000 and 1,500 square meters).



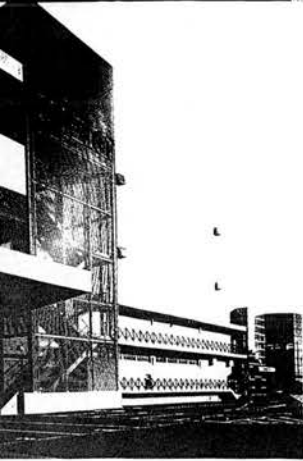
Small exhibition hall (1,500 square meters)
 Depending on how this space is to be used, the hall can be partitioned into 2 sections (to achieve floor areas of 900 and 600 square meters). It has a carpet-tiled floor, while the 484 roll-back seats can accommodate sophisticated exhibitions.



World Mart
 Here that high-quality import products from countries all over world are on display and for immediate sale. As a space for familiarizing visitors with import products, it embodies the guiding principle behind the FAZL program.



Ehime Trade and Tourism Center
 The Center serves to make visitors familiar with the special products and works of the arts and crafts which are native to the prefecture. Through its exhibits, it also serves as a source of information on sightseeing and industry. All the prefecture's wares and sightseeing details are gathered here under one roof.



Sophisticated infrastructural facility for logistics which can handle every conceivable kind of cargo

"I-LOT," the logistics terminal in the Ehime FAZ, was the second facility in Japan (following the Asia-Pacific Trade Center in Osaka) to obtain a permit from the Ministry of Finance as an integrated bonded area under the Customs Law. In this area, there is no need to submit to customs clearance formalities to move cargo, and cargo can be moved and processed with no customs duties levied. This reduces the amounts which tenant businesses need to pay in commissions and fees and reduces physical distribution costs. I-LOT has about 37,000 square meters of storage space, a figure which has resulted in an approximately 2.5-fold increase in the capacity of the Matsuyama outer port area. Whereas until recently petroleum products and lumber accounted for virtually all the imported cargo, daily household items, miscellaneous goods, foodstuffs and many other kinds of cargo are now being landed along with the opening of regular sea routes from overseas ports.

Refrigerated and cold-storage warehouse building
(tonnage accommodated: 13,290 tons)
Storage, unloading and other simple distribution processing of frozen and refrigerated goods

Warehouse building (distribution processing area)

(Indoor floor area: 1,497 square meters)
This building has everything to accommodate the growing sophistication in distribution processing (processing, packaging, and packing) and other aspects of physical distribution.

Printed matter display room (1st floor)
Imported goods are on display here, and products are introduced in leaflets, catalogues and other printed matter. Information concerning importation is also available.

Exhibition hall (2nd floor)
Bonded products are displayed and business negotiations can be held here. The hall can also be used for conferences, seminars, workshops, etc.

Warehouse building
(indoor floor area: 14,549 square meters)
is equipped with vertical conveyors and leveler-cum-table lifter facilities

Control room

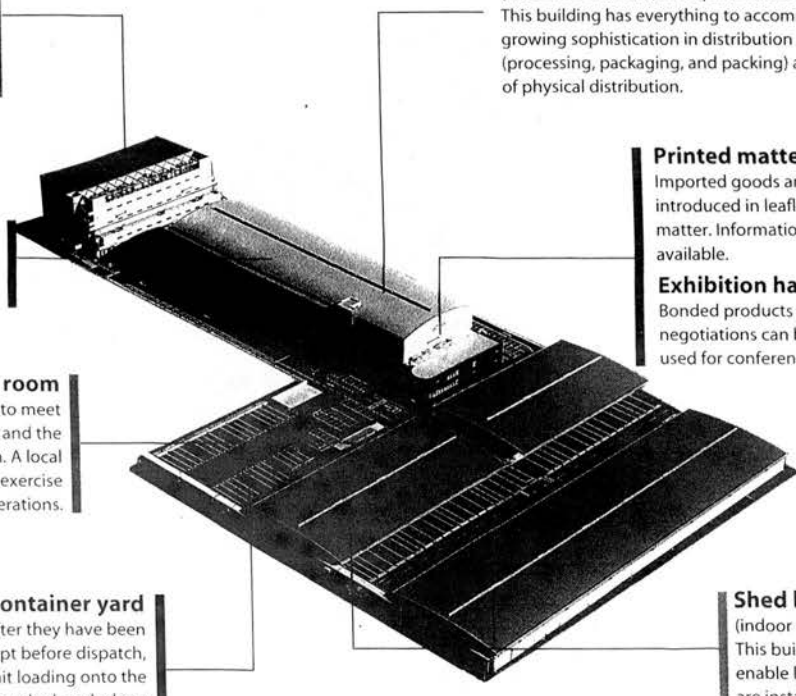
A digital communications network is used to meet the need for high-speed communication and the growing spread of the use of information. A local communications system is used to exercise centralized control over I-LOT's operations.

Container yard

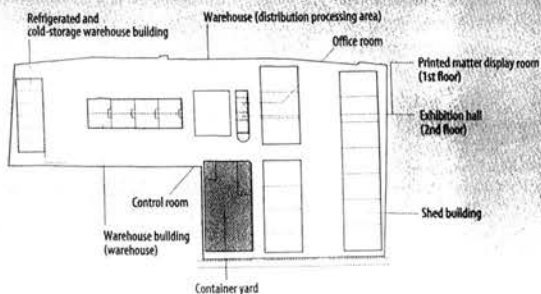
This is where the containers are brought after they have been unloaded from the container ships and kept before dispatch, where the outgoing containers await loading onto the container ships after they have been packed, and where empty containers await further use.

Shed building

(indoor floor area of 12,712 square meters)
This building uses overhanging doors to enable large trailers to enter inside. Cranes are installed in 3 blocks.



Facility Facts and Figures



Site area, 54,105 square meters, building area: 27,650 square meters, extended floor area: 46,450 square meters

Shed building, shed, packing area, truck yard

Warehouse building, warehouse, distribution processing area, truck yard

Refrigerated and cold-storage warehouse building, office room, truck yard

Control room, rental offices, exhibition hall, printed matter display room, health and welfare facilities

Ehime FAZ: An International Cooperation Center Designed for the 21st Century

Under the Ehime FAZ program, whose aim is to establish a center for international industrial interchange and international physical distribution in the Shikoku and Seto Inland Sea region, efforts to integrate industrial functions, develop coastal areas and provide transportation

access are moving forward, and a new international exchange center which can be accessed by land, sea and air is now in the process of being carved out.

Formation of an air-accessible city

Enhancement of the international functions of Matsuyama airport

Formation of an industrial interchange area

Provision of international exchange roads

Formation of a sea-accessible city

Enhancement of Matsuyama Port's world trade functions

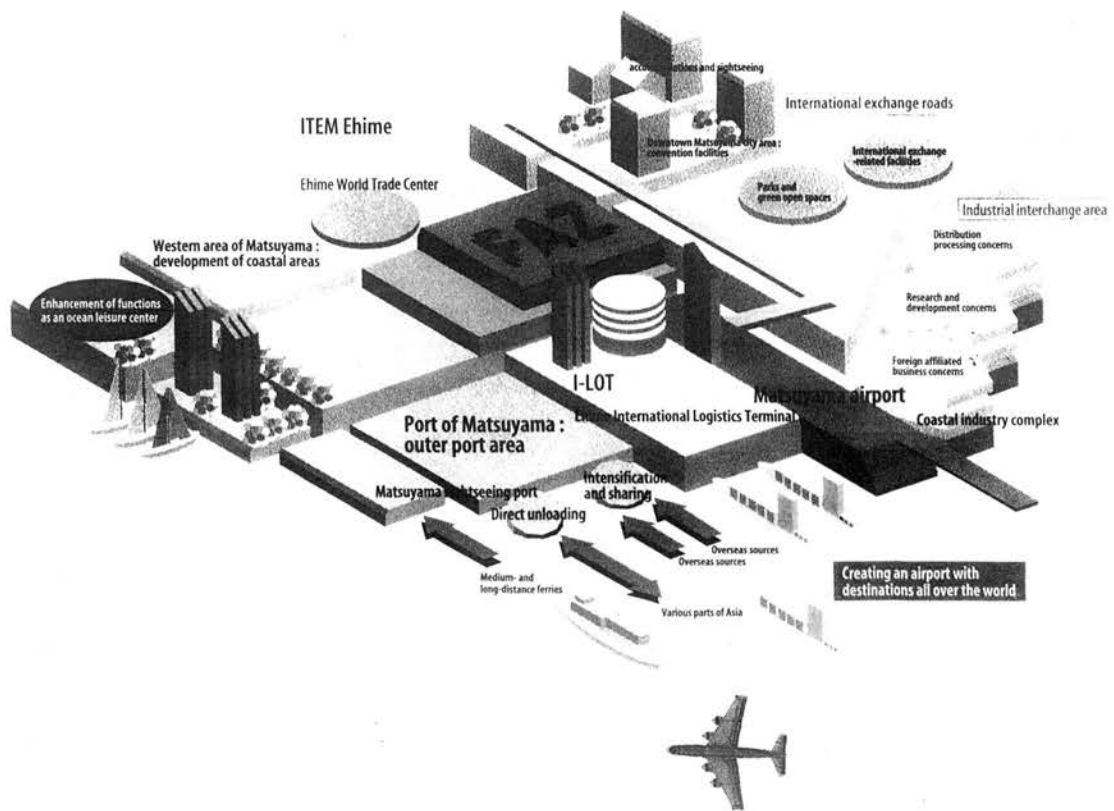
Development of western coastal area of Matsuyama

• Redevelopment of Mitsuhamma area

• Promotion of an ocean recreation industry

• Enhancement of ocean leisure center functions

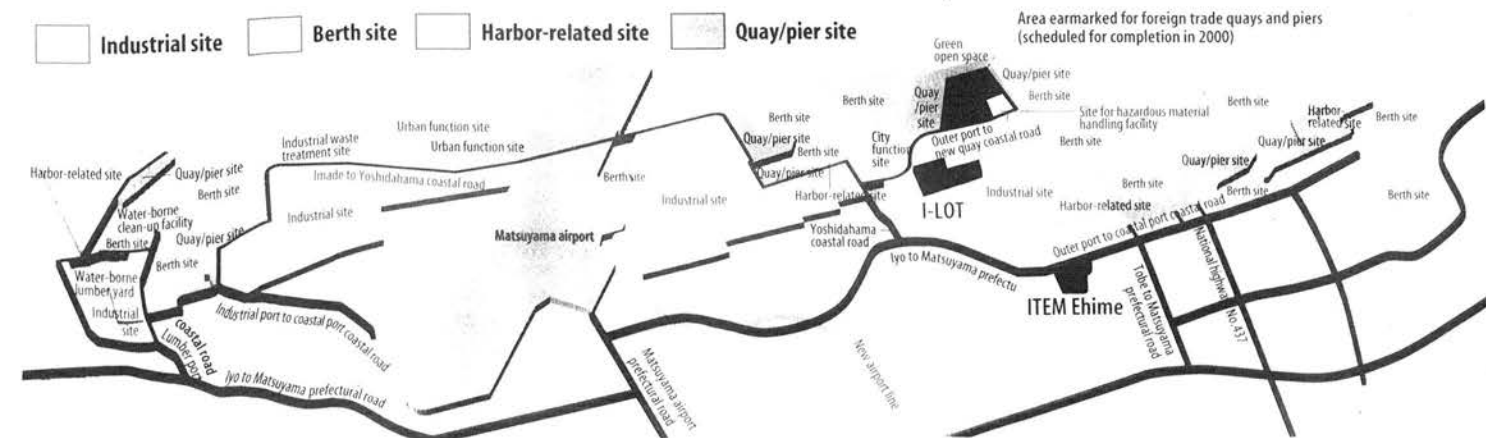
A vision of the future for Ehime FAZ



Matsuyama Port Harbor Plan

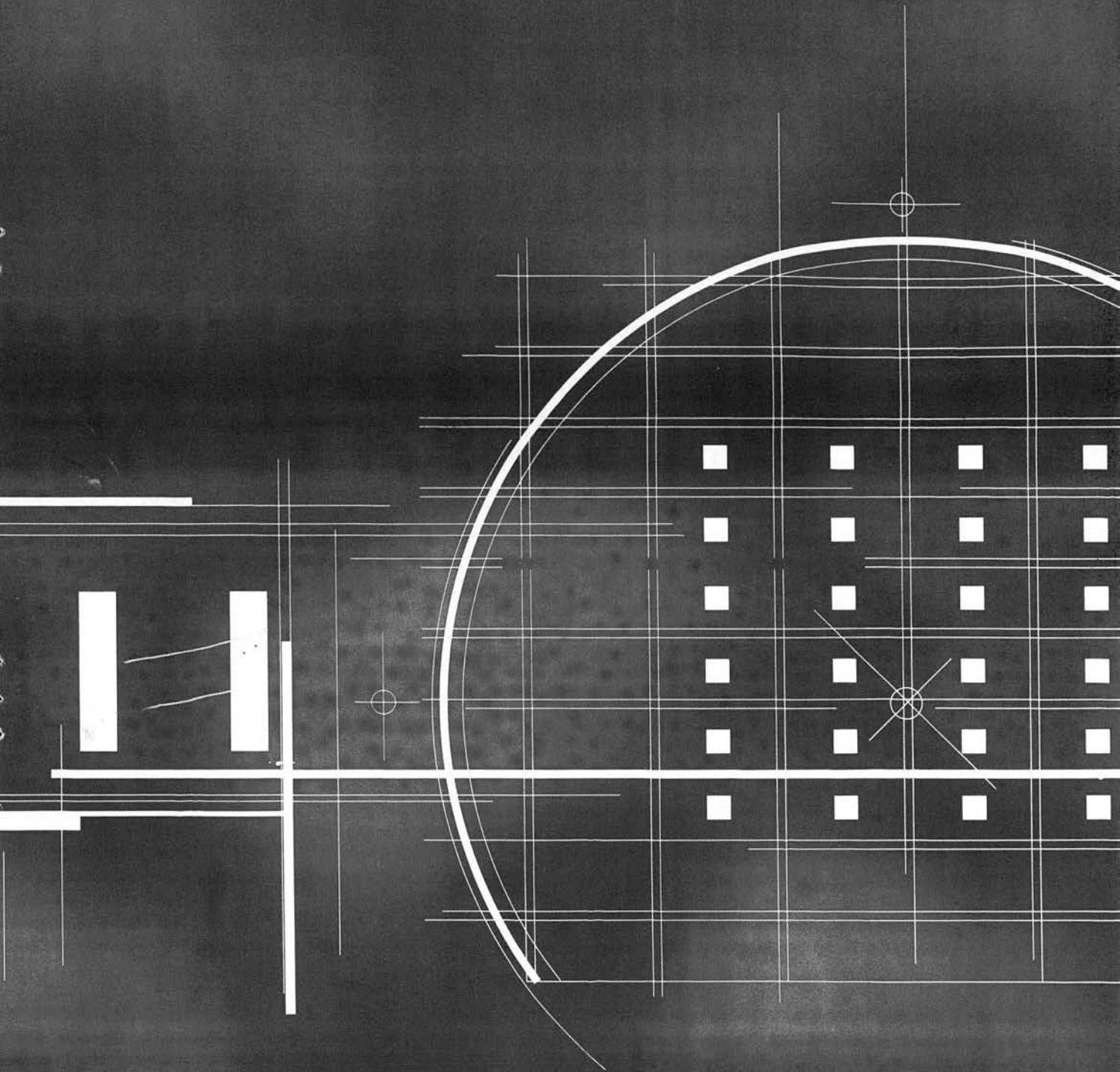
Improvements in the harbor facilities are very critical in terms of the promotion of the second FAZ program. The completion of the foreign trade quays and piers scheduled in the year 2000 will serve as a stimulus for the area where the foodstuff processing, manufacturing, pro-

cessing and other trade-oriented industries will be integrated and a greater dimension of self-containment will be achieved for the Ehime FAZ by the double port facilities of Matsuyama port and Matsuyama airport.



I.T.E.M. EHIME

Ehime World Trade Center

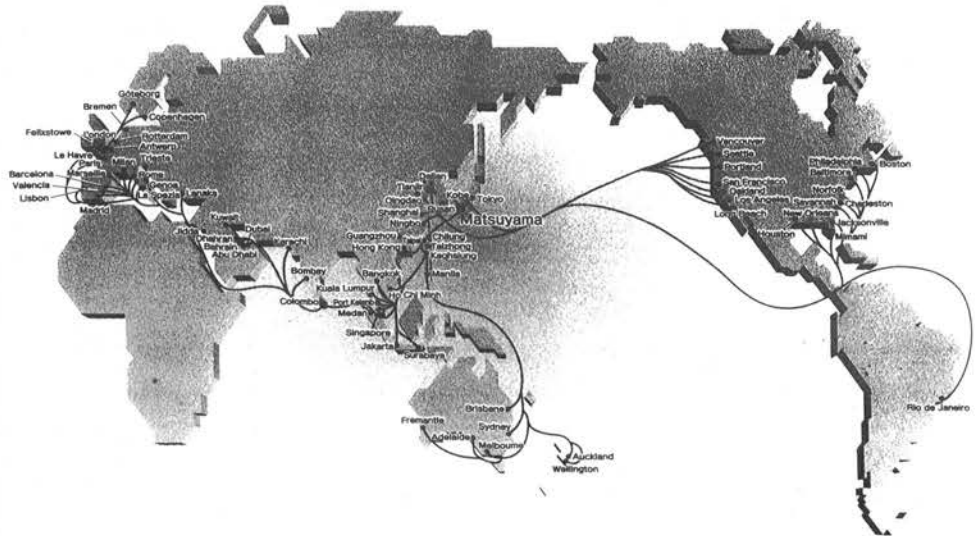


Project



Ehime FAZ boasts Japan's easiest access to double ports.

Close to the port and airport, Ehime FAZ enjoys an excellent location. Matsuyama Port, connected by regular cargo service to South Korea, Taiwan and China, is being upgraded, and routes to foreign countries are being improved. Matsuyama Airport has launched air service connecting it to South Korea, and more regular and frequent flights are anticipated.



Aiming to Become a World Trade Port

- Becoming a trade base of the Seto-Inland Sea Economic Region and Shikoku
- Revitalizing local industries through efficient transportation
- Enhancing internationalization through industrial exchanges
- Improving the CIQ system, including food inspection and animal quarantine

Matsuyama Airport

We enjoy not only convenient domestic flights but also regular international air connections with Seoul. Further expansion to cities overseas is expected.



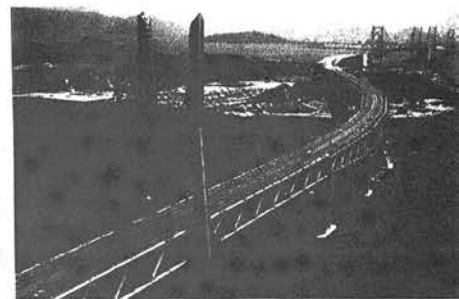
Expressways

Trade-use expressways across the length and breadth of the island will be completed at the beginning of the 21st century. The Hon-Shi Bridges connecting Shikoku with the main island of Honshu will be ready in 1998.



Matsuyama Port

Domestic coaster lines to Kobe, and international sea links to Pusan in South Korea, Chilung and Kaohsiung in Taiwan, and Dalian and Ningbo in China are in full use. A new wharf capable of accommodating 40,000-ton cargo ships is under development near the I-LOT logistics terminal and will be completed by the year 2000.



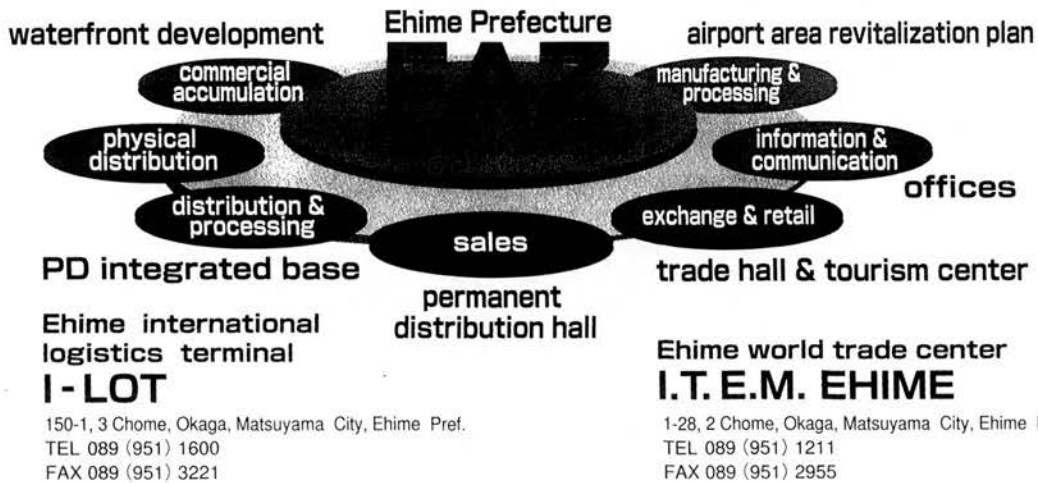
The FAZ is designed as an import promotion zone.

What is a FAZ ?

Primarily a third-sector (in Ehime, the Ehime FAZ Co., Ltd.) initiative, Foreign Access Zones offer essential facilities for the promotion of imports. These facilities include ① facilities supporting the distribution of imported products (storage, sales and other facilities); ② facilities supporting import business (including an imported goods exhibition hall and an imported goods information center); and ③ imported goods processing facilities. Also provided are import-related information, import cargo storage and other services to expand and facilitate imports.

Outline of the Ehime FAZ Project

Operating I.T.E.M. EHIME and I-LOT has given us considerable information on foreign and local markets. Providing this information to others is one of the ways we support trade.



Basic Policy

Trade Base for Shikoku and the Seto Inland Sea Economic Zone

Matsuyama stands at the intersection of Shikoku and the Seto Inland Sea Economic Zone, taking advantage of its double-port location and well-developed coastal shipping.

Revitalizing Local Industries through Efficient Distribution

Today many products, including processed food and food materials, fruit juice and textile materials, are imported into Ehime from South Korea, China, Taiwan and Southeast Asia via Kobe, Osaka and Kitakyushu by truck, ferry and coaster. We aim to unload these goods directly to reduce distribution costs and help revitalize local industries.

Promotion of Internationalization through Industrial Exchanges

I.T.E.M. EHIME hosts international trade shows and business fairs to gather information on business and distribution and introduce and enhance new information and distribution-related industries.

We will contribute to expanding business opportunities in Shikoku and promote international exchanges and PD in the Seto Inland Sea Economic Region and Shikoku.



Building a New Trade and Distribution Base in Shikoku and the Seto Inland Sea Economic Zone

Forging ahead with the Second FAZ Plan

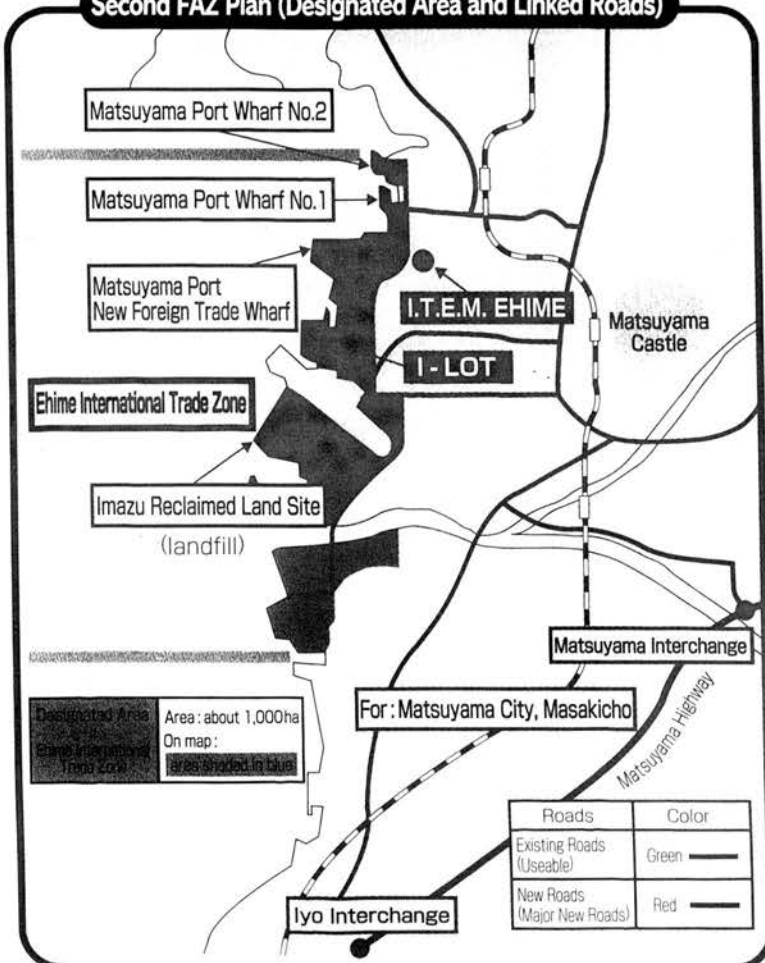
Four Pillars

- Readying Matsuyama Port's New Foreign Trade Wharf
- Readying the "Ehime International Trade Zone"
- Readying FAZ-linked roads
- Promoting international business



To promote local industries that serve Japan's increasingly internationalized society, the Second FAZ Plan aims to gather trade-related firms in the "Ehime International Trade Zone" established on the sea front of the Matsuyama port area. It also involves the building of a new port and of roads connecting the facilities to the expressway system. The result will be a comprehensive upgrade of industrial infrastructure.

Second FAZ Plan (Designated Area and Linked Roads)



Readying the "Ehime International Trade Zone"

The "Ehime International Trade Zone," covering about 1,000 hectares of sea front from the Mitsu Wharf in Matsuyama City to Tsutsui in Masakicho, offers tax and financial incentives for trade-related firms to locate within the zone.

The area within the zone is being consolidated, manufacturers, processors and wholesalers are being gathered on a strategic basis and plans are being studied to make the entire zone a bonded area.

Readying Matsuyama Port New Foreign Trade Wharf

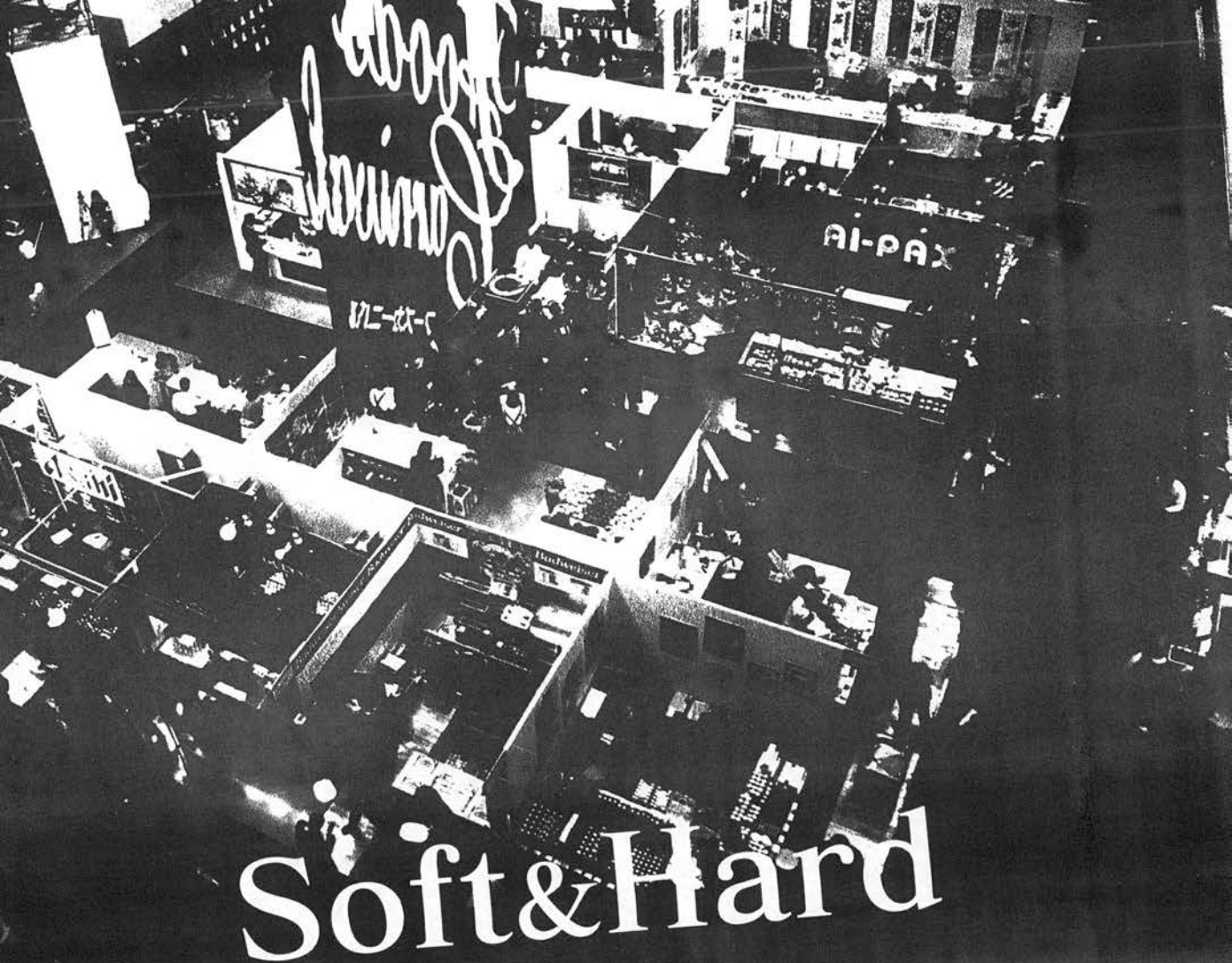
To accommodate containerized cargo and large ships, in the outer port of Matsuyama Port a quay for 40,000-ton ships with a 13-meter draft and a wharf for 10,000-ton ships with a 10-meter draft are being built. These and other sites in the port area are being prepared as part of the 28-hectare New Foreign Trade Wharf.

Readying FAZ - linked Roads

Principal transportation arteries within the Ehime International Trade Zone are being improved and connecting roads that bypass Matsuyama City built to the expressway system (the Matsuyama and Iyo interchanges) and Highway 196.

Promoting International Business

Plans are being studied to nurture and promote international businesses, including wholesalers, retailers and service firms targeting consumers and businesses involved in trade in the Matsuyama Port area, centering on the Mitsu Wharf in Matsuyama City.



Soft & Hard



I.T.E.M. EHIME is a center of international exchange and business. Its extensive equipment and facilities meet every possible need.

"I.T.E.M." stands for International Trade & Exhibition Messe.

item 1

The main exhibition hall, with the sub exhibition hall, open-air exhibition space such as the FAZ Plaza, conference rooms and state-of-the-art technology at the trading terminal, is the biggest in the Seto area in southwestern Japan. A variety of tenancy options is available to support your business.

item 2

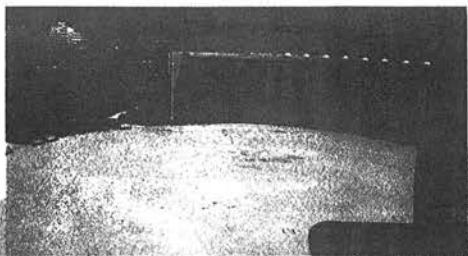
The facility houses the I.T.E.M. World Mart, the JETRO Ehime Trade Information Center and the offices of other trade-related organizations and support services for firms embarking on business in Ehime. Up-to-date information and technical support are also available. The facility also houses offices of foreign governments and companies.

item 3

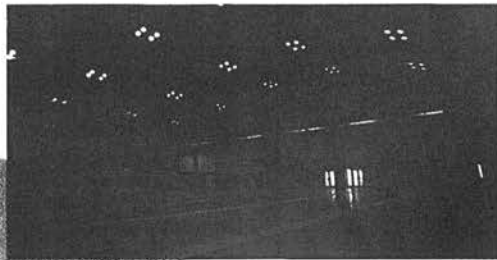
Ehime shows its face to the world with a local products market, tourist information, and an introduction to local-based industries.



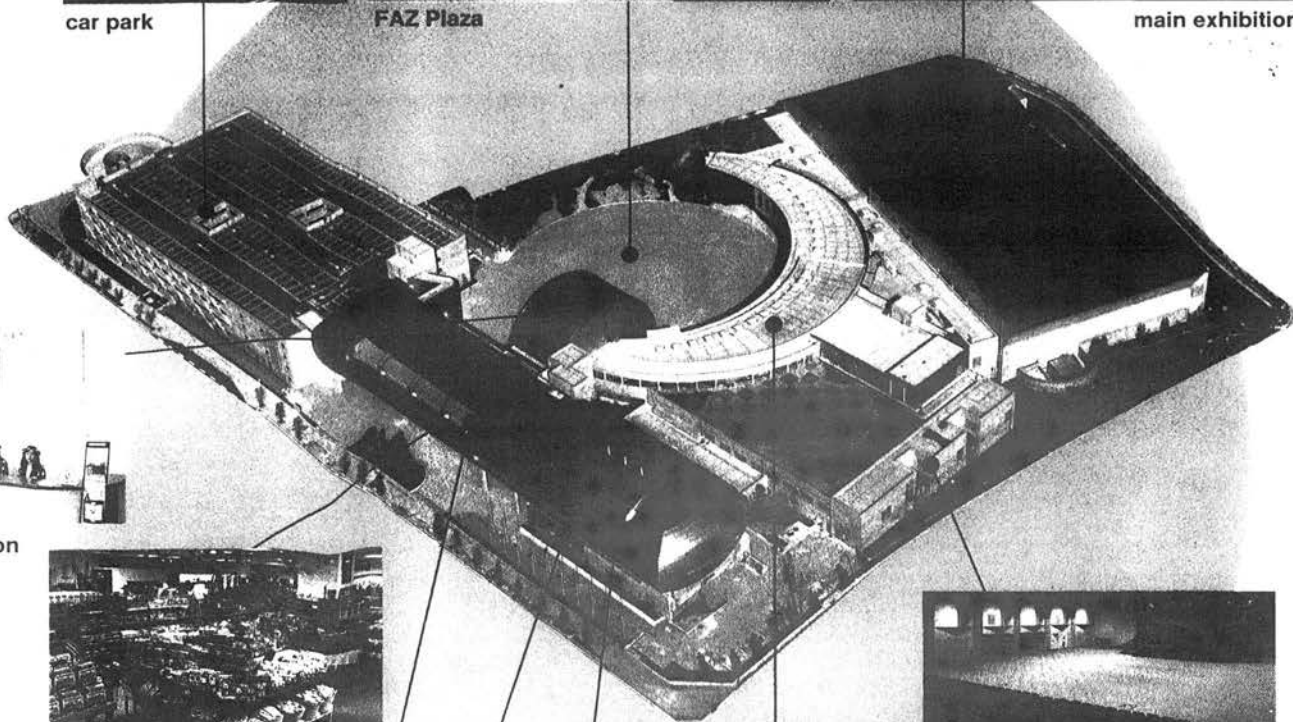
car park



FAZ Plaza



main exhibition hall



reception



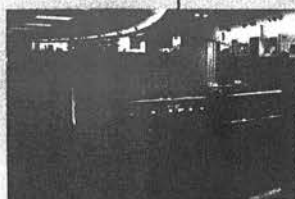
I.T.E.M. world mart



conference room



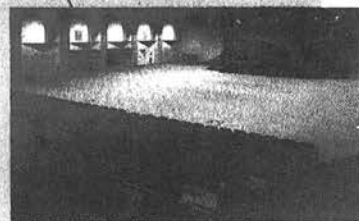
restaurant



Ehime Products and Tourism Center



business support office



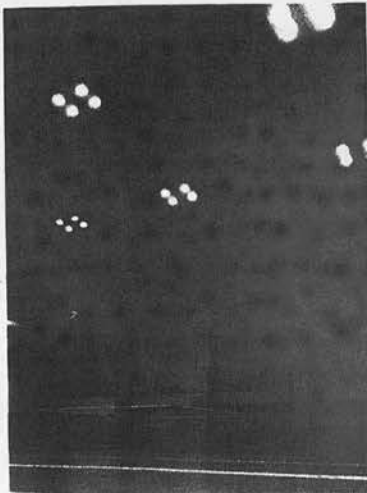
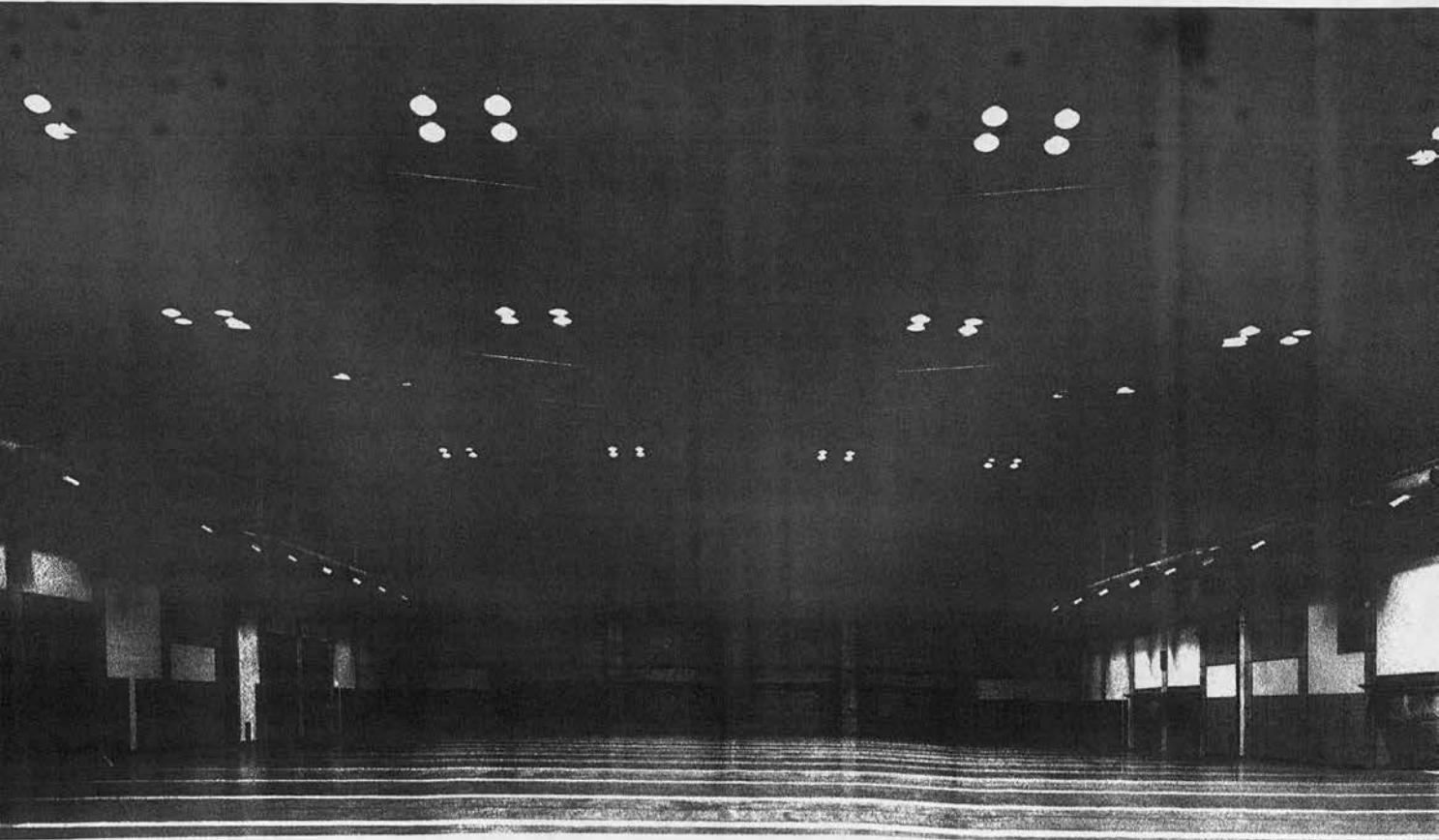
sub exhibition hall

Outline

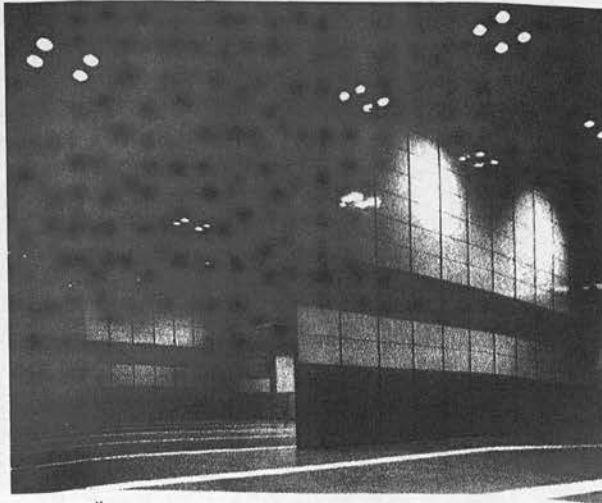
- address / 1-28, 2 Chome, Okaga, Matsuyama City, Ehime Prefecture
- site area / 34,340m²
- complex area / 17,120m²
- total floor area / 37,302m²
- floors / four
- structure / ferroconcrete

The biggest exhibition hall in the Chugoku-Shikoku area hosts events of every kind.

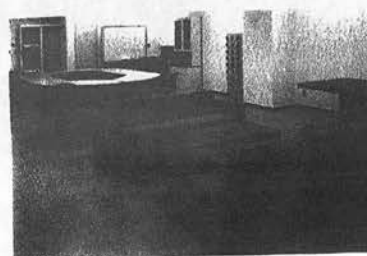
The design of the main exhibition hall was inspired by the waves of the Seto Inland Sea. The highly sophisticated facilities make every type of event possible.



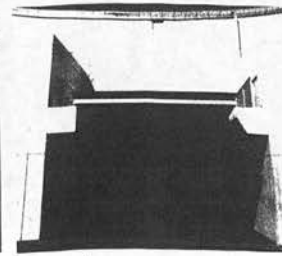
screen rods



sliding walls



waiting room



loading bay



utilities



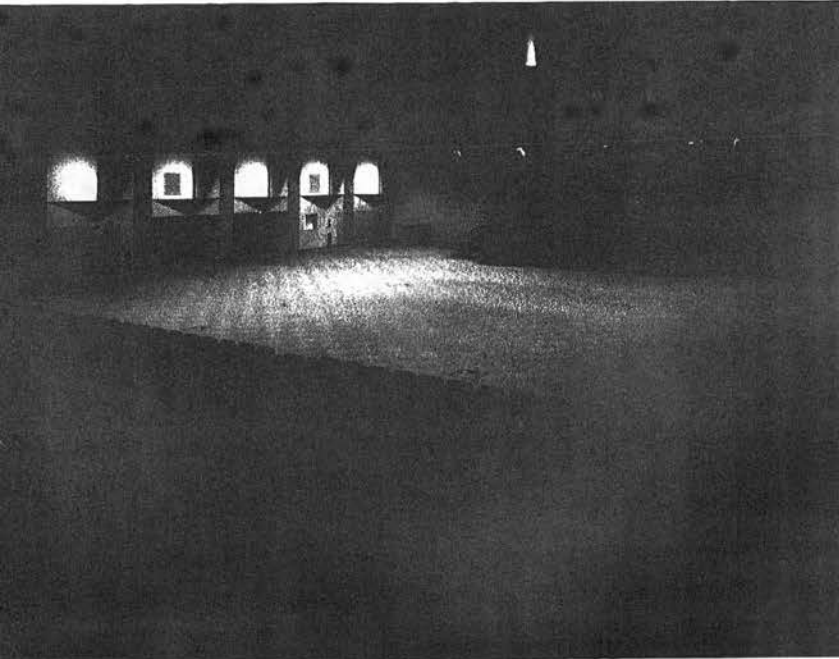
electric facilities

main exhibition hall

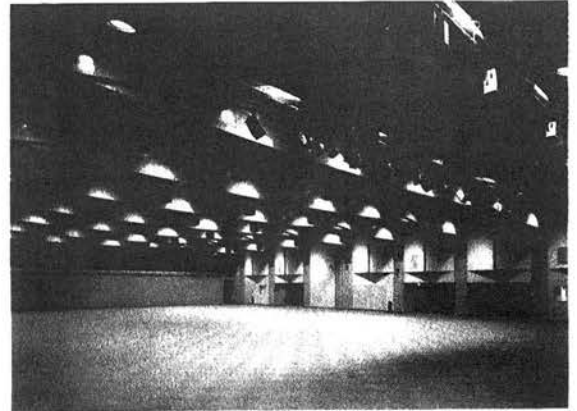
The biggest hall in the Shikoku-Chugoku region of southwestern Japan, it boasts 4,500 square meters of floor space and a 12- to 16-meter ceiling, as high as a five-story building. Its 200 rooms can seat 4,500 comfortably, without annoying pillars. Disaster-proofing measures have also been taken. Three double-frontage 5m x 5m loading bays have been installed and the floor has a pressure rating of 5t/m². Other amenities include electricity, gas, telephone, air, water, eight elevators, three sliding walls and six separate waiting rooms. Lighting and other stage amenities are also available.

Well-equipped exhibition hall. You can utilize the facilities any way you like.

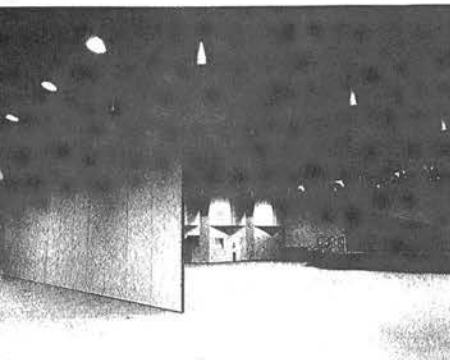
The state-of-the-art technology of the sub exhibition hall lets you tailor events to your ideas. It expands the possibilities of indoor displays.



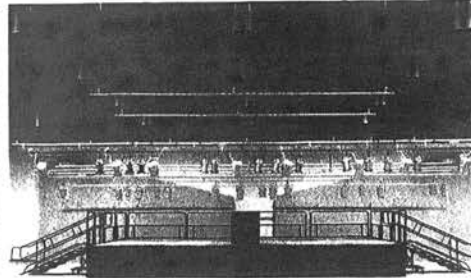
movable seats (in use)



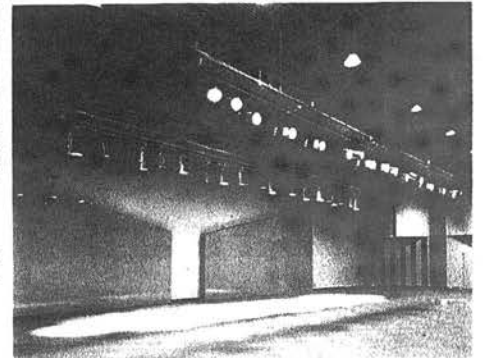
removable seats (stored)



sliding walls



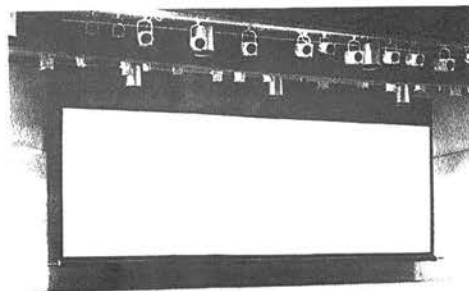
stage and rods



lighting facilities

sub exhibition hall

The sub exhibition hall has 484 (removable) seats and one-third the space of the main exhibition hall. In this 1,500 square-meter hall, wide screens, a projector, lighting facilities and other compact high-tech amenities have been prepared. The tile carpet creates a refined atmosphere. You can use the whole space as a big lecture theater, or divide it into two or more areas.



big screen



projector

Convenient access from inside or outside Japan

The Ehime FAZ is an integral part of the Matsuyama port and airport complex, and for a foreign access zone it is excellently situated. Matsuyama port lies on regular sea routes to and from overseas destinations. Its foreign cargo quays and the domestic outer port have been consolidated and updated. In addition, it is on an increasing number of Asian sea routes. Matsuyama airport boasts regular flights between Japan and South Korea, and the numbers of both existing and new domestic and overseas flights to and from this popular destination will be expanded in the future.



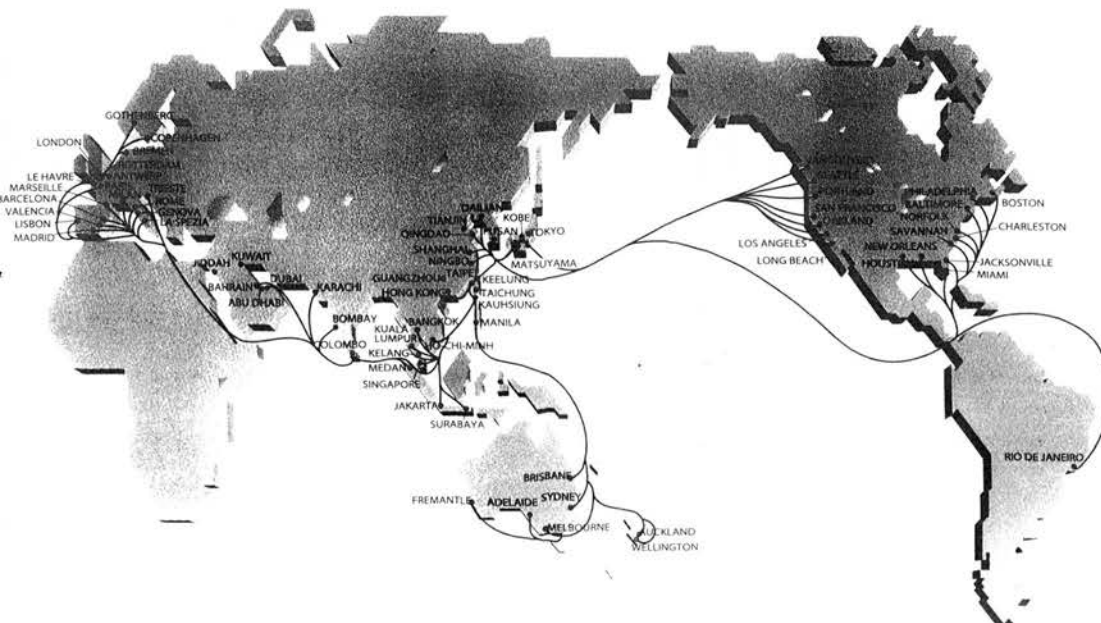
Matsuyama Port

Regular shipping services have been operating between Matsuyama Port and Kobe and other ports on domestic sea routes as well as between Matsuyama Port and South Korea (Pusan), Taiwan (Kaohsiung and Keelung), China (Dalian) and other destinations on overseas sea routes. Matsuyama Port's international regular freight shipping services network is expanding all the time, and it is now possible to transport trade cargo items all over the world from this port. Work is being carried forward to construct by the year 2000 a new trading quay where large freight vessels in the 40,000-ton class will be able to berth by reclaiming the sea adjacent to the I-LOT Ehime International Logistics Terminal.

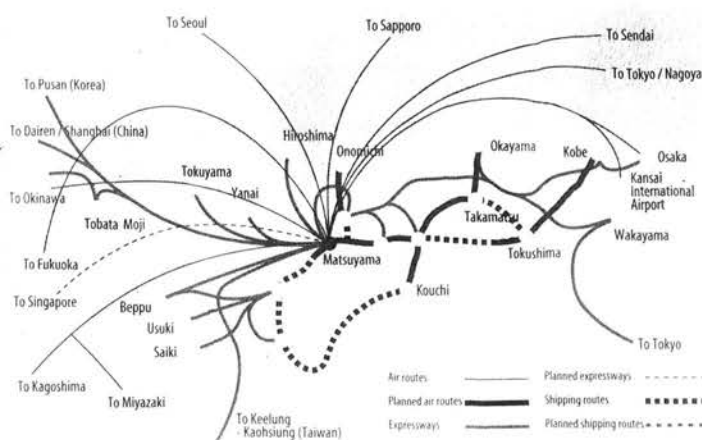


Matsuyama Airport

The airport offers regular flights to a growing number of places in the Chugoku and Shikoku regions. Regular international flights also leave for Seoul in South Korea, and the international flight network is currently being expanded.



Access map, present and future



Poised to become an international trade port with doors which open onto the world.

- Promotion of activities to make this the trade center of Shikoku and the Seto Inland Sea economic zone
- Encouragement of industry revitalization by improving the efficiency of physical distribution
- Development of globalization through international industrial interchange
- Establishment of customs/immigration/quarantine (CIQ) set-up including inspections of foodstuffs and animals



Expressway

With the system of expressways which will criss-cross Shikoku scheduled for completion at the beginning of the twenty-first century, the establishment of a high-speed road infrastructure is well underway. Construction work on the bridge extending from Shikoku to Honshu (between Imabari and Onomichi) was completed and the bridge opened to traffic in May of 1999.



- About a 5-minute drive from Matsuyama airport
- About a 15-minute drive from the JR Matsuyama station.
- About a 10-minute drive from Matsuyama port
- About a 20-minute walk from Yamanishi station on the Takahama line of the Iyo railway
- A regular bus service is available every 30 minutes from Matsuyama station.
- A regular bus service is available every hour from the JR Mitsuhamma station.

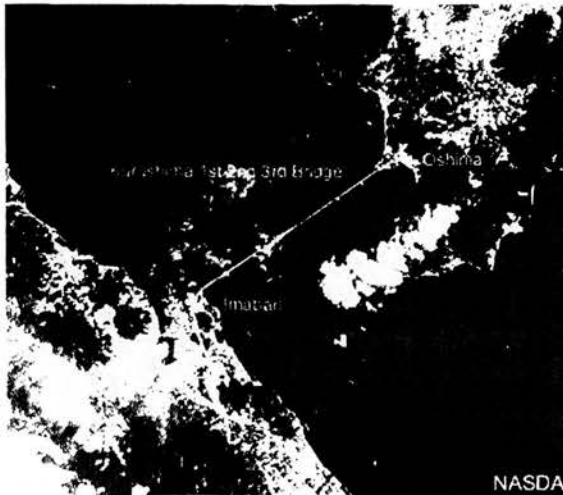
Steering the Ehime FAZ program to success.
愛媛エフ・エー・ゼット株式会社
Ehime Foreign Access Zone CO.,LTD.

1-28, 2-chome Okaga, Matsuyama City, Ehime Prefecture 791-8057
 Tel: 089 (951) 1211; Fax: 089 (951) 2955
<http://www.ehime-iinet.or.jp/faz/index.htm>

ITEM Ehime [Ehime World Trade Center]
 1-28, 2-chome Okaga, Matsuyama City, Ehime Prefecture 791-8057
 Tel: 089 (951) 1211; Fax: 089 (951) 2955
 E-mail: ite-mfaz@ehime-iinet.or.jp

I-LOT [Ehime International Logistics Terminal]
 150-1, 3-chome Okaga, Matsuyama City, Ehime Prefecture 791-8057
 Tel: 089 (951) 1600; Fax: 089 (951) 3221
 E-mail: iblotfaz@ehime-iinet.or.jp

Kurushima Bridge



The Kurushima Kaikyo Bridge consists of triple bridges with a total length of 4,105 m connecting Imabari city and Oshima and crossing the Kurushima Strait, an international sea route, where approximately 1,000 ships pass each day. The 1st Kurushima Kaikyo Bridge, nearest to Oshima Island, is a suspension bridge with box girders, a total length of 960 m and a center span of 600m. The 2nd Kurushima Kaikyo Bridge, built over Bushi, Kobushi and Majima islands, has a total length of 1,515 m and a center span of 1,020 m. The 3rd Kurushima Kaikyo Bridge is on the Imabari side with a total length of 1,570 m and a center span of 1,030 m. The girders were carried on a self-propelled barge to the site directly below each erection point. The last section was erected on August 10, 1998, completing the link between Imabari and Oshima.

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APPENDIX 6

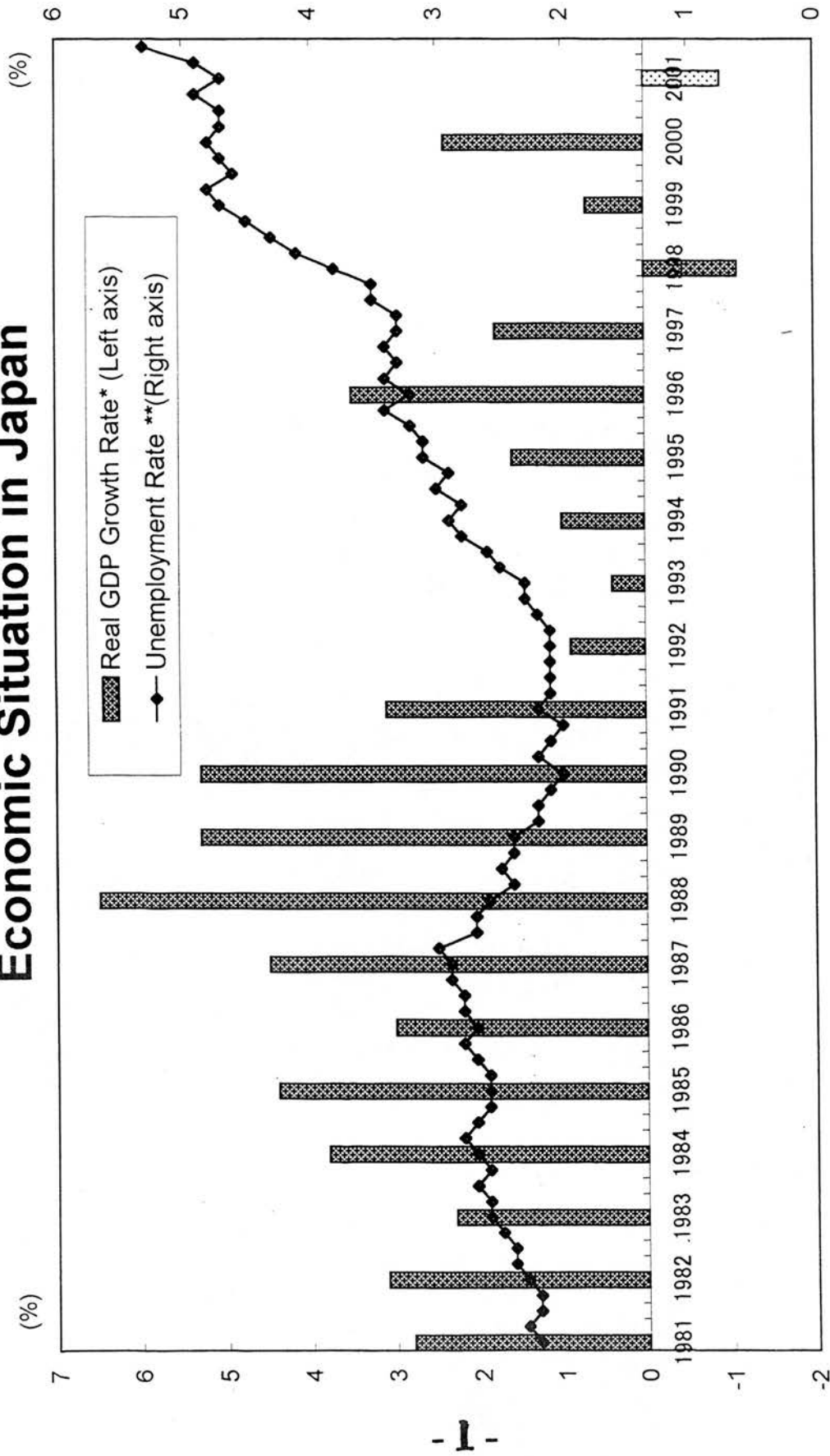
CURRENT FISCAL CONDITIONS IN JAPAN

Current Fiscal Conditions
in Japan

December 5, 2001

Etsuro Honda

Economic Situation in Japan



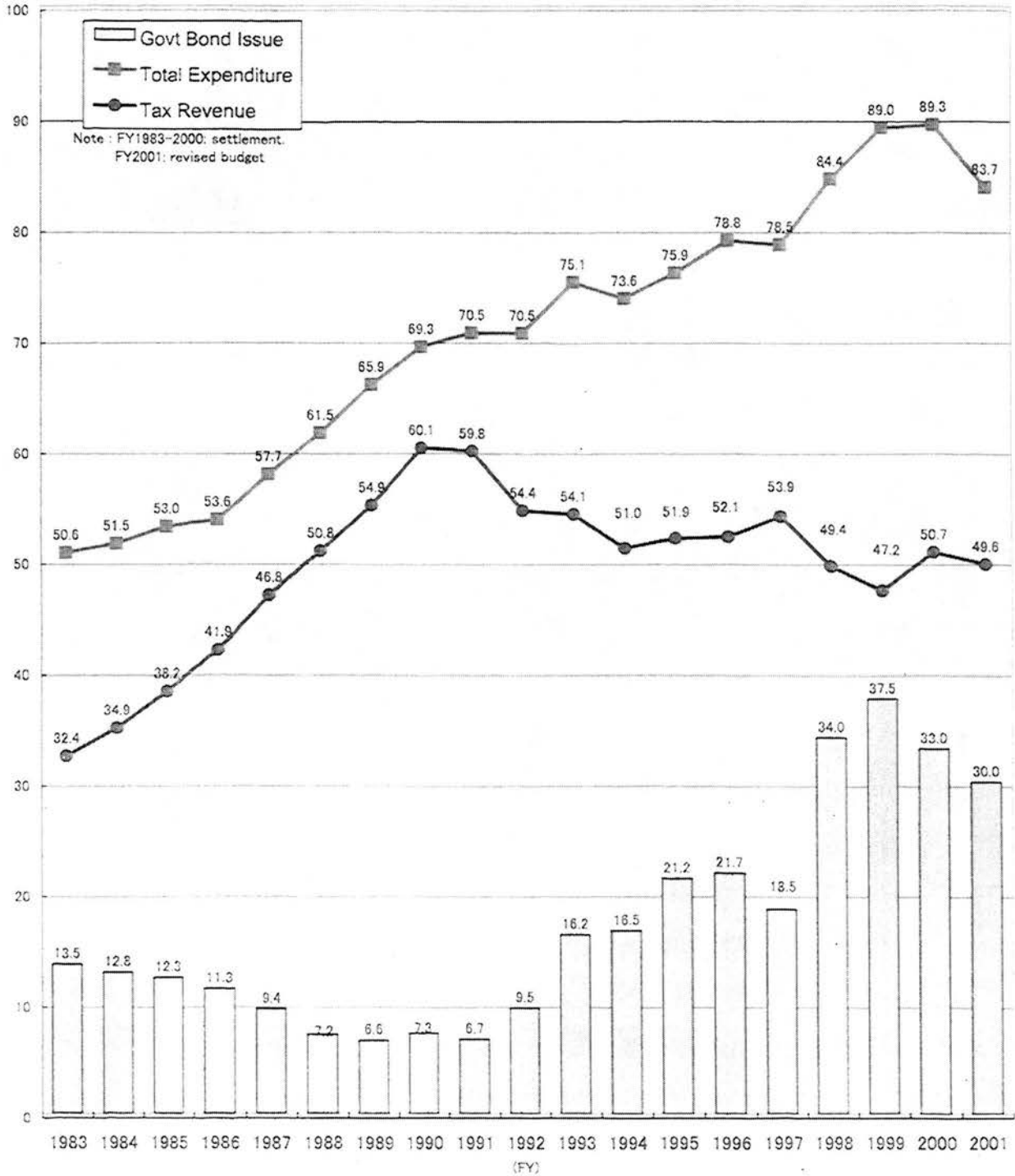
*: Annual growth rate in calendar year and for 2001 the number is provisional estimation for FY 2001 by Cabinet Office

** : At the end of each quarter and seasonally adjusted

(Source) Cabinet Office, Ministry of Health, Labor and Welfare

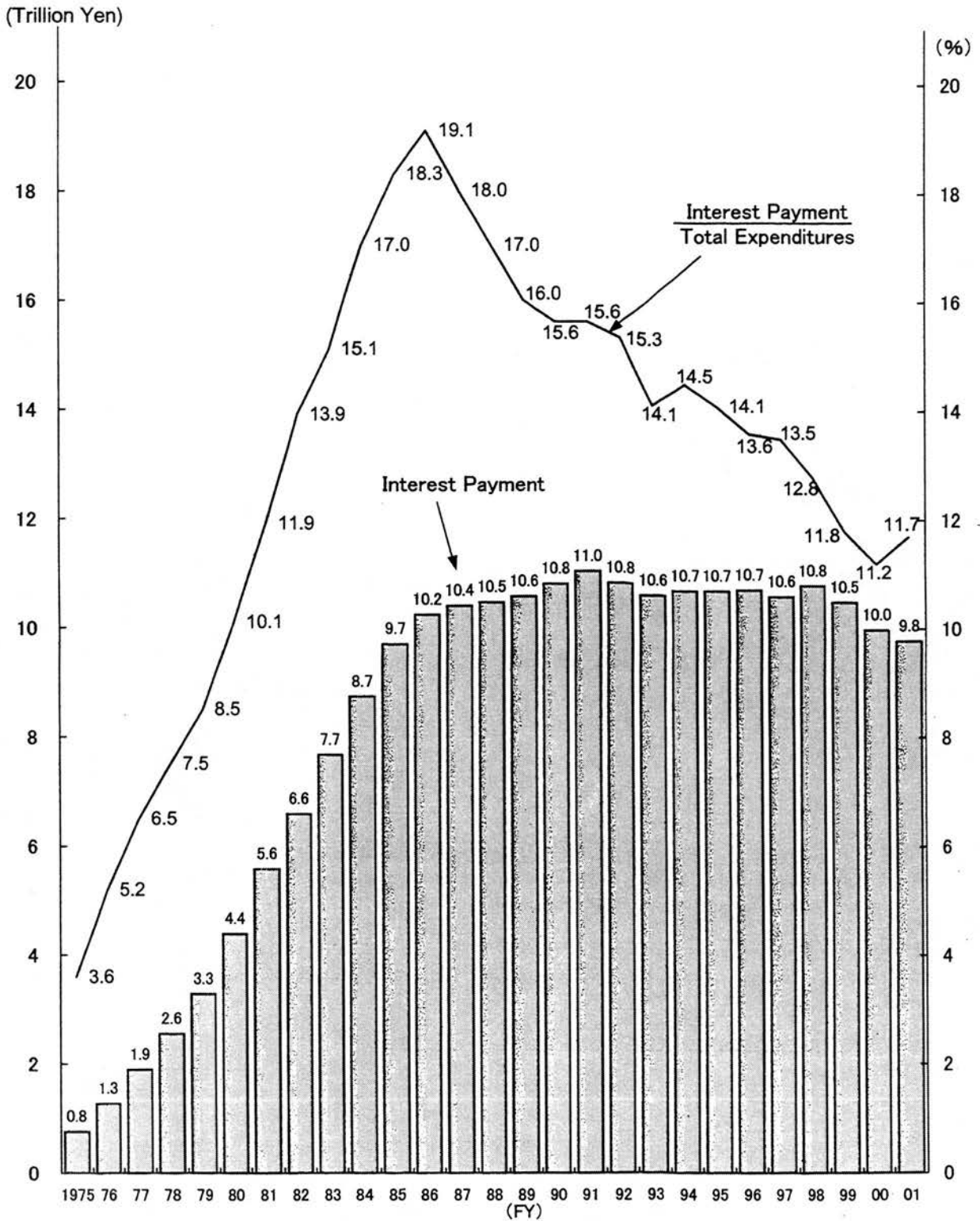
Trends of General Account Tax Revenue, Total Expenditures, and Government Bond Issues

(Trillion Yen)



Trends of Interest Payment of Government Bonds

(FY2001 Revised Budget)



Note: FY1975-2000: settlement, FY2001: revised budget

General Government Gross Debt (National Account Basis)

(As a percentage of GDP)

FY	1998	1999	2000 (revised)	2001 (initial)	2001 (revised)
General Government Gross Debt	107	117.1	approx.136.0	approx.140.8	approx.140.8
Central Government Gross Debt	83.9	92.8	approx.105.2	approx.109.6	approx.109.6

Note 1. All figures are year end figures of the fiscal year.

2. FY1998, 99 are actual figures according to calculations by the Cabinet Office of Japan.

Figures for FY2000 and 2001 are estimations based on a fixed set of assumptions.

General Government Financial Balance (National Accounts Basis)

(As a percentage of GDP)

FY	1998	1999	2000 (revised)	2001 (initial)	2001 (revised)
General Government Financial Balance	▲12.3 ▲7.2*	▲ 8.2	approx.▲9.5	approx.▲6.4	approx.▲7.6
Central Government Financial Balance	▲10.4 ▲5.3*	▲ 6.8	approx.▲7.8	approx.▲5.5	approx.▲6.7

Note 1. FY1998, 99 are actual figures according to calculations by the Cabinet Office of Japan.

Figures for FY2000 and 2001 are estimations based on a fixed set of assumptions.

2. Figures noted with an '*' are calculated on a basis excluding the Japan National Railway Settlement Corporation and the National Forest Services.

**General Government Gross Debt (National Account Basis)
(International Comparison)**

(As a percentage of GDP)

(CY)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Japan	63.5	69.0	73.9	80.4	86.5	92.0	103.0	115.3	122.9	130.5
United States	74.1	75.8	75.0	74.5	73.9	71.4	68.3	65.2	58.8	55.0
United Kingdom	49.4	58.4	56.1	61.1	60.6	60.9	62.0	57.0	54.4	52.6
Germany	41.8	47.4	47.9	57.1	60.3	61.7	63.0	60.6	59.7	58.0
France	44.7	51.6	55.3	59.3	62.3	64.7	65.1	64.8	64.4	64.1
Italy	116.1	117.9	124.0	123.1	121.8	119.6	117.2	115.7	110.8	107.3
Canada	110.3	116.9	117.5	120.6	120.9	117.4	116.2	111.6	104.9	99.8

Source:OECD Economic Outlook 69 (June 2001)

※ According to the estimate of the Japanese Government, the government gross debt of GDP (on a general government basis excluding social security) will be approximately 136.0% in FY2000 (after revision) and approximately 140.8% in FY2001(after revision).

(%)

