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Japan Report

(FOUO 14/80)

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POLITICAL AND SOCIOLOGICAL

NAKASONE RENEWS ACTIVITIES TO WIN LDP PRESIDENTIAL NOMINATION

OW091231 Tokyo THE JAPAN TIMES in English 8 May 80 p 14

[Article by Minoru Shimizu: "Nakasone Restarts for LDP Election"]

[Text] Yasuhiro Nakasone, one of the candidates for president of the Liberal-Democratic Party, has renewed his activities for the presidential election scheduled for late this year. Over the past 10 days, news of his activities strongly tinged with self-promotion has come from Beijing.

He started his two-week sojourn in China on April 27 upon the invitation of the China-Japan Friendship Association and has since conducted talks with top Beijing leaders including Premier Hua Guofeng.

Topics of discussion at these meetings ranged from economic issues such as China's economic issues such as China's economic construction to defense and international issues including the Russian invasion of Afghanistan and the Iran crisis. While discussing Japan's defense role, Nakasone induced a top Chinese defense official to say that in view of current relations wih the Soviet Union, Japan should do more in terms of defense efforts such as increasing the defense expenditure to 2 percent of the GNP. (At present, Japan's defense spending comprises 0.9 percent of the GNP.) This comment prompted annoyed Foreign Ministry officials to criticize the Chinese as having interfered in Japan's domestic affairs, which helped further draw popular attention to Nakasone's China trip.

Future Leaders

Nakasone once said that future leaders of Japan must conduct frank exchanges of views with their Chinese counterparts. He probably meant to put into practice what he had preached on the occasion of his current visit to Beijing.

In a speech at a welcome reception for him in the Chinese capital, Nakasone said that recent developments showed that Chinese leaders had more insight into the true nature of the Soviet Union and its leaders than Japanese and conducted self-criticism on account of the optimistic view that prevailed

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among his countrymen. Commenting on the report, an LDP leader said with a wry smile that the unabashed singing of praise of Chinese leaders was very Nakasone-like. He and many other top LDP men observe that apple polishing is Nakasone's favorite method of making friends.

Current China Trip

If his intention was to make the most of his current China trip to impress both overseas observers and people at home that he is still an active and important factor in Japanese politics, Nakasone has certainly achieved it. Scheduled to return home tomorrow, he is planning to conduct a speech tour to various parts of Japan to report on his tour.

For the past four months since intraparty strife rocked the LDP last year-end, Nakasone had chosen to remain quiet. He suddenly emerged from inactivity apparently as a result of increasing alarm among his aides as well as himself that continued inertia would rob him of any chance of winning in the coming LDP presidential election.

That Nakasone is one of the stronger candidates to succeed Ohira after he quits the presidency is widely accepted in view of his past performance and position in the party. However, he has lagged far behind Ohira and his strong rival, Toshio Komoto, a former international trade and industry minister, in collecting supporters among LDP members who will cast ballots in the first round of the two-stage LDP presidential election.

It is reported that both Ohira and Komoto have collected some 1 million party members each who will vote for them while Nakasone supporters number about 600,000 to 700,000. The LDP presidential election consists of two stages: In the first stage, all party members and associates cast ballots for the leader of their choice from among any number of candidates and the top two vote getters will advance to the second stage in which only LDP members of the both houses will cast ballots to choose the president. Therefore, the first step for becoming party chief is to collect as many supporters as possible among the registered party members and associate members.

According to an LDP announcement, the party now counts about 3.1 million members and associate members, nearly twice the total registered at last presidential election. This sharp increase has largely been due to the spirited drive to recruit new members by Komoto who belongs to the faction headed by former Prime Minister Takeo Miki. The rumor that Komoto has collected 1 million registered supporters has, in turn, spurred close aides of Ohira, who is seeking reelection, into a stepped-up membership expansion campaign. Thus the two men are now reported to have secured some 1 million supporters each.

If the election were held today, Ohira and Komoto would place first and second, respectively, in the preliminary election, giving Nakasone no chance

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to survive to the second-stage election. Should he be beaten in the first-stage election, Nakasone will find himself in an awkward situation where his status as a future LDP head will be seriously questioned.

Anti-Ohira Factions

These developments have forced him to maneuver to solidify his support base and win "floaters" over to his camp. His current visit to China has been one such attempt.

Nakasone has also begun to work for closer relations with two top figures of the anti-Ohira factions, former Prime Minister Takeo Fukuda and former Agriculture-Forestry-Fishery Minister Ichiro Nakagawa. Fukuda has not, according to his aides, made up his mind whether to enter this year's LDP election. He has been asserting that the first-round election should be "fozen." His position is that last party presidential election showed that attempts to garner supporters in the first round of voting resulted in the expenditure of a large amount of money. Fukuda does not want to see this repeated and wants to do away with the present system of preliminary elections. As for himself, Fukuda is considered to have some 300,000 supporters.

Presidential Post

Nakagawa, generally regarded as a contender for the LDP presidential post in the near future, is friendly to Fukuda and represents right-wingers in the LDP. Known to command some 100,000 votes, Nakagawa has made it clear that he is not running in this year's election.

That is, Nakasone is believed to be calculating that if he can take over the supporters of Fukuda and Nakagawa with their bosses' approval, he can edge Komoto out during the preliminary election and place second, and thus advance to the final election. In recent weeks, Nakagawa and Nakasone have been meeting frequently. If they can reach an agreement to join forces, it will have a considerable effect on the result of the preliminary election.

Dubbed a "political weathervane," Nakasone is known for his unpredictability, and even his aides are not sure what he is preparing to do next. But his recent moves, aimed apparently at solidifying his position for the coming party election, are certain to activate factional races for the preliminary.

It is too early to predict whether Nakasone can place in the top two in the first-round election. What is certain is that he will intensify his activities in and out of the party to mark his presence.

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POLITICAL AND SOCIOLOGICAL

CODE OF ETHICS ENVISAGED FOR LDP

Tokyo BUSINESS JAPAN in English Apr 80 pp 18, 19

[Text] The Liberal-Democratic Party (LDP) plans to formulate a charter on ethics. The Charter Drafting Committee headed by Takashi Hayakawa is scheduled to compile the charter by this May. In the first committee meeting held recently, there was an active discussion on the subject of political ethics. From the next session, it is said that former prime ministers Takeo Miki and Takeo Fukuda as well as various scholars will be invited to attend the meetings to express their opinions. In the first meeting, the discussion dwelt on several topics such as the fading "bushido (the ethics of samurai) spirit," the problems inherent to political factions and the question of how politicians should sever their relations with "dirty money."

The question of compiling a charter on ethics was brought up last year after the bitter experience of the Lockheed aircraft scandal. Some members of the LDP suggested forming a charter as a means to guide party members. After the battle for party leadership ended, discussions were unfolded to reform the party. The formal decision to work out a charter was made in January during the regular party convention. At the recommendation of Prime Minister Masayoshi Ohira, Mr Hayakawa, who is well versed in parliamentary systems including the political history of England, was named the head of the Charter Drafting Committee.

Leading members of various factions and party elders participated in the committee meeting. The first meeting was given to a free exchange of opinions. One of the party elders stated: "The samurai style of sense of duty (courage, loyalty and sincerity) is fading away from our party ethics. We must shed the coloring of the tradesman's morality from our party." Then, a younger member of the party proposed "We must revert to the spirit of the founding days of the party when responsibility and courage were emphasized," and lamented the lack of "soul" in party members.

Another party member stated his opinion: "In this age of internationalism, the politicians of LDP must have a broader, international sense of ethics." There were some realistic opinions too such as: "There is no sense in just talking. What needs to be done is to strictly implement punitive measures against the violators of party rules. Punishments must be meted out severely."

Chairman Hayakawa stated: "It is important for politicians to distinguish between public and private matters. The practice of politicians receiving money from politicians must be stopped. Factions should be allowed to exist only within the limits of policy matter."

The appeal was made for politicians to abandon their factional dependence and to stand on their own feet. Many proposals were made by party members who often related their own experiences.

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The issue is when will these proposals be translated into actual political activities. As for the contents of the charter, it has merely been suggested that it will be submitted to other organs within the party such as the election system study council. At present, the election system study council and other organs are discussing the election system, campaigns and political funds. However, not much progress has been made. It would be surprising if additional proposals would be readily accepted by the party.

It is feared that no matter how much trouble the party goes to in compiling a charter, the proposals will get buried away in some obscure corner and the charter will become nothing more than a pep talk for the House of Councilors election.

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POLITICAL AND SOCIOLOGICAL

AUTHORITIES FEAR NEW ACTION BY JAPAN RED ARMY

Tokyo BUSINESS JAPAN in English Apr 80 pp 26, 27

[Text] The National Police Agency and other security authorities have recently received convincing information that Takamaro Tamiya, 36, a former student of Osaka Municipal University who, as one of the nine leaders of "the Red Army" group, escaped to the Korean Democratic People's Republic (North Korea) after having hijacked a Japan Air Lines' plane a decade ago, is now living in East Germany. It has been affirmed that Tamiya attempted to enter Britain in September 1976 with a forged passport but failed and was then compulsorily returned to the communist-bloc nation via Denmark. The investigations made following his reported return have revealed that he did not go back to North Korea, but stayed in East Germany and continued his activities there. The security authorities have become more and more suspicious that Tamiya has been acting as an important contact between the group members in North Korea who were involved in the hijack and the Japan Red Army group led by Fusako Shigenobu which is based in the Middle and Near East. The authorities are concerned that they may be planning to start a new guerilla warfare offensive because of recent activities of the Japan Red Army.

The reason why the security authorities have suspected that Tamiya may be staying in East Germany is because there is absolutely no trace to be found of his arrival in North Korea even though it was said that he was returned to North Korea from Denmark by a Romanian Airlines plane. Furthermore, the authorities have obtained valid information recently that Tamiya was seen in East Berlin.

Born in Shibata City, Niigata Prefecture, Tamiya was one of the top leaders of the Japan Red Army, a communist group aiming for a Bolshevik revolution. After graduating from the Economics Department of Osaka Municipal University, he led such disturbances as the Quartier Latin struggle at Kanda, Tokyo, in 1969 and the fight to prevent Prime Minister Eisaku Sato's visit to the U.S. the same year. But as regulations were effectively enforced by the police, no more violent activities became feasible. In March 1970, he escaped to North Korea by hijacking the Yodo, JAL's passenger plane for flight 351 from Haneda, Tokyo, to Fukuoka. He was accompanied by eight group members of the Japan Red Army. It was then reported that he had been staying in a boarding house in the suburbs of Pyongyang.

In November 1976, however, when Mr. Minoru Oda, a novelist, visited North Korea and interviewed the Red Army members for four hours, only Tamiya, the leader of the group, was not there. Then the security authorities started to investigate Tamiya's activities.

It was only at the end of 1976 that the reason for his absence was found. A

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Japanese man who tried to enter Britain from Denmark was temporarily constrained on September 1976 because the passport he was carrying was found by the immigration officer to be forged. The passport looked genuine, an almost exact copy of those issued by the Japanese government. The man's countenance and physique were very much like Tamiya's and he carried with him a letter addressed to the Red Army activists in Japan. He also had a map of Japan. The letter read as follows: "After leaving Japan, we are now suffering many difficulties, but the time will come when we will take firm steps toward the revolution."

The man was sent back to Denmark, his departure point, and then returned forcibly to North Korea, it was reported.

The security authorities have already confirmed that the man was Tamiya.

Since then, however, the authorities have obtained a few more pieces of information which show that Tamiya was seen in Berlin as well as on a train connecting East Berlin with Turkey. Also basing their conclusion on reports given by those who have visited North Korea, the authorities are now almost 100% certain that Tamiya is now in East Germany having gone there after leaving Denmark.

When missions sent by the Japan Socialist Party and the New Liberal Club visited North Korea last year, the North Korean government evaded any explanation in detail about the current moves of the nine activists. But, according to some leading newspapers in South Korea, at the preliminary talks held at Panmunjom February 19 between the representatives from North and South Korea for establishing diplomatic relations, a newspaper reporter from North Korea disclosed that a part of the Japanese group that had hijacked the Yodo had left the country. The security authorities assume that Tamiya was among them.

The security authorities believe that Tamiya is using some embassy in East Berlin as his base, and his reason for the long-term stay is to act as a contact between his comrades in North Korea and the Japan Red Army led by Fusako Shigenobu, 34, based in the Middle and Near East. Both groups are believed to have already started planning a new joint action and are now organizing their moves.

There is also other valid information reporting that four members of the Japan Red Army including Masao Adachi, 40, a former movie director, and Junzo Okudaira, 31, left Lebanon at the beginning of January. The security authorities suspect that their move must be connected with the fact that Tamiya is now in East Berlin.

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POLITICAL AND SOCIOLOGICAL

SCANDAL PROMPTS KDD REORGANIZATION

Tokyo BUSINESS JAPAN in English Apr 80 pp 22, 23

[Text] An extraordinary general meeting of shareholders took place on February 20, 1980, at the head office of KDD (Kokusai Denshin Denwa Co., Ltd.) in Nishi-Shinjuku, Tokyo. KDD is now floundering in the midst of a large-scale investigation touched off by smuggling charges, a scandal that is now spreading to suspected bribing of political and administrative officials.

The general meeting nominated Teru Hidaka, director and adviser of Yamaichi Securities Co., and Gen-ichi Masuda, president of Nippon Asia Kaitei Cable, as new managing directors of KDD. Immediately after obtaining the approval of the Ministry of Posts and Telecommunications, the board of directors appointed Hidaka to the position of chairman and Masuda to president, laying the foundation for a new management setup at KDD.

As a result, Shinzo Furuike, who was concurrently chairman and president of KDD during the interregnum following the ouster of the former President Itano, resigned from both posts at the board of directors meeting and will remain merely as an adviser until the expiration of his term of office in June.

In the meantime, Furuike had been attempting to repair the damage resulting from the scandal and to reform the company setup including the dissolution of the notorious "President's Chamber," reported to be the center of corruption and crime.

Thus KDD, violently shaken after the exposure of extensive smuggling activities, has at least survived the first crisis and now has a reformed management structure. But the company's future is anything but serene, as symbolized by the stormy general meeting of shareholders.

Reconstruction does not end by merely correcting the former management organization and attitudes that gave rise to extensive corruption. The scalpel of reform must reach deep into the management philosophy itself.

Regaining of confidence would be impossible without a thoroughgoing cleaning-up. The management structure and the basic attitude of directors, which led to corruption and the ensuing scandal, must be considered in discussing the smuggling, the huge amount of entertainment expenses and "presents" to government officials.

In the background is the distortion of management ethics accompanying a monopoly enterprise and the profit structure which enabled the squandering of entertainment allowances "like water."

KDD was established in 1953 in order to raise the level of Japan's telegraph and telephone service to that of advanced western countries at the earliest possible date. At first the consolidation of management structure by means of greater profit was given top priority.

Original and flexible management operations were carried out successfully thanks to a civilian-type form of enterprise organization. KDD soon built up telecommunication technology that was counted amoung the best in the

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world.

In recent years services of KDD gradually shifted their emphasis to the leasing of equipment such as telex machines to users. International telephone systems, the international public digital network program (Venus program) and data communication have brought about an appreciable cost reduction since these systems operate automatically for the most part. This has contributed to an enormous increase in profits for KDD.

Management during the hectic early days should naturally differ from that in the period of stability, when the company has attained the international level. But KDD's management, revelling in its monopoly, failed to take positive steps from the users' standpoint. This attitude soon resulted in greed and corruption.

An increasing number of users have been complaining recently that KDD's service has deteriorated in proportion to its accumulating profits and that its privileges as a monopoly were exerting a corrosive influence.

Late last year KDD had to lower international telex and telephone charges under the pressure of public opinion. The new management should pursue the policy of sharing profits with users instead of monopolizing them for their own uses as in the past.

The problem of management ethics boils down, in the final analysis, to how to expand services to users. Both Chairman Hidaka and President Masuda have expressed their wish "for management to consider the voice of outsiders, including users and specialists."

If KDD succeeds in the reforms that these two leaders have promised, users will gain a powerful ally. Only then can KDD reject the "administrative intervention" contemplated by the Ministry of Posts and Telecommunications and become a "truly civilian enterprise not wallowing in monopoly" (Chairman Hidaka), for the origin of KDD's management is located in the users and not in the government. The key to reconstruction may be found unexpectedly near at hand.

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POLITICAL AND SOCIOLOGICAL

MOVES WITHIN LDP TO CHECK KOMOTO

Tokyo BUSINESS JAPAN in English Apr 80 p 19

[Text] Recently, what might be called a "Komoto Whirlwind" has been whipping through the LDP, and as a result various moves are under way to restrain it. One of them is a proposal to bring the mainstream Ohira and Tanaka factions into reconciliation with the anti-mainstream Fukuda faction; that is, to unify the so-called conservative mainstream into a single entity.

Also, there is a growing move within the Nakasone faction, which is lagging far behind Komoto in recruiting party members, to persuade Michio Watanabe (former minister of agriculture and fishery), previously expelled from the faction, to return

In addition, the Group '80, organized by lone wolves within the LDP, such as Sunao Sonoda and Tokusaburo Kosaka, are making subtle moves to support Ohira. For instance, it has proposed a moratorium on the election of the prime minister in an effort to check Komoto's advance.

Meanwhile, Komoto, the cynosure of political interest, established an office in early February near the Diet Building. Although assuming a low profile, he is still making positive moves. Hence, there are signs of a growing confrontation between the Komoto group and the anti-Komoto alliance as they head for the election this autumn to choose the party leader who will automatically become the prime minister.

The man who is taking the lead in reorganizing the mainstream factions into a single group is another lone wolf and a party elder, Ryutaro Nemoto. A faithful disciple of the late Prime Minister Shigeru Yoshida, Nemoto believes that in the present situation, the emergence of a Komoto regime under the influence of ex-Prime Minister Miki is likely, a development which might lead to the disintegration of the LDP.

Nemoto's mainstream reorganization effort is based on the same concept as that at the time of the Miki government. The Fukuda and Ohira factions, which then had a cat-and-dog relationship, were persuaded into a reconciliation in order to topple Miki. Clearly, behind Nemoto looms the shadow of ex-Prime Minister Tanaka with whom he is closely associated. As may be expected, Fukuda has so far not accepted the reconciliation bid.

The Nakasone faction's moves stem from a protective instinct based on a sense of crisis. Watanabe, who was earlier expelled from the group was

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one of its innermost members. At the time of the intra-party feud last year between the Ohira-Tanaka and Miki-Fukuda-Nakasone factions, he was expelled because he went against the policy of the Nakasone faction and voted for Ohira at the decisive plenary session.

But for Nakasone, now in a difficult position, with the gap between him and Komoto greatly widened, it is clear that he would like to have Watanabe return. Watanabe is extremely active and has the confidence of the younger members of the faction who are presently conducting a campaign for his reinstatement. If the face of both parties can somehow be saved, the return of Watanabe will be only a matter of time.

The Group '80 consists of, in addition to Sonoda and Kosaka, ex-Upper House, middle-of-the-road, non-faction members such as Michita Sakata, Toshio Kimura and Asao Mihara. All of them have wide experience as cabinet ministers and are lone wolves with considerable influence in the LDP. With the exception of Kimura, who is strictly neutral, the group has a strong pro-Ohira coloring.

It is generally believed within the LDP that Prime Minister Ohira's recent choice of Sonoda as special envoy to the Middle East was based on his aim of making Group '80 entirely pro-Ohira. With the Group '80 having also proposed, like Fukuda and Nakasone, a freeze on the election of the prime minister, various conjectures are being made within the LDP.

Although the objectives of these various speculative moves may differ, it is clear that they are being made with Komoto in mind. Perhaps sensing these undercurrents within the party, Komoto himself, although having opened an office, is assuming a very low profile and is making every effort to check the rise of anti-Komoto feelings. Depending on the outcome of the Upper House elections this summer, these undercurrents might suddenly rise to the surface and could once more wreak havoc within the LDP.

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ECONOMIC

EXPERT SAYS JAPAN CAN ALLEVIATE INFLATION

Tokyo CHUO KORON in Japanese May 80 pp 90-95

[Article by Masaoki Kojima, member of the Marubeni Executive Board of Directors: "Worldwide Inflation Should Not Worry Japanese"]

[Text] There is no cause for fear of inflation, and the future outlook is not so bleak provided there exists an ample growth potential, high productivity and a vigorous business spirit.

No Inflation Yet

The oil price hike following last spring's revolution in Iran by Ayatollah Khomeyni and the resultant rise of commodity prices centered on international commodities have led the foreign mass media and Japan's journalism sector to express some concern over possible stagflation. But my feeling is that Japan has not yet reached such a critical stage.

Undoubtedly an inflationary trend exists, for wholesale prices are in the two digit figures of 21.9 percent (early March) compared to the same period last year. For consumers, the prices of vegetables have soared, as have public rates such as electric power and gas. However, when observing such a trend from an overall, international situation, it can be seen that 100 percent of it is due to inflation abroad--not homemade inflation due to domestic factors. Thus, I think there is no reason for panic.

Some financial institutions and other quarters are apparently extremely worried over the trend of provisional demands. A financial tightening being required, a policy of high interest rates was adopted, with the official rate being raised to a historic 9 percent annual rate. But provisional demands are unlikely to be the same as during the first oil panic after the fall of 1973.

Although there are constant reports of stagflation or inflation abroad as well as Japanese reference to stagflation in last yearend's "White Paper on the World Economy," I think that Japan is not yet in difficulty.

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The sole reason is that Japan's economy still has ample potential strength and a very high level of productivity compared to leading nations such as the United States and Europe. Thus, my conviction is there is no grounds for fearing inflation provided Japan's economic efficiency can be sustained at a high level.

In the economy of those leading nations, labor productivity has greatly deteriorated. Capital productivity is also low, and there is a lack of zeal to discover new investment opportunities and create businesses. Such an economy and Japan's economy should not be discussed on equal terms.

Assessment of the Fifth Official Rate Hike

The point of controversy--diminishing the interest rate spread between home and abroad--in Japan's latest invocation of the recent financial policy, namely, the fifth financial tightening, makes sense, but there is suspicion whether the policy is appropriate as it had been until the fourth official rate hike.

The recent trend in exports is favorable, including infrastructure-related plant exports to Middle East nations. Against this, imports have begun to stagnate. For example, in the case of oil, costly crude oil would have all been imported by April or May. Judging from the present supply and demand for oil, a steep oil price hike should not occur as in the past. International commodities, apart from oil, have either declined in price or are in a period of adjustment. An escalation of import prices or in the total value of imports is somewhat unforeseeable.

From this point of view, there is no reason to increase the interest rates as far as the international balance of payments is concerned.

Great concern seems to exist over the yen's future or the current trend of cheap yen. But there continues to be strong confidence in the yen, and it is unthinkable that Japan's economy will decline in international competitive power. And as both long-term and short-term investments can be anticipated, it is needless to worry so much over cheap yen.

It would be a problem indeed if wholesale prices were to rise to 20 percent or more or for consumer prices to increase rapidly. But it would be wrong to discuss Japan's situation in the same context as that of the United States and Europe. And there would be no need for Japan to follow the anti-inflation policies of other nations.

Differences Compared to U.S.-European Inflation

When thinking along this line, we must distinguish stagflation in the United States and Europe from Japan's present economic trend; otherwise, a wrong picture of Japan's economy or policy may result.

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U.S. President Carter's recent general anti-inflation measures have highlighted the problem of improving productivity. Purportedly, the backbone of this policy consists of a balanced budget, credit restraints, and 10 cents a gallon oil import tax, but I think the primary objective is the improvement of productivity. But for America, the extent of action has been limited to creating a committee to deal with the most crucial productivity advancement issue.

On the other hand, in Japan, the theme of productivity advancement has been virtually neglected within the general anti-inflation policies. Although the Ohira Cabinet's anti-inflation policies, namely, the third commodity price measures, make references to research and development investments, innovations and improvement of economic efficiency, they have all been positioned so that they will be ignored. In reverse, this attests to Japan's so-called economic energy or industrial vitality.

Looking back to times of fairly deep inflation, the savings propensity in Japan never declined to any great extent. It is inconceivable that the Japanese would resort to actions similar to those of consumers in the United States and Europe. In this sense, a health state is maintained.

Further, a special characteristic in this latest oil crisis is that much has been learned from the previous, initial oil shock.

In the previous panic, the companies, out of responsibility to supply oil, effected huge purchases of elementary raw materials, only to see the prices fall after mid-1974 and suffer a great loss. Such an experience now serves as a brake, curbing hoarding and sales cutback. This can be seen in the current situation by the moderate increase in the producer goods stock and distributors' stock. In that sense, it is no longer possible to lay away a huge inventory. It may be said that the policy of high interest rates is working effectively. This was true up until the fourth official rate hike, but excessive restraints in the fifth stage might create a problem of stifling the zeal of businesses for plant investments for purposes of rationalization and technology reform.

Unlike in the previous panic, the consumers have not shown any pathetic behavior. Consumers no longer are buying up three or six months' supply of toilet paper.

In 1973 and 1974, wages also climbed 30 percent or more in keeping with the inflationary rise, being reflected in higher costs and accelerated price hike. In the current spring struggle, however, a reasonable hike of 8 percent is being asked. Further, the General Council of Trade Unions of Japan, Japan Confederation of Labor and the Federation of Independent Unions are placing considerable weight on holding down the prices. Such efforts in fighting cost inflation represent a valuable lesson gained from the previous panic.

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Avoidance of pathetic actions because of lessons learned from the past and the continued high level of productivity constitute the strong points of Japan's economy. Such factors are the reason that Japan, 99.8 percent dependent on foreign oil and the most vulnerable to oil price hike, was able to recover so quickly.

Low Productivity of Europe

Let us discuss productivity a bit more. Last year, I happened to accompany an investment mission on an inspection tour of the three Benelux countries of the Netherlands, Belgium and Luxenbourg. The purpose was to investigate the possibility of investments, at the prodding of the other side for speedy investments by Japan. We made many observations and heard stories about their plants, but the chief difference was their very high rate of absenteeism. The normal rate of absenteeism was said to be 10 percent. Thus, for a plant requiring 100 employees, 110 persons were needed at all times.

Such a situation is not limited to just the Benelux countries. Known as the English disease, it is common throughout the European nations. This phenomenon is witnessed also in the United States.

Absenteeism is the reason for much of the low labor productivity. Generally, the morale of workers in Europe and the United States is low and is a major reason for inflation turning into stagflation.

Lately, European and American organizations have shown a great interest in the Japanese form of management. One reason for this is that European and American business management have been observing the aspect of high morale and productivity, leading to the charge of "workaholic" in direct contradiction to absenteeism.

In Japan, both management and workers are aware that the term "industry" is derived from the word "industrious," and "business" from "busy."

A major reason for such high morale has to do with decision-making and channel of command. One of the great characteristics of the Japanese form of management is the bottom-up type of management. It differs from the European and American system's top-down system. Thus, in Japan, a growing power from the bottom can be anticipated, unlike in Europe and the United States.

Lately, there has been a renewed Japan-U.S. trade friction. Both U.S. labor and management are demanding that in order to resolve the international balance of payments and unemployment problem, the Japanese automobile manufacturers make investments in the United States by construction of plants. One reason that Japanese automobile manufacturers are reluctant is apparently due to fears among Japan's auto-related firms that the merits of the Japanese form of management may not be attainable. It could be based on the thinking that in contrast to the very high level of education among

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factory workers in general and the great zeal to work in Japan, such qualities cannot be expected in foreign countries.

Further, Japan has a high zeal for technological reform. In this connection, it has often been stated, even among Japanese themselves such as Reona Esaki and Heisuke Hironaka, that Japanese lack originality. But persons with originality are extremely few at all times and everywhere. There is no difference on this point from other foreign nations.

In considering the future of Japan's economy, a point not to be overlooked is that Japan generally enjoys a high educational level, having, for example, a force of 2 million students consistently. In addition, these new graduates undergo vigorous training after entry into business. And they become a high-level, quality labor force. Within this vital element among the management resources, there is a strong potential for growth, and so long as this exists, there should be ample room for further growth.

Dreadful Inflationary Mind

The most important point in any discussion on inflation is for unreal inflation to become real inflation, abetted by an inflationary mind. Of concern is the Latin American type of super inflation, now greatly feared by the United States.

Such examples were seen in the past in Japan. From my personal experiences, there was high inflation around 1946 and 1947 when I graduated from college. It was abetted by an inflationary mind. In those days, graduates did not care to find steady employment because of low wages, but preferred to take temporary jobs because of better pay.

Such happenings were temporary products of an era when economic recovery was not possible immediately after defeat in war. I think such a thing will not happen unless inflation is accelerated, savings deposits fall sharply or work morale declines.

Bad Cycle of Welfare and Low Productivity

Against this, the reason for concern in Europe and the United States over inflation turning into stagflation is, as I explained, the low labor productivity coupled with a lack of demonstration of the businessmen's spirit--the prime mover of economic development. I think that the item on greater productivity in Carter's general anti-inflation policy reflects America's woes.

Why has productivity declined in the United States? Some attribute it to those born in the era of the baby boom joining the labor market and to the multitude of unskilled workers.

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In the case of Europe, a major reason is the sudden escalation of the social burden on businesses. Because of excessive social welfare, unemployment was disregarded. Upon talks with top labor officials, my impression was that even union leaders were unconcerned over unemployment. Strangely, the business management and government authorities were the ones who were alarmed over the unemployment problem. European workers would, after losing their jobs, spend their unemployment allowances for travel to Spain and not worry so much about being out of work.

In contrast to Japan which is considering extending the retirement age, some countries are even moving toward a shorter retirement age as labor unions insist on the employment of 130,000 people rather than the 100,000 actually required. Not much thought is given to the fact that an increased number of workers would mean lesser pay for themselves.

In view of the social burden on businesses in Europe--the fringe benefits greatly increasing due to unemployment--most of the money is spent for such and little remains for new investments. For those reasons, investment inducement for businesses becomes dissipated, creating a major factor for stagflation.

Stagflation can be defined as inflation coupled with an economic downturn. An economic downturn is brought on by a decline in the level of investments, greater productivity being unattainable because of investments impaired by the growth of welfare. Such is the situation of Europe.

The United States also faces a similar situation.

Future Outlook

As mentioned repeatedly, Japan still is blessed with a vigorous businessman's spirit and possesses even greater conditions to surmount inflation. In that sense, Japan does not find itself in a state described by President Carter to the effect that "a continued high inflation threatens our country's economic security."

However, it will be serious when we will no longer be able to count on the vigorous businessman's spirit. To see that this does not happen, I think a system will be needed to insure the preservation of vitality of businesses.

As businesses are the key to economic development, their profits--the source of investment--should be secured at an appropriate level. This would be fundamental, even though the principle may be assailed as being business-centered. So long as there exists smooth business activity, high quality labor and high productivity, Japan's economy can be termed as having an anti-inflationary physical structure.

But that does not mean there are no problems. Structurally and in the long run, the financial problem of growing dependence on national securities--

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rather than the problem of current inflation--could become of importance for Japan's economy. Should the cost of social security increase as in the matured society of Europe and the United States, it can be stated even at this early date that financial recovery will be increasingly difficult. On this point, I think there is need to pay some thought to intermediate and long term problems, apart from short term problems, from a broad viewpoint.

Further, in order not to disturb the efficacy of Japan's economy, there is need to follow a well-thought-out policy so that an inflationary mind of "an honest person is the loser" will not occur.

For now, the people are going their way with a high trust in Japan's economy and industries as well as ample faith in policies. Thus, it is essential not to betray their trust.

As we have quickly surmounted the difficulties through lessons from the last oil shock, I think that through wise moves and future efforts to maintain a high level of productivity, we can avoid the situation of inflation turning into galloping inflation and then into stagflation even if oil imports were to account for about 45 percent or in monetary terms a sizable 40 to 50 billion yen of total imports.

Presently, there is a levelling-off of the oil price hike--an external factor--and in other international commodities centered on food and elementary raw materials. Looking at changes in the supply and demand for oil, the price of oil should stabilize, provided no great political conflict arises.

Crazy prices prevailed during the last crisis, caused by depletion of fuel oil, toilet paper and everything else as well as surplus liquidity. But upon adjustment to the new price structure, the vitality was restored. In such a way, there exists a capacity to resolve the problem provided productivity remains high.

Looking at it that way, Japan's economy still has a strong potential for economic growth. I believe we can look to a viable economic society in the future provided the business spirit--the drawing power of potentiality--exists and links up with a quality labor force to maintain a high level of production.

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ECONOMIC

EXPORT-IMPORT BANK TO SPONSOR ASEAN-JAPAN MEETING

DW211151 Tokyo MAINICHI DAILY NEWS in English 19 Apr 80 p 5

[Text] Some 200 business leaders from Japan and the five member countries of the Association of Southeast Asian Nations (ASEAN) will meet in Osaka 28 May to exchange views on bilateral economic cooperation, the Export-Import Bank of Japan announced recently.

Government leaders of the ASEAN countries, such as Philippine Finance Minister Cesar E.A. Virata, will also attend the 1-day meeting, the government-run bank said.

The meeting, it said, is designed to study how Japan and the ASEAN nations--Thailand, Indonesia, the Philippines, Malaysia and Singapore--can enhance bilateral economic interchanges in the face of moves among European nations and the United States to promote economic ties with the resources-rich ASEAN countries.

Specifically, views will be exchanged on the most desirable method of investment in the nations and transfer of Japanese technology and business management knowhow, the bank said.

The bank said it would be the largest Japan-ASEAN business conference ever held in Japan.

The participating ASEAN business leaders and government officials, including, besides Virata, Dato Jamil bin Mohamed Jan, chairman of the Malaysian Federal Industrial Development Authority, will come to Osaka after attending an international symposium to be held in Tokyo 26-27 May.

The conference will be sponsored by the Export-Import Bank and three foremost business organizations in western Japan, including the Kansai Economic Federation (Kankeiren).

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ECONOMIC

TOYOTA-NISSAN DILEMMA: OVERSEAS PRODUCTION OR EXPORT RESTRICTION

Tokyo BUSINESS JAPAN in English Apr 80 pp 36, 37

[Article by Hokaji Mino]

[Text] THE question of Japanese auto exports to the U.S. has surfaced in the economic relations between Japan and the U.S. Without a quick solution, it will inevitably rekindle friction in the overall scene of bilateral trade relations.

Would the problem be simply solved if Japan's Big Two automakers, Toyota and Nissan, immediately moved into U.S. production, and would this be advantageous to them? Or is there no way but to leave the booming sales of Japanese cars in the U.S. as they are today? These and other questions lying behind Japanese auto exports to the U.S. will be discussed below.

It was not until the recent visit of Douglas Fraser, president of the United Auto Workers of the U.S. (UAW), that most of the Japanese people realized the situation had already grown to such a grave stage. Even the Japanese government and automakers were shocked when the outspoken UAW top leader who flew into Tokyo on February 11 told them that Japan's major car manufacturers would have but two alternatives – begin to produce cars in the U.S., or to have exports to the U.S. restricted. Fraser's arguments were accompanied by threats: If these conditions are not met, the possible coutcome will be a legislative move to control the imports of Japanese cars – making autos a new target of American criticism following Japanese textile goods, steel products and color TVs.

Japanese cars are actually flooding the American market. According to MITI export statistics for January this year, shipments to the U.S. totaled $620 million, recording an increase of 20.2% over the data of the same month last year. This has resulted in Japan's share in the American auto market jumping to 22%.

Trade circles have revealed that Japanese cars newly registered in the U.S. in January totaled 177,544, well over the 138,770 sold in the same month in the domestic market. It is quite unusual that greater number of sales of new autos is noted in an export market than in the market where they are manufactured.

This was due to the surging popularity of the subcompact Japanese cars whose fuel consumption rate is far lower when compared with their U.S. counterparts. A Japanese car, for example, runs as far as 11 kilometers on one liter of fuel, a fact which is a definite advantage in the age of high oil prices.

On the other hand, U.S. automakers suffered a sharp decline in their sales, because car buyers shunned fuel-consuming large vehicles. Their efforts to switch from the manufacture of full-sized cars to smaller models have so far produced little fruit, as it takes time to adjust their production setup to small car manu-

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facture. Many auto factories have been closed and some 220,000 autoworkers have lost their jobs, according to Fraser.

Their poor business performance and the subsequent unemployment situation cannot be attributed solely to the booming sales of Japanese cars, but Americans, in the face of growing unemployment, single-mindedly have decided that the rapid increase in Japanese auto imports is to blame.

To Fraser's disappointment, both Toyota and Nissan rejected a quick decision to invest in U.S. assembly plants as demanded. The two companies have a long list of worries related to setting up operations in the U.S. Even if they started preparations this year to produce cars in the U.S., the plants could only begin operation after at least three to four years. Such a plant construction program would involve a huge investment of ¥200,000 - ¥300,000 million. Using the service of U.S. construction workers known for their strong demands for workers' right is another concern.

Should everything go smoothly, the plants would start operating about the same time the U.S.'s Big Three automakers would be introducing their new small cars. Then the Big Three, with their own subcompact models, would make all-out efforts to drive Toyota and Nissan out of the U.S. market. The two Japanese automakers are well aware that they will not be able to compete favorably at that time.

Another big worry of the Japanese firms is the fact that if the cars produced in the U.S. failed to sell well, their initial investments totaling ¥200,000 - ¥300,000 million would go down the drain. Unlike the case of the investments by Mitsui & Co. in the Iranian petrochemical project, those investing in the U.S. auto industry cannot expect any form of governmental compensation. The Japanese government, which extended a helping hand to Mitsui's project in the wake of the revolution in Iran, has reportedly taken a different view this time. In the Iran case, it gave official financial assistance to the Mitsui project since it would develop oil resources so necessary to Japan.

Judging from a purely economic point of view, Toyota and Nissan cannot be blamed for hesitating to build plants in the U.S.

Now that the UAW president has left without any concrete results, what possible steps will the American auto industry take next? Restricting Japanese auto imports will be the most likely move. As a preventive measure against this, both Toyota and Nissan have announced their intention to voluntarily control their shipments to this particular market upon whose sales they have so far depended for as much as 20% of their total output.

Raising prices of Japanese cars marketed in America is another way to dampen their brisk sales there. It must be noted, however, that even today Japanese cars in the U.S. are priced higher than their American counterparts. A 1800cc Toyota Corolla, for instance, is sold at $4,800 while American consumers pay no more than $4,000 to get a Chevolet Citation of the 2500-2800cc class released last April as part of GM's "world car" marketing program. GM's smaller models, namely the J-car, S-car and T-car, planned for release in the near future, are expected to be marketed at an even lower price. Japanese cars are inevitably weakening price competitiveness in the U.S. market.

The situation in the U.S. auto market is said to be like a bomb with an ignited fuse. American automakers will make every possible attempt to drive Japanese cars out of the market by selling their vehicles at a lower price than Japanese competitive models, while working on their government to restrict Japanese auto imports.

If Toyota and Nissan have to continue selling their cars in the U.S. whatever the market situation, producing cars in the U.S. is the only way left for them. It is suspected that the two firms will decide on making their move to the U.S. when GM sets the prices of its new subcompact line. Whether they can fully compete with their American counterparts will entirely depend upon the timing of their decision. They may make up their mind on U.S. investments much earlier than is generally expected. ◻

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ECONOMIC

STABLE SUPPLY OF LNG AT SENSIBLE PRICE COULD RELIEVE ENERGY CRUNCH

Tokyo BUSINESS JAPAN in English Apr 80 pp 28, 29

[Interview with Hiroshi Anzai by Shigeo Kashima, editor of ENERGY, date and place not given]

[Text] MR. Hiroshi Anzai, chairman of Tokyo Gas Co. is known as "Mr. LNG." He served as Chairman at the 6th International Conference and Exhibition on LNG held in Kyoto, Japan, from the 7th to the 10th of April 1980. At the age of 78, he is an ardent proponent of the development of natural gas in Siberia. His busy schedule still permits his regular weekend game of golf.

Mr. Anzai's zeal found ample expression in his key address on the fuel price problem at the conference. He is proud that the air in the Tokyo Metropolis has become cleaner since natural gas began to be mixed in with the city gas. He noted that persimmon trees in his garden bore more fruit and fragrant olives began to blossom again now that air pollution has been decreased. Previous to the conference he discussed the energy problem of the nation in an interview with Shigeo Kashima, Editor of the monthly magazine "Energy."

QUESTION: Japan will host the International Conference on LNG for the first time. What is the background that has induced the holding of this meeting in our country?

ANSWER: Japan alone consumes 50% of the world supply of liquefied natural gas (LNG). Of the total annual LNG world imports of 30.8 million tons, Japan accounts for as much as 15.6 million tons. On the contrary, the United States annually imports 8.4 million tons and Europe 6.7 million tons. In other words, Japan is the largest consumer of LNG in the world.

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The first International Conference on LNG took place in Chicago in April 1978. Several meetings followed at intervals of two or three years. The previous conference took place in Duesseldorf, West Germany, in August 1978. At that time we accepted the proposal to hold the next conference in Japan.

LNG is a critically important energy source for Japan, and its ratio in the country's total energy consumption is mounting each year. Japan imported LNG for the first time in 1969, about a decade ago. The first shipments came from Alaska. Then the annual imports stood at about 960,000 tons. Nowadays they have grown to over 16 million tons.

According to a long-term estimate by the Overall Energy Survey Commission, Japan's consumption of LNG will climb to 29 million tons in 1985 (7.2% of the total energy consumption) and 45 million tons in 1990 (9%).

Recognizing the national importance of the conference, we founded a domestic hosting organization called Japan LNG Conference with the cooperation of industries, government agencies and academic societies.

Chairman Toshio Doko of the Federation of Economic Organizations was persuaded to become honorary chairman of the organization, and I became chairman.

Q: The United Kingdom seems to be the first country that has carried out practical applications of LNG. That was 21 years ago. How about Japan?

A: LNG is produced by liquefying natural gas at minus 162°C, when its volume is reduced to 1/162. It is easier to transport the gas in liquid form on LNG tankers.

One outstanding feature of LNG is that it does not cause atmospheric pollution with sulfur dioxide and so on like the gas produced from burning coal and petroleum. LNG is a clean gas. Tokyo Gas, for example, released 12,891 tons of sulfur dioxide per year into the atmosphere in 1967, but it succeeded in reducing the amount to 53 tons in 1978. LNG has been the chief factor in this welcome development.

When the first shipments of LNG arrived here from Alaska 10 year ago, petroleum was cheaper by 30% than LNG. But after my talk with former President K. Kikawada of Tokyo Electric Power, we agreed that both companies should introduce LNG in order to make the air of Tokyo cleaner. Even in those days I expected that the production of LNG would increase steeply with time.

Q: The price of LNG was fixed for about 20 years by long-term contracts with producing countries whereas the price of petroleum has been raised repeatedly by OPEC. As a result, LNG has remained cheaper than petroleum for some time.

But LNG producing countries have been demanding a sliding price increase for LNG along with petroleum. How will the price problem figure at the international conference?

A: None of the submitted papers discuss the price problem directly. Essentially this international conference deals with technological matters. But the price problem will emerge sharply as never before in the Kyoto conference.

Some treatises deal with the problem of finance. I intend

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to take up the problem of price in my key address to the conference.

The price of LNG must be set in a fair and convincing way from the standpoint of a consuming country. Some price rises may be inevitable, but they should not occur abruptly. Long-term contracts assure a stabilized supply over many years. The price should also be determined on a long-term basis.

LNG, unlike petroleum, demands huge investments in liquefying equipment and transporting tankers. For example, the construction of a liquefying plant in Brunei with a capacity of 5 million tons would cost $60 million, and seven tankers for transporting LNG to Japan would cost $266 million. These figures do not include the costs of receiving stations.

A tanker for carrying 125,000 kl of oil costs ¥6,500 million. An LNG carrier of the same capacity costs ¥60 billion, or almost 10 times as much. Producing countries must also take these factors into consideration.

Q: The International Conference on LNG is also an arena for dialogue between producers and consumers. Many of the gas-producing countries are also oil-producing countries. OPEC countries are represented at the Kyoto conference by Algeria, Indonesia, Kuwait, Libya, Qatar, Nigeria and UAE. On the other hand, consumer countries represented at the conference include all seven countries that took part in last year's Tokyo Summit including the United States, France, Great Britain and West Germany. Other participating countries include the Republic of Korea, Switzerland, the USSR, Poland and Czechoslovakia.

Will not Japan furnish an ideal place for dialogue between the producing and the consuming countries?

A: President Halnoyono of Pertamina, representing Indonesia, which is informally named as the next conference country, will also deliver a key address at the Kyoto conference. He will naturally stress the viewpoint of a producing country. If the price problem comes to the fore, the conference will furnish a good place for dialogue.

LNG is a wonderful energy source. Its price soaring should be prevented just at this moment when the consumption is going to expand. We desire that the producing countries would look at this problem on a long-term basis.

Q: At present Japan accounts for over 50% of the world trade in LNG. What will be the future prospect of supply and demand now that the consumption of LNG is going to grow steeply in all countries?

A: The confirmed natural gas deposits in the world are estimated to total 71 trillion m^3, which is roughly equivalent to 72,000 million tons of petroleum. Since the present annual consumption comes to 1,325,000 million m^3, the deposits will last for about 70 years. One need not worry about the shortage of supply in the foreseeable future.

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Once atomic power was regarded as the substitute energy for petroleum, but insurmountable difficulties seem to lie ahead for atomic energy. There are no other immediate alternative than natural gas.

The term "substitute" is unfortunate. I feel that natural gas is superior to petroleum. Although petroleum resources are concentrated in the Middle East, natural gas resources are distributed evenly throughout the world. This fact is an appreciable advantage.

LNG equipment is costly, to be sure, but we must build it for the sake of our grandchildren. ◻

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ECONOMIC

DEMAND FOR OIL RIGS COUNTERS SHIPBUILDING CRISIS

Tokyo BUSINESS JAPAN in English Apr 80 p 27

[Text]

The shipbuilding industry in Japan is about to be buoyed by a large volume of orders from abroad for ocean-bed petroleum drilling rigs. Shipbuilders floundering in the trough of recession grasped at the production of rigs as the last straw. This proved to be an extremely lucky decision for the demand for the development of new petroleum resources – a result of the disasterous effects of the oil crisis that was being felt worldwide.

About 400 rigs are operating at present in the world's oceans. Though the percentage of Japanese products – only 10% – is still rather insignificant, shipbuilding circles are confident that the country can attain a substantial market share in the future by applying its high shipbuilding technology and formidable international competitive power to the fullest extent.

The future of the shipbuilding industry is still uncertain, although it seems to be approaching the end of the long tunnel of recession. Against this background, Hitachi Shipbuilding & Engineering Co., Ltd. and some other shipbuilders are showing signs of expanding their rig production sectors.

International demand for rigs had been stagnated at about five per year since 1975 when recovery from the first oil crisis, in 1973, was just beginning to be felt. Now the second oil crisis following the revolution in Iran is spurring a new demand. Orders leaped to 30 in 1978 and 50 in 1979.

Japanese shipbuilders are staging a most impressive comeback. Hitachi Shipbuilding & Engineering has received orders for seven rigs, Mitsui Zosen-Mitsui Ocean Development Group four and Nippon Kokan K.K. two since 1979.

Hitachi Shipbuilding & Engineering has received an order for three rigs from National Drilling Co., an oil drilling company in Abu Dhabi. China ordered two rigs including "Nanhai No. 3" from Hitachi. The latter was delivered to the Chinese late last year. Additional orders arrived last year from India in September and from France in December. Since the beginning of this year Hitachi has been swamped with inquiries from the Middle East countries, the United States and India.

Last year the Mitsui Group received orders for one rig each from Egypt, the Soviet Union, the United States and Denmark. Nippon Kokan K.K. received orders for one rig each in 1978 and 1979 from the United States.

Japanese shipbuilders have now found an outlet in the production of rigs after the building of ships, emphasized previously, had been driven to the wall through long recession. This proved a lifesaver. Rigs are literally riding on the crest of oil crisis.

Hitachi Shipbuilding & Engineering in particular is enjoying the unexpected boom. Hitachi plans to convert its

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Sakai Shipyard into a plant exclusively engaged in the production of rigs. A part of its Ariake Shipyard will also be diverted to the production of rigs. The company is setting up an Ocean Development Enterprise Center to accentuate the shift to rigs.

International competitive power of Japanese rigs is considerable since the country's shipbuilding technology belongs to the world's top level. Japan is destined to claim a large share of the world market.

Present demand centers on Jack-up rigs of fixed types used at a water depth of 30-100 meters and costing about ¥5,000 million per unit. With the progress of ocean development, however, demand is expected to shift gradually to the semi-submerged type and the ship type (each costing twice as much as the rig type) applicable to a water depth of up to 1,200 meters.

Rigs are drawing renewed attention from Mitsubishi Heavy Industries, one of the big shipbuilding concerns in Japan, as well as other machine manufacturers. The shipbuilding industry is eager to exploit this rig boom which has visited the industry like a "Kamikaze," a "Divine Wind," as a lever for escaping from the long-drawn out recession. ◘

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