JAPAN'S ECONOMY: DOWN BUT NOT OUT

It's been a time of hard knocks. But the Japanese are full of determination. K. M. Chrysler of "U. S. News & World Report" sizes up a nation aiming at an economic comeback.

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Tokyo Bay. Japan's industrial might rests on imported oil. Arab cutback in exports revealed weaknesses in nation's economy.

TOKYO

Japan finished as an economic giant?

That's not the picture you get here. This country of 108 million is determined to recover from the heavy blows of its energy crisis as strong as ever—if not stronger.

For a while, it seemed to be a close call. Threats of a severe oil shortage almost paralyzed leaders in Tokyo with indecision for months on end. There was talk of sharp production drops, sagging exports and a crippling recession that could last three or four years.

Now the panic is subsiding. Although businessmen in Tokyo and Osaka no longer boast about the nation's "miracle growth," it has become clear to them that Japan, the world's third-strongest industrial power, is not as fragile as they had once feared.

Hard times no doubt lie ahead, particularly in the next 6 to 12 months. And no one in authority is minimizing the serious difficulties that are taxing Japanese ingenuity and strength.

"The binge is over." According to a Tokyo banker:

"The longest economic binge in history is finally over.

"The hangover, while not fatal, will be painful while it lasts."

Among the problems:

- Japan runs on oil, 99.7 per cent of it imported. This dependence on outside sources, highest among advanced industrial nations, makes Japan vulnerable to pressure by Arab countries.
- Inflation is spiraling upward. Wholesale prices rose 29 per cent in 1973. Consumer prices were up 19.1 per cent while wages climbed more than 20 per cent.
- Unprecedented air, land and water pollution are fouling the nation. Vast sums of money must be spent to clean up the environment.

"Blessing in disguise." The energy shortage brought these problems into sharper focus—and many Japanese, as a result, consider it a blessing in disguise. They argue that Japan badly needed a shock to expose basic weaknesses in the economy and to dispel complacency.

Now belts are being pulled in. Even Japan's free-spending businessmen are being told to tighten up on expense-account spending.

"Frugality is a virtue again," says one of the nation's most influential business leaders. "There will be more emphasis on hard work and improved productivity, less stress on leisure and a shorter workweek."

The Government of Prime Minister Kakuei Tanaka, which faces crucial elections for the upper house of Parliament this summer, has asked industry, labor and the press to support a three-point program it hopes will tide Japan over present troubles and insure the national prosperity. The plan calls for:

1. A shift away from production of heavy industrial and chemical goods toward high-technology products that can absorb increased wage bills. A Japanese industrialist explains: "In the future, we will export less sheet steel and more computers."

2. More-intensive efforts to insure supplies of basic raw materials for Japanese industry. Included is a Japanese-French plan to open new copper mines in Morocco and Peru. Japan hopes to secure millions of tons of coking coal as well as oil and gas from Siberia.

3. Dispersal abroad of plants that create pollution, consume too much energy or occupy large tracts of land. One example: construction in the Philippines of a 100-million-dollar plant by Kawasaki Steel. The plant will process Australian iron ore for use in Japanese blast furnaces.

A major casualty of the Government's newly launched austerity program is its own antipollution drive. Improvements in such neglected areas of national life as sewage treatment and parks will be deferred indefinitely, even though the Government itself has said that pervasive pollution threatens to make Japan unlivable.

Japan is proposing instead to "export" pollution by building factories in underdeveloped countries that are willing to accept dirtier air or water in exchange for more jobs. Such plants would reduce the need to import and process raw materials in Japan.

Mr. Tanaka's bare-bones budget not only will cut into public-works spending, but the Government is squeezing credit at home and is limiting expenditures abroad.

Curbs are being placed on Japanese purchases of foreign securities and of such "nonessential" foreign properties as real estate, hotels and restaurants. The Finance Ministry is, however, encouraging Japanese investors to put their money into "productive" ventures abroad, including industry and mining.

Officials claim that the money outflow must be restricted to pull the country's international-payments position out of the red. But scare talk about a depleted treasury subsided in January when the Finance Ministry disclosed the existence of "hidden" foreign-exchange reserves totaling more than 6 billion dollars.

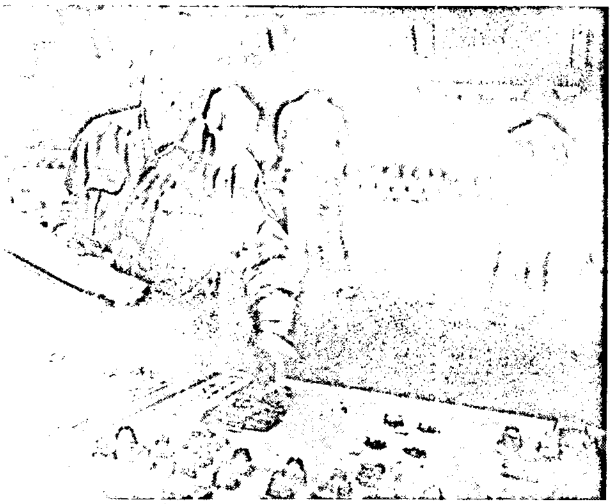
Japan's trade deficit in January and February totaled 1.4 billion dollars. Yet authorities predict that a new export drive—headed by steel, ships, automobiles and textiles—will give the country a favorable trade balance of 3.4 billion dollars for the year ending March 31, 1975.

Cautious sales plan. Japanese officials are aware that huge trade surpluses in recent years have alienated many of its trading partners, including the U. S., and they are resolved to handle the new sales push carefully.

This is particularly true in Southeast Asia where a "good will" tour by Prime Minister Tanaka in January was marred by a number of demonstrations staged to protest Japan's economic dominance in the region.

Most countries find it difficult to resist Japanese salesmen. High prices charged at home enable the Japanese in many cases to sell the same goods at bargain-basement prices overseas.

Despite fears that the Arab oil embargo would bring Japan to its knees, deliveries from the Middle East have so



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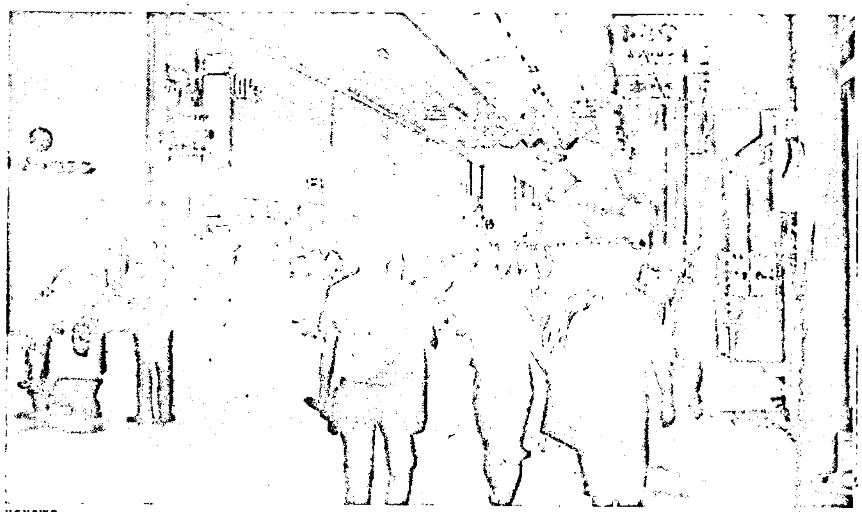
. .l foreman. Officials say nation's economic growth re- shift from heavy industry to high-technology plants.



USN&WR

Hiroshima shopping arcade. Japanese workers want wage hikes up to 30 per cent this year to offset high prices from soaring inflation.

:en maintained at near their previ- vels. The Japanese Cabinet issued icy statement last November that :d the Arab cause, and at Christ- the Arab oil-producing countries ıced that they intended to "sup- ›an's full oil needs."

: the next 12 months, imports of petroleum are expected to exceed , the previous year's total. How- 'e nation's bill for oil in this peri- . probably reach 17 billion dollars . than twice the previous tab of on. But this does not worry Japa- ndustrialists who will pass most, all, the added expense on to their ners. Besides, it is pointed out Japan is paying no more for oil its trade rivals.

:cording to one business leader in yo: "Japanese competitiveness in :d markets may be bruised, but it 't be blunted."

aring inflation is Japan's most seri- roblem. In Tokyo in February, a ge cost the equivalent of one U. S. :. A box of strawberries sold for ;, and six spears of asparagus cost). A businessman who entertained a client at dinner was staggered when handed a bill for $146.66 for four brandies and two steaks.

The Government has charged profiteering in some instances. It has calculated that in the latter half of 1973 the average rise in prices of a half-dozen key commodities should have been about 11 per cent, based on production costs. The actual increase averaged nearly 52 per cent.

Twelve Japanese oil-refining companies have been accused by the Government of forcing up the wholesale price of all petroleum products by nearly 100 per cent, through price-fixing. Indictment papers have been filed by Japan's Fair Trade Commission. Critics contend, however, that the Government's confrontation with big business is mostly political sound and fury, aimed at easing pressure on Prime Minister Tanaka before the July elections.

While Mr. Tanaka's Government has frozen some of the domestic prices, it has allowed the retail price of gasoline to rise to $1.26 a gallon.

Labor costs hurt. The price upsurge has been due in part to the rising cost of labor. During 1973, wages jumped 20 per cent. Japanese labor unions are asking for another 30 per cent hike in 1974.

Japanese industrialists believe they can live with an increase this spring of 20 to 25 per cent. Workers still receive less pay than Americans, and their productivity compares favorably. For instance, a Japanese container ship of 30,000 tons is manned by a crew of 26. On a U. S. ship of the same size, the crew would be 40 to 45 men.

Officially, real growth of the Japanese economy has been estimated at 2.5 per cent for the 12 months ending March 31, 1975. Unofficially, experts say the increase will be closer to 5 per cent. And in the years ahead, growth is expected to level off at around 8 per cent.

That is several points off Japan's previously hot pace—but twice what the U. S. usually manages.

"A slight pause." It is no longer fashionable in Japan to predict that the country will surge past Russia and the U. S. before the century ends to become the world's most powerful industrial nation. However, this dream has not been abandoned entirely. According to one prominent economist:

"Our ambitions are being scaled down—slightly. But no one really expects anything more than a slight pause in Japan's forward momentum."

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Autos for export. Japan has huge deficit in trade now, but hopes to recover through renewed drive to sell more goods abroad.