INVESTMENT DEVELOPMENT MISSION

INVESTMENT CANADA

SEPTEMBER 3-14, 1985

Deborah Moores
Investment Development Division
Investment Canada

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SUMMARY

JAPAN TRIP

Subsequent to the Minister's trip, Investment Canada extended their visit to take advantage of the very positive impression which the Minister made.

We saw a total of 23 organizations:

- 5 Banks;
- 3 Industrial Companies;
- 5 Intermediaries;
- 5 Associations;
- MITI's SME Agency; and
- the three provincial offices resident in Tokyo and the embassy.

Our purpose was:

1. to discuss the new Investment Canada Act and what it means for Japanese companies:

   to clarify specific questions they had concerning the Act (eg. gross assets); and

   explain how simple the new process is.

2. To inform them of Canada's new positive and welcome climate for investment.

3. To heighten awareness about the many benefits of investing in Canada (specifically in comparison with the United States).

4. To discuss current level of awareness of Canada by Japanese and their perceptions of Canada as a place to invest.

5. To determine through discussions the current investment trends in Japan in terms of type of investment, destination and rationale.

6. To assess what information needs and services Investment Canada could provide to influence decision making; and

7. To negotiate some agreements where we could exchange information, and access their promotional, advisory, introduction and publication services.

Results

1. We were effective in getting the new message across and had interest expressed by each of the 23 organizations with whom we met. Each indicated that frequency of contact and information flow were critical in influencing decision making.

2. We raised much interest in comparative cost advantage between Canada and the U.S. and we will be providing this information to those interested once it becomes available.

3. Awareness levels were relatively low about Canada and it was demonstrated that we have a big job to do to increase awareness. Advertising was not recommended. Public relations, news editorials, cultural events, direct mail, missions and selected seminars were suggested with the most effective mechanism being "one-on-ones", corporate liaison work. Labour relations and reliability and our cold climate were mentioned most often as negative concerns. Most Japanese are aware of our energy and natural resource strengths but have limited knowledge of our technical infrastructure and diversified manufacturing base.

4. We found that increasingly the Japanese are investing in developed countries due to protectionist concerns, with the U.S. being the major destination.

   It was suggested that Canada should position itself as the next destination for Japanese investment to take advantage of the Japanese fear of being over-exposed in one market and its consequences, eg. antitrust measures. Also it was suggested we take advantage of the "follow the leader" mentality that Japanese exhibit, eg. by promoting Toyota's arrival in Canada.

5. The Japanese thrive on information and we were able to compile a complete list of information which interests the Japanese (almost all of which exists in the data base with the exception of sectoral and regional information). We agreed to send out complete info kits to the 23 organizations with whom we met.

   Furthermore we agreed to have a system of information exchange with 15 of these organizations. (Operational details have yet to be worked out.)

6. We had two specific requests on sectoral information in the automotive business:

   - Mitsubishi Electric - Car radios
     - Engines and generators (less likely)
   - C. Itoh - Mazda

7. We investigated entering into contractual agreements with the LTCB and IBJ to promote Canada as a place to invest; and

8. We are following up our visit by meeting with their Canadian reps.

This trip was very successful in laying the ground work for future dealings. We identified organizations which can help Canadian companies in attracting technology and investment and we must now develop these relations. We also established contacts with people with whom we can build "strategic alliances" for each of our mutual benefits.

COMPANY/ ORGANIZATION	INFO DATA BASE	CONTRACT FOR SERVICES	RE- SEARCH	PRO- MOTION	ADVISORY	INTRO- DUCTION	PUBLI- CATION	MATCH MAKING	SUPPLY INVESTMENT OPPORTUNITY	CORP. LIAISON JPN/CDA	FOLLOW UP	GOOD WILL	OTHER	
BANKS														
LTCB	X	X	X	X	X	X	-	Ltd.	X	X	X	X	-	
IBJ	X	X	X	X	X	X	-	Ltd.	X	X	X	X	-	
TOKYO	X	-	X	X	X	X	-	Ltd.	X	X	X	-	-	
EXIM	X	-	X	?	X	-	-	Ltd.	-	X	X	-	-	
FUJI	X	-	X	X	X	X	-	Ltd.	X	X	X	-	-	
COMPANIES														
MITSUBISHI ELECTRIC	X	-	-	-	-	-	-	Ltd.	X	X	X	X	X	
C. ITOH	X	-	-	-	-	-	-	Ltd.	X	X	X	X	X	**
SUMITOMO	X	-	-	-	-	-	-	Ltd.	X	X	X	X	X	
INTERMEDIARIE														
TOUCHE ROSS	X	-	-	-	-	-	-	-	-	X	X	-	X	
TOHMATSU AWOKI														
SRI	X	?	Study	-	-	-	-	-	-	X	X	-	-	
RICHARDSONS	X	-	-	-	-	-	-	-	-	X	X	-	X	
WOOD GUNDY	X	-	-	-	-	-	-	-	-	X	X	-	X	
BAKER & MACKENZIE	X	-	-	X	-	-	-	-	-	X	X	-	X	
ASSOCIATIONS														
KEIDANRAN	X	-	X	X	-	-	-	-	-	X	-	X	-	
JAPAN SMALL BUSINESS CORPORATION	X	-	X	?	-	X	X	?	?	X	-	X	-	
JETRO	X	-CITEC	X	X	X	X	X	X	X	X	X	X	-	
JAPAN CHAMBER	X	-	X	X	X	X	X	-	-	X	-	X	-	
JAPAN FOREIGN TRADE COUCIL	X	-	X	-	-	-	-	-	-	X	-	-	-	
GOVERNMENT														
MITI-SME	X	-	-	X	-	-	-	-	-	X	-	-	X	
CANADA	X		X	X	X	X	X	X	X***	X	-	X	X	
QUEBEC	X		X	X	X	X	X	X	X***	X	X	X	X	
ONTARIO	X		X	X	X	X	X	X	X***	X	X	X	X	
ALBERTA	X		X	X	X	X	X	X	X***	X	X	X	X	

* Automotive Sector
1 Study (car radios)
Tariff Reduction

** Automotive Study (Mazda)

*** For Assistance

B

ITINERARY

WEDNESDAY, September 4

8:00 - 9:30 Breakfast with Canadian Chamber of Commerce in Japan at Imperial Hotel.

Brief speech by Minister, followed by question and answer session. Key questions included: automotive investment plans; Canadian participation in government yen financings; Canadian sectoral investment plans; nature of industrial co-operation agreement.

9:30 - 12:00 Embassy - meeting with David Dix.

12:00 - 13:00 Lunch - Vera Holiad, David Dix, Larry Duffield and Bob Merner.

13:00 - 16:00 Embassy - meeting with other staff; prepare itinerary; ensure all materials for Keidanran were ready.

16:30 - 17:30 Meeting with Kym Anthony, V.P., and Paul Rogers, A.V.P., Wood Gundy, Tokyo (note 1).

19:00 Meeting with P. Labbé.

THURSDAY, September 5

9:00 - 12:00 Prepared materials and rehearsed speeches for Keidanran presentation.

12:00 - 13:30 Lunch - Shiro Kiyohara, Commercial Officer, Embassy.

13:30 - 16:00 Keidanran Presentation (note 2).

16:30 - 17:30 K-M International Advertising - Briefing.

18:00 - 21:00 Official Reception at Embassy residence (CCCJ; Japanese intermediaries, Embassy staff). Met with Mitsuo Matsushita, University of Tokyo Law Professor interested in Canadian Affairs.

FRIDAY, September 6

9:00 - 11:30 Embassy

12:00 - 14:00 Canada Japan Society/CCCJ Luncheon (sat with Seiichiro Inouye, research analyst at the Industrial Bank of Japan and a company representative who manufactures packaging equipment who is interested in expanding operations to North America (Tony Yabe contact).

(Talked with representatives from Royal Bank and CIBC - large debt financing deals; no real M&A work or investment counselling.)

15:30 - 17:00 Meeting with the Long Term Credit Bank (note 3).

18:00 Dinner - Kym Anthony (Wood Gundy), Paul Rogers (Wood Gundy) and Callen Rogers (Ketchum Advertising).

SATURDAY, September 7

8:45 - 19:00 Tsukuba, Expo /85. Wilf Wakely, Sumi Ross (guide), Bronwyn Best (Manager - Canadian Pavillion). Visited IBM, Canada ("too much ice and snow"), Australia, Italy, Germany, Suntory (Today Birds, Tomorrow Man - Imax film), Kadansha Brain House and the Theme Pavillion.

SUNDAY, September 8

Free

MONDAY, September 9

8:30 - 9:30 Industrial Bank of Japan (note 4).

10:00 - 11:30 Mitsubishi Electric Co. (note 5).

12:00 - 13:45 Bank of Tokyo (note 6).

14:00 - 15:30 Japan Small Business Corp. (note 7).

16:00 - 17:00 JETRO - Japan External Trade Organization (note 8).

17:30 - 18:30 Export Import Bank (Note 9)

Briefing on Embassy Presentation

TUESDAY, September 10

9:30 - 11:45 Embassy Briefing (note 10).

12:00 - 13:50 C. Itoh Co., Ltd. (note 11).

14:00 - 15:00 Sumitomo Corporation (note 12).

15:30 Mr. Labbé leaves for Ottawa.

15:30 - 16:30 Tohmatsu Awoki & Co. Touche Ross Associate (note 13).

17:00 - 18:30 Alberta Government Office (note 14).

WEDNESDAY, September 11

10:00 - 11:30 Japan Chamber of Commerce (note 15).

13:00 - 15:00 Fuji Bank, Ltd. (note 16).

15:30 - 17:00 Richardson Greenshields of Canada Ltd. (note 17).

17:30 - 19:00 Briefing - Embassy (note 18).

THURSDAY, September 12

10:00 - 11:30 Government of Quebec (note 19).

12:00 - 12:30 Embassy

14:00 - 15:30 Stanford Research Institute (note 20).

16:00 - 17:00 Small and Medium Enterprise Agency, MITI (note 21).

FRIDAY, September 13

10:00 - 10:55 Japan Foreign Trade Council (note 22).

11:00 - 12:15 Government of Ontario (note 23).

12:30 - 13:20 Rudy Swanson, Mayor of Camrose, Alberta (twinning event).

13:30 - 15:00 Tokyo Aoyama Law Office (associated with Baker & McKenzie) (note 24).

NOTE 1

Company: Wood Gundy

Date: September 4, 1985

Attended:
- Kym Anthony, Vice President & Representative Wood Gundy
- Paul Rogers, AVP, Wood Gundy
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

Wood Gundy have expanded their business in Japan significantly in the past year growing from a staff of three to eleven currently and the possibility of 14 by year end. Wood Gundy are very active in the swap business, both foreign exchange, fixed and floating and combinations thereof. They have an active business in Eurobond issues and Canadian dollar deals. They hope to expand further their yen based deals and over the next year increase Japanese awareness of the Canadian equity markets. Mergers and Acquisitions are a product offering which they hope to develop once their basic business is being well serviced.

Wood Gundy completed over $1 billion in financing this past year and expect to increase their role in the Japanese market significantly in 1986 (expanding to 20 people). Wood Gundy work through the Japanese banks and trading companies and have developed strong relationships. They pride themselves on being competitive on the basis of "product offerings".

The Canadian staff are active in the CCC in Japan and the Canada Japan Society.

Action Plan

1. The investment dealers in Japan play an active role in encouraging portfolio investment opportunities however primarily focus on large bond deals and specific financing vehicles eg. swaps. As they have much direct contact with the major Japanese companies, they can act as public relations people for Canada. They should be provided with all the materials published and involved in Embassy events where appropriate.

NOTE 2

Event: Keidanran Presentation

Date: September 5, 1985

Attended: Keidanran member firms' representatives and Canadian delegation.

Summary

The Keidanran presentation went very smoothly and the overall reaction was very positive. Minister Stevens spoke first and talked of Canada's new spirit of enterprise and the strategic economic advantages of locating in Canada to service the North American market place. He also discussed the improved relationship between Japan and Canada and Canada's commitment to working together with the Japanese for our mutual benefit. This was followed by a speech and slide show by Mr. Labbé focusing on Canada's advantages.

Following the speeches, the Japanese chairmen responded to the Minister and Mr. Labbé emphasizing the importance of good relationships between the two countries. They discussed increased investment in North America but emphasized that trade friction pressures often swayed the investment decision in favour of the Unites States.

They suggested there were three solutions to the trade friction problem:

(i) Recognize the importance and encourage increased imports from trade imbalanced countries;
(ii) Establish plants and create jobs in market demand areas; and
(iii) Foster technological exchanges between businesses.

With respect to Canada, they emphasized that natural resource dependence was lessening and that they looked to Canada for expertise in telecommunications, aerospace and energy. In exchange they felt that the Japanese could contribute productivity know-how and quality control/enhancement techniques.

This commentary was followed by questions from the floor. The topics discussed included: (i) details of the Investment Canada Act; regulations, restrictions and definitions; (ii) priority sectors ; (iii) Unitary tax in Canada (?); (iv) the provincial/federal structure and how they work together; and (v) the future of crown corporations.

Information kits were distributed at the presentation and simultaneous translation was available.

The Organization

The Keidanran is Japan's leading business association and represents over 1000 of the top Japanese companies. They are organized into committees who look into major issues facing Japanese economic and business life and relationships with other countries. They are supported by a staff of 170 professionals researchers and clerical workers. They prepare studies and sponsor forums for discussion. They also host presentations on a regular basis of subject which may interest their membership (as per Minister Stevens). These presentations are usually attended by certain senior officials plus middle managers and researchers from the member companies. Although, it has been suggested that there are too many seminars and presentations, everyone agreed that your must do the Keidanran. It is an effective way to reach business decision makers.

ACTION PLAN

1. Plan a follow-up meeting at the Keidanran on Minister Stevens next visit to Japan.

2. Obtain list of attendees of September 5 meeting (Embassy).

3. Provide Keidanran research staff with the appropriate Investment Canada promotional materials.

NOTE 3

Company: Long Term Credit Bank ("LTCB")

Date: September 6, 1985

Attended:
- Yoshihiko Ando, Managing Director
- Kiichiro Mizuno, Joint General Manager and Chief Manager for the Americas, International Division
- Masharu Kahara, Manager, International Division
- Masahito Saigusa, General Manager and Agent
- Paul Labbé, INC
- David Dix, Embassy
- Deborah Moores, INC

Summary

Our meeting with the LTCB raised a number of issues which need to be developed. The LTCB is one of the key players if we are to successfully develop some influence in this market. The banks are pivotal in providing information intelligence and leads to Japanese businesses (primarily the medium sized enterprises).

To develop a better understanding of LTCB's capabilities and how we can work together will require further meetings. We met with Mr. Ando who is a very senior person at the LTCB. This relationship should be cultivated by senior government officials. We also met with Mr. Saigasa who is the recently appointed general manager in Los Angeles and this contact should be nurtured by INC and our office in L.A. Mr. Saigusa will have responsibility for Canada, West of Manitoba.

Services

The LTCB provides funding, capital management and advisory services to its international and domestic clientele, (corporations, public sector, standard institutions, institutional investors and individual clients). Those services of the LTCB which we discussed and could be of interest to Investment Canada include:

1. Project Financing and Advisory services

The LTCB is very active in financing major projects and providing consulting services which include feasability studies, industry analysis, locational studies etc. The LTCB has entered into a number of agreements with U.S. States including Texas and the Western Govenors Association (WGA) representing 16 Western states. With the WGA, the LTCB has prepared a joint

study researching the industrial structure of the western states, investment promotion policy and other economic conditions. The results of the study will be used to promote Japanese investment in high technology industries in the Unites States. Another example of this type of arrangement is one with the Japan-Brazil Co-operation Program where LTCB provided advisory services for the agricultural development of the Cerrado region and a yen syndicated loan for the project.

The LTCB is interested in exploring a similar relationship with Canada as it has with certain of the U.S. States. Considerations include: (i) the value of the network; (ii) exclusivity of the arrangements; (iii) appropriateness of LTCB over IBJ for example; (iv) services, programs and studies that could be generated.

2. Mergers and Acquisitions and Joint Ventures

Taking advantage of their networks, research capability and contacts, LTCB provides overseas services for Japanese corporations and services in Japan for foreign corporations. LTCB has established relations with Peers & Co., an American. investment bank with expertise in mergers and acquisitions, joint venture arrangements and trade advisory services. Through LTCB's network of international contacts, LTCB has a merchant banking group who arranges these types of transactions.

3. Venture Capital

LTCB fosters venture capital investment through the Nippon Enterprise Development Corp., a LTCB affiliate and the first Japanese venture capital company. LTCB also encourages venture business through the LTCB Research and Management Institute which offers consulting services in general management, technological applications, overseas investment and finance. LTCB is also an investor in a number of American high technology companies and venture funds.

4. Research Services

The LTCB has a superior research capibility and focus on two areas: (i) Economic research and country reports (macro economic research, forecasting, structural analysis, country economic analysis and international and regional evaluations); and (ii) Industry specific research and credit evaluations (industrial trends, trends within industries and business development). They publish a monthly economic review and special reports eg. Japan's High Technology Industries (May 83); Japan's High Technology Industries (2) (Feb. 84); Fire Ceramics Industry in Japan (Dec. 84); and the trend toward Japan's Direct Investment in the United States and the policies of American States to attract High Tech Industries (May 85)(copies of these studies may be obtained from D. Moores).

5. Seminars

The LTCB participates and organizes seminars which will be of interest to their clients and which may be useful for business development purposes. LTCB is currently preparing a seminar in co-operation with the Royal Bank to introduce the benefits of investing in Canada. They are also working on a major conference in co-operation with other Japanese banks and the EC to provide mutual investment between the Community and Japan.

Activity in Canada

LTCB has a representative office in Toronto headed by Seiki Hasegawa (416-865-0711 - Suite 3020, Royal Bank Plaza, Toronto, M5J 2J3) and he reports directly to the New York Branch for Eastern Canadian activities (Michio Kishi - director and General Manager - 212-248-2000) and to the Los Angeles Branch for Western Canadian activities (Masahito Saigusa - General Manager - 213-629-5777). LTCB's activities in Canada primarily concentrate on yen financings for large corporations. the federal, provincial and municipal governments and crown corporations, Euro issues, term and foreign exchange swaps and project financing eg., Dome, Pechiney, EDC, Babcock & Wilcox etc.

To date, the LTCB in Canada has not developed a matchmaking capability. With increased interest from the provinces and or federal government, there may be some potential. They were curious as well about how the provinces in fact work with the federal government.

LTCB's knowledge of Canada is quite good, however, Canada has not been a priority region. LTCB have concentrated on the fast developing areas eg. Texas, Colorado and New Mexico.

Action

1. Provide LTCB with complete information on the advantages of doing business in Canada.

2. Foster relationships with key people:

   - Mr. Labbé and Mr. Ando
   - L.A. Consul and Mr. Saigusa
   - INC office and Toronto representatives
   - Tokyo embassy and LTCB staff whom we met

   Assign responsibility for regular corporate liaison.

3. Investigate with provinces the value of developing a relationship/arrangement with the LTCB. eg.
   - joint research
   - seminar program
   - introduction
   - service (matchmaking)

4. Provide LTCB with new version of Canadian Edge.

THE LONG-TERM CREDIT BANK OF JAPAN, LTD.

Established: December 1, 1952 (¥1,500,000,000)
Capital Stock: ¥100,000,000,000 (February 1, 1981)
Address: 2-4, Otemachi 1-chome, Chiyoda-ku, Tokyo 100
Telephone: (03) 211-5111
Cable Address: BANKCHOGIN TOKYO
Telex Number: J24308 LTCBANK

GENERAL

BOOKS CLOSED: Mar. 31

TYPES OF FUNDS (term ended Mar. 31, 1984)
debentures & bonds 68%, deposits 32%,

BACKGROUND

Established 1952 under the Long-Term Credit Bank Law designed to provide steady supply of funds for reconstruction and expansion of Japanese industries. Government subscribed for half of its initial capital. Bank's lending activities first emphasized financing basic industries—electricity, steel, shipping; since early sixties extended to shipbuilding, automotive industry, electric machines and appliances and petrochemicals; also opened up new field of long-term financing for land reclamation, housing and modernization of commodity distribution system, which have fallen behind remarkable progress of Japanese industrial economy. The bank is involved in a wide range of international activities including the management of and participation in internationally syndicated loans and private placements, the financing of Japanese foreign trade and investments and foreign exchange.

Subsidiaries Abroad: LTCB International Ltd. (London); LTCB Asia Ltd. (Hong Kong); LTCB (Schweiz) AG (Zurich); NEB S.A. (Brussels); LTCB Trust Co. (New York)

Branches Abroad: London, New York, Singapore, Los Angeles (Agency), Hong Kong

Representative Offices Abroad: Paris, Frankfurt, Toronto, Mexico City, Panama, São Paulo, Rio de Janeiro, Beijing, Bangkok, Kuala Lumpur, Jakarta, Sydney, Bahrain

OFFICERS (Sept. 1, 1984)
Chairman: Binsuke Sugiura
President: Mamoru Sakai
Deputy President: Masayasu Kan
Senior Managing Directors: Takao Masuzawa, Yasuro Yamanaka, Tetsuya Horie
Managing Directors: Hiroaki Ueda, Yoshihiko Suzuki, Kazuo Miyata, Takeshi Nebashi, Hiroshi Takeuchi, Yoshihiko Ando, Hiroshi Ono
President Emeritus: Kanbei Yoshimura
Other Officers: 11 Directors, 3 Auditors

EMPLOYEES (Mar. 31, 1984)	Male	Female	Total
Number:	1,963	1,571	3,534
Average Age:	39	25	33
Average Monthly Pay (¥):	363,873	170,320	273,917

STOCK (Mar. 31, 1984)
Authorized: 400,000,000 shrs. Par Value: ¥500
Issued Total: 200,000,000 shrs. Stockholders: 12,925
Owned by Foreigners: 330,800 shrs. (0.2%)
Listed: Tokyo, Osaka

Major Stockholders	shrs. (thousand)	%
Dai-Ichi Kangyo Bank	6,683	3.3
Hokkaido Takushoku Bank	5,191	2.6
Dai-ichi Mutual Life Insurance	3,935	2.0
Kawasaki Steel Corp.	3,638	1.8
Asahi Mutual Life Insurance	3,499	1.7

Recent Capital Increase (¥ million)

4/70 OPEN	24,000	7/77 1:0.3, 1:0.03G.&P.O.	83,000
2/73 1:0.35 & P.O.	47,000		
10/75 1:0.3(20%G.) & P.O.	62,000	2/81 1:0.15, 1:0.04G.&P.O.	100,000

Underwriters: Nomura, Daiwa, Yamaichi, Nikko, Nippon Kangyo Kakumaru, New Japan, Dai-ichi, Osakaya, Sanyo, Yamataue

BALANCE SHEET (¥ million)

	Mar. '84	Mar. '83
ASSETS		
Cash & Due from Banks	2,070,913	2,054,700
Call Loans	570,978	372,000
Securities	2,269,960	2,089,600
Loans & Bills Discounted	8,940,180	809,510
Foreign Exchanges	239,401	243,800
Domestic Exchange Settlement A/C	122,114	–
Customer's Liabilities for Acceptances & Guarantees	1,108,129	1,126,000
Bank Premises & Real Estate	62,124	60,200
Others	259,117	342,500
Total	15,762,920	14,429,600
LIABILITIES		
Debentures	8,660,864	7,707,100
Deposits	3,289,218	3,227,000
Borrowed Money	188,040	192,300
Foreign Exchanges	14,338	24,800
Domestic Exchange Settlement A/C	160,647	–
Acceptances & Guarantees	1,108,129	1,126,300
Contingency Reserves	75,551	70,500
Others	334,394	455,200
Total	15,437,366	14,121,000
CAPITAL	325,553	308,600
Capital Paid-up	100,000	100,000
Capital Stock Subscribed	–	–
Legal Reserves	22,710	20,500
Surplus	202,842	188,000
General Reserve	173,290	–
Other Reserves	–	–
Undivided Earned Surplus	29,551	28,000

PROFIT & LOSS STATEMENT (¥ million)

	Mar. '84	Mar. '83
Income	1,109,142	1,071,500
Interests on Loans	689,582	655,200
Interests & Dividends on Securities	157,640	148,800
Fees & Commissions	12,217	–
Others	249,703	267,500
Expenses	1,050,855	1,007,500
Interests on Debentures	427,391	369,800
Interests on Deposits	215,515	242,600
Operating Expenses	60,640	62,300
Others	347,309	332,800
Ordinary Profit	58,287	63,900
Special Profit	61	300
Special Loss	42	1,200
Transfer to/from Reserves	–	300
Pre-tax Income	58,306	63,300
Corporate Income Taxes	30,194	35,300
Net Profit	28,111	28,000
DEPRECIATION	1,845	1,926

Note: Items of minor accounts are omitted.

RATIOS

	Mar. '84	Mar. '82	Mar. '81	Sept. '80	Mar. '80
PER SHARE DATA, ETC.					
Earnings/Share (¥)	140.56	134.82	120.90	119.63	139.95
Earnings/Share Adjusted (¥)	–	–	–	–	–
Dividend/Share (¥)	55.00	52.50	50.00	50.00	50.00
Book Value/Share (¥)	1,627.77	1,451.61	1,364.32	1,324.89	1,443.14
P.E.R. (Times)	38.06	22.99	19.93	18.56	16.43
FINANCIAL POSITION ANALYSIS					
Profitability (%)					
Net Profit/Total Assets	–	–	–	–	–
Gross Profit/Sales	–	–	–	–	–
Operating Profit/Sales	–	–	–	–	–
Ordinary Profit/Sales	–	–	–	–	–
Net Profit/Sales	–	–	–	–	–
Dividend Payout Ratio	39.13	38.88	36.61	34.69	35.73
Net Profit/Equity	8.87	9.58	9.30	9.83	9.85
Stability (%)					
Fixed Assets/Capitalization	–	–	–	–	–
Liquidities (Months)	–	–	–	–	–
Debt/Total Assets	–	–	–	–	–
Net Interest Cost/Sales	–	–	–	–	–
Turnover					
Sales/Total Assets (Times)	–	–	–	–	–
Sales/Tangible Fixed Assets (Times)	–	–	–	–	–
Sales/Stockholders' Equity (Times)	–	–	–	–	–
Accounts Receivables/Sales (Months)	–	–	–	–	–
Inventories/Sales (Months)	–	–	–	–	–
Finished Goods/Sales (Months)	–	–	–	–	–

TEN-YEAR REVIEW

Fiscal Year	Income (¥ million)	Ordinary Profit (¥ million)	Net Profit (¥ million)	Earnings/ Share (¥)	Dividend (%)	Stock Price Range (¥)
1983	1,109,142	58,287	28,111	141.0	11	3,160–3,130
1982	1,071,500	63,900	28,000	140.1	11	3,160–2,900
1981	1,017,431	49,286	26,963	134.8	10.5	2,900–2,240
1980	824,246	33,629	24,052	120.2	10	2,590–2,200
1979	697,324	37,670	22,702	136.8	10	2,340–2,240
1978	562,999	50,294	24,337	147.0	10	2,260–2,220
1977	536,167	47,753	23,617	142.0	10	2,820–2,530
1976	494,460	39,639	20,271	164.0	10	2,630–2,490
1975	437,627	32,539	16,215	151.0	10	3,300–2,910
1974	383,375	30,588	14,269	152.0	10	3,500–2,930

DIAMOND'S COMMENT

The Long-Term Credit Bank of Japan specializes in the supply of long- and medium-term funds for the nation's industry. The bank was established in 1952, or immediately after the enforcement of the Long-Term Credit Bank Law. It is one of three such banks in Japan.

The bank has established the present status during 30 years after the start of its business, placing special emphasis on regional and scocial development of Japan. The bank has been expanding on the basis of exact research and impartial judgment without belonging to any specific industrial group.

In recent years, the bank has been placing emphasis on loans to venture businesses and the tertiary industry. Ordinary profits for the first half of the annual term ending March 31, 1985, dipped from the previous corresponding perios, due to the rise in costs for raising funds. In the second half, income has been expanding since demand for long-term funds has been growing with the recovery in the nation's economy and the bank has been handling national bonds on a full-scale. Ordinary profits for the full March 1985 term, however, will decline slightly from the preceding term. The bank will maintain an annual dividend of ¥55 per share (per: ¥500).

The bank has been expanding its network of overseas offices. The income of its international division totaled ¥26,800 million in fiscal 1983. At the same time, it has been establishing closer relations with securities houses. It has recently concluded tie-up arrangements with Dai-ichi Securities Co. in the field of firm banking.

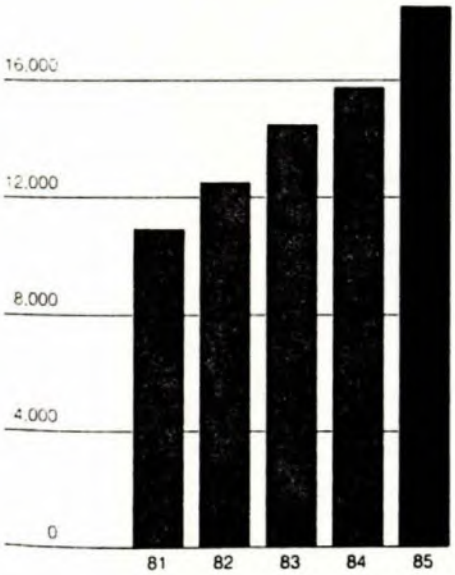
Financial Highlights

The Long Term Credit Bank of Japan, Limited
March 31, 1985 and 1984

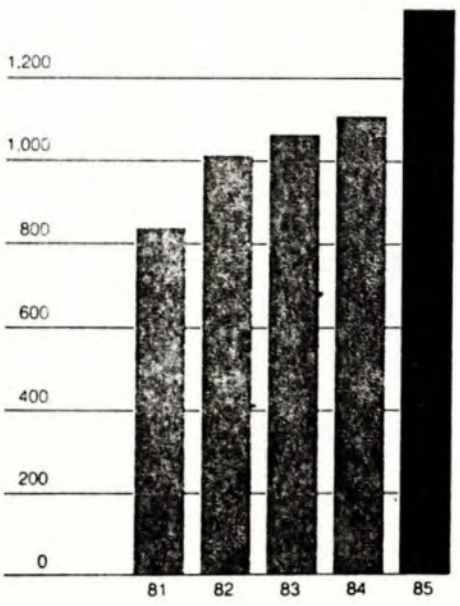
	Millions of Yen		Millions of U.S. Dollars	
	1985	1984	1985	1984
For the Year				
Total Income	¥ 1,364,423	¥ 1,109,204	$ 5,444	$ 4,425
Income before Income Taxes	53,611	58,307	214	233
Net Income	28,270	28,112	113	112
At Year-End				
Total Assets	18,495,975	15,762,920	73,792	62,888
Loans and Bills Discounted	10,331,714	8,940,181	41,220	35,668
Debentures and Deposits	14,705,310	12,787,629	58,669	51,018
Stockholders' Equity	342,665	325,555	1,367	1,299

All U.S. dollar figures are translated from yen amounts, for convenience only, at the rate of ¥250.65 = US$1 and should not be construed as representing that yen amounts have been or will in the future be converted into U.S. dollars.

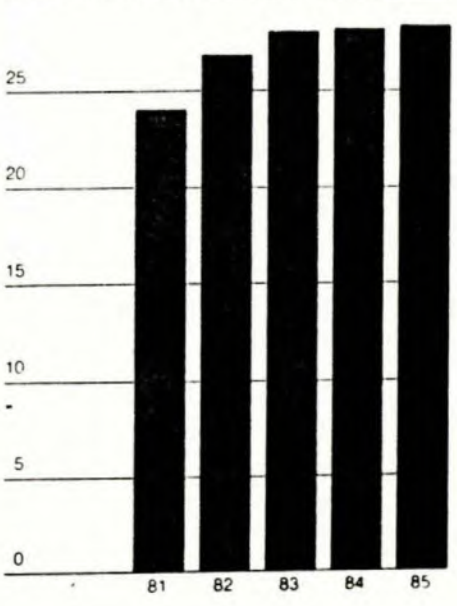
Total Assets
March 31 (Billions of Yen)



Total Income
Years Ended March 31 (Billions of Yen)



Net Income
Years Ended March 31 (Billions of Yen)



To Our Shareholders, Clients, and Friends

The recovery of the economy in the United States, although slowing in the latter half of fiscal 1984, ended March 31, 1985, continued to have a positive influence on the global economy. Led by strong growth in exports and to a lesser extent by capital expenditures, the Japanese economy also expanded, but consumer expenditure growth remained low because of a slower rise in personal incomes.

Mamoru Sawa, President

The ongoing liberalization in world financial markets and especially in the financial markets in Japan has required adaptation by financial institutions. At the Long-Term Credit Bank of Japan, Limited, we have anticipated the necessary changes in our present operations and those required to take advantage of new opportunities, and this has resulted in expansion in many areas of our operations. Because of factors uniquely affecting long-term credit banks in Japan, however, we have recorded a relatively low rate of growth in net income.

LTCB relies primarily on the issuance of five-year yen debentures to fund its long-term credit operations. In an environment of fluctuating interest rates, differences in cost occur between new and maturing funds. Five-year debentures redeemed during fiscal 1983 paid interest of 6.2%, while five-year debentures issued during the same year bore interest of 7.3% and 7.5%, resulting in an increase in funding costs. The full effect of this increase was felt in fiscal 1984. This rise in funding costs, however, should be temporary as the five-year debentures to be redeemed in fiscal 1985 bear an interest rate of 8.6% and will likely be replaced with debentures carrying lower interest.

Another factor leading to high interest expense is the method of accounting for our one-year discount debentures. We account for interest payments on these debentures on a cash basis rather than on an accrual basis, resulting in a higher recorded interest expense.

The conditions mentioned above have resulted in high growth in assets and low growth in income for the Bank in fiscal 1984. The total income of the Bank grew 23.0%, to ¥1,364 billion (US$5,444 million). Net income increased 0.6%, to ¥28,270 million (US$113 million). LTCB's asset base expanded 17.3%, to ¥18,496 billion (US$74 billion).

RESPONDING TO CHANGE

The Long-Term Credit Bank of Japan was established in 1952 to provide long-term fixed-rate funds to Japanese industry. For more than 30 years, LTCB has worked with and followed the progress of industries and businesses, building its experience and expertise and contributing to the development of the Japanese economy. In that time, with the support of our shareholders, clients, and friends, our operations have greatly expanded domestically and internationally, and we have gained a solid reputation in Japan and the rest of the world.

In recent years, however, financial institutions around the world have experienced rapid change in their operating environment. In Japan, economic growth has slowed from its previous high to a lower but stable rate. High levels of savings in the private sector, current account surpluses, and large government deficits have formed the background for the increasing pace of the liberalization and internationalization of the financial and capital markets in Japan.

Individuals have become more interest rate sensitive because of their high level of savings, and corporations, which previously were primarily interested in a stable supply of funds, now are looking for more-effective ways to raise funds and manage their assets. Since the revision of the foreign exchange and foreign trade control law in 1980, the use of international markets for fund-raising and asset management by Japanese corporations has increased rapidly. Current account surpluses have resulted in greater capital movements from Japan, and the large volume of government bond issues required by the national deficit has created pressure for liberalization of the interest rate and financial markets.

In addition to this series of changes, relaxation of the economic and financial regulations in Japan has led to a wave of change that will culminate in the full internationalization of the financial and capital markets in Tokyo and their alignment and integration with the financial markets of the world.

LTCB'S NEW APPROACH

Financial institutions worldwide are reexamining their operating principles to adapt to new economic and financial circumstances. At LTCB, we are applying our knowledge and special abilities to meet the broadening requirements of clients by diversifying our services and ensuring their high quality. At present, meeting these changing client needs is our most important task, as we adapt to growing competition in the domestic and international markets.

In formulating our new approach, we have used the organizational skills that underlie our superior capabilities in risk management, research, and credit evaluation that we have cultivated since our establishment. We have also made use of our extensive experience in issuing our own debentures domestically and overseas.

To meet client requirements in effectively raising funds and in managing assets and risk, we have combined our experience and ability and used the innovative financial skills of our professional staff.

We are expanding our service network domestically and internationally. Through our worldwide network, we have established a system to diversify funding sources by providing financing support services in overseas and Japanese capital markets and risk finance services, such as project finance and venture business investment. To better aid clients in their asset management, we strengthened our capabilities in trading in securities and money markets and in following the movements in world exchange rates and capital flows.

We are also expanding our international operations through consulting and advisory services for large overseas projects, and we are encouraging international technology exchange. We facilitate transactions such as mergers and acquisitions that require a high degree of information, and we are promoting international industrial cooperation.

Because of the support of our individual clients, our sales of debentures continue to grow, and we can offer stable long-term loans. We offer our individual clients attractive financial products along with financial- and tax-consulting services.

A GLOBAL STRATEGY BASED IN TOKYO

Our wealth of expertise and the superior performance of our relatively small staff are the two main strengths on which we base our efficient operations. Through these strengths, we are meeting the increasing diversification of client needs and are continuing to play a wide-ranging role in the marketplace.

Our expertise is based on our forecasting ability, our information-gathering and analytical capabilities, and our fine record as a leading innovator of financial products in Japan.

Our forecasting ability is built on a broad view that encompasses domestic and international economies. Our global network and many years of research are the sources of our information-gathering and analytical capabilities. The capable performance of our small staff comes from its high degree of professionalism and a simple but effective organization that allows the maximum expression of knowledge and efficiency to swiftly meet the requirements of clients.

Furthermore, we maintain a neutral stance with regard to the industrial group affiliations in Japan, and this allows us to make impartial and therefore more-accurate analyses and evaluations to present to our clients. Because of this neutrality, we consistently fulfill our role in organizing the financing of industrial and socioeconomic development and receive business from a wide range of large, medium-sized, and small enterprises.

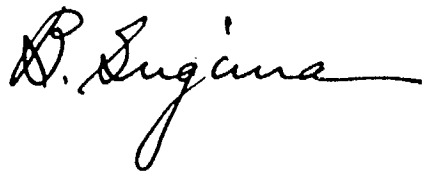
LTCB has established branches, subsidiaries, and representative offices in major cities overseas and is promoting cooperation with overseas financial institutions to establish a truly global network that covers the foremost financial and capital markets of the world.

These special qualities are a large and important source of our international competitiveness. Combining its many areas of expertise, LTCB will endeavor to provide integrated services that are appropriate and innovative.

Standing on our solid record and our research into the changes most likely to occur with liberalization, we are taking the initiative during the internationalization and liberalization of the Tokyo financial and capital markets. From our strong base in the Tokyo market, we will continue to have a responsible role as a leading bank in world financial markets.

We ask for your continued support as we move to adapt and expand our special abilities to a global market to better serve the interests of our shareholders, clients, friends, and associates worldwide.

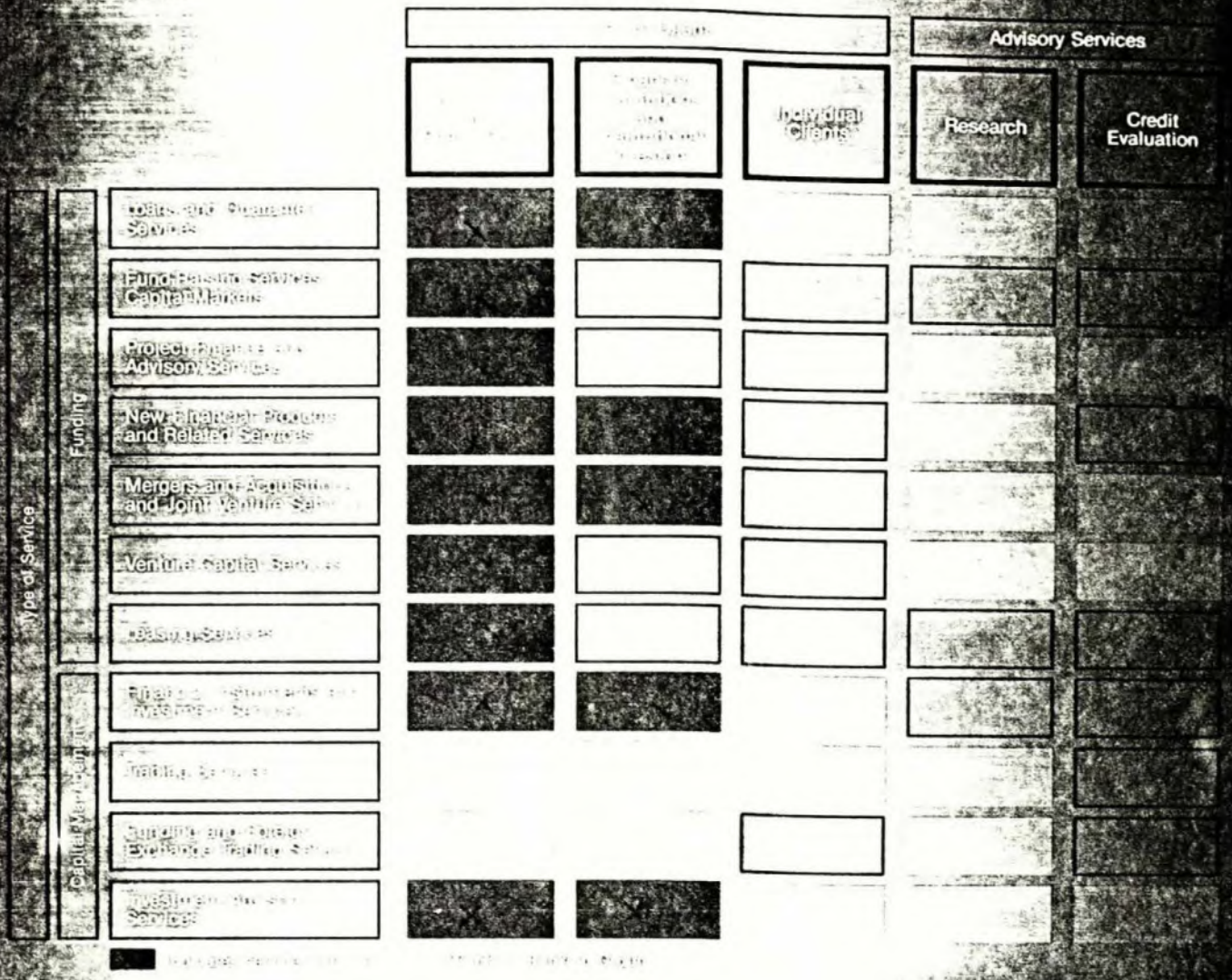
June 1985



Binsuke Sugiura,
Chairman of the Board

Mamoru Sakai, President

LTCB



diverse needs by
management, infor-
Recently, risk evaluation,
ment have become much
itions. In Japan, we are a
s and are continuing
service structure has
our Merchant Banking
together many specialists

CORPORATIONS AND THE PUBLIC SECTOR

Loans and Guarantee Services

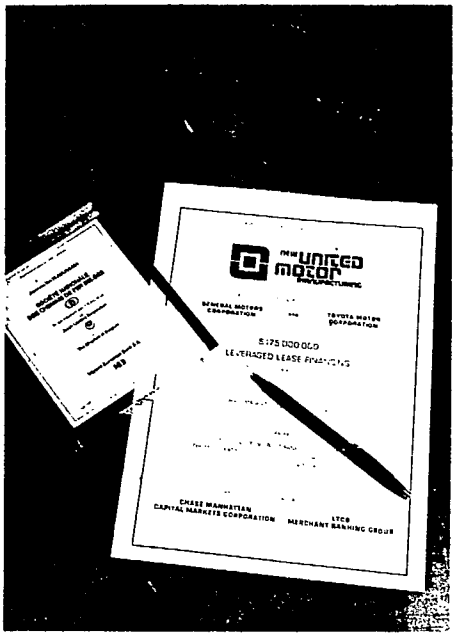
Loans to corporations and the public sector in Japan
- ***Medium- and long-term financing***
- ***Short-term financing***
- ***Trade financing***

Loans to corporations and public sectors overseas
- ***Yen finance***
- ***Foreign currency finance***

Guarantees
- ***Tax-exempt notes***
- ***Commercial paper***
- ***Bid bonds***
- ***Performance bonds***

LTCB's strengths in loans and guarantee services lie in its strong reputation in the domestic and international financial communities and in its ready access to long-term yen fixed-rate funds. We are especially active in loans for capital investment and hold 7.7% of all outstanding domestic loans for this purpose in Japan. We also provide short- and long-term foreign currency loans, and through trade financing, we provide suppliers' credits to domestic clients and buyers' credits to overseas clients.

Recently, the volume of yen loans for foreign borrowers has been increasing as Japanese financial markets have become more internationalized. LTCB has consistently been one of the top three banks in arranging yen syndicated loans for foreign borrowers because of its strong contacts in the financial community and its stable supply of long-term funds. In fiscal 1984, we were lead or co-lead manager for 35 yen financings for a total of ¥730 billion (US$2,912 million),



(Left)
LTCB's merchant banking services are demonstrated by these lease financings arranged for New United Motor Manufacturing Inc., a joint venture of General Motors and Toyota, and for the Société Nationale des Chemins de fer Belges.

(Right)
We provide superior merger and acquisition services to clients worldwide through experts within our Merchant Banking Group. From right: (standing) Hideaki Fukazawa; Ichiro Kushimoto, joint general manager; Koji Hirao, general manager; and Yusho Yamamoto, associate general manager.

an increase of 37% over the previous fiscal year. Since April 1985, LTCB has been offering medium- and long-term Euroyen loans, further diversifying its services in this area.

Foreign currency loans, however, still make up most of the financing we provide to international clients. During fiscal 1984, we were lead manager for 30 international foreign currency syndicated loans, continuing our reputation as one of the top international banks in number of loans lead managed.

Because of its high credit rating in the United States, LTCB has established an extremely successful record there for guaranteeing tax-exempt notes or commercial paper for municipalities, official organizations, and institutions. LTCB has been especially active in public finance and is rated first among Japanese banks in guarantee services.

Through our branches, subsidiaries, and affiliates in our worldwide network, we arrange loans in local and foreign currencies for corporations and public sector entities. In the United States, we have arranged loans for electric utility companies and leading aircraft and automobile manufacturers. We are also strengthening our ties with leading multinational corporations and have provided foreign currency loans to 5 of the world's 10 largest oil companies. In Asia, our network includes Hong Kong, Singapore, Thailand, Indonesia, and the Republic of Korea. In Oceania, we will soon establish a merchant bank in Australia that will be especially concerned with corporate finance.

Fund-Raising Services in Capital Markets

Japanese markets
- ***Commissioned bank services: yen public bond trustee, fiscal agent, fiscal adviser***
- ***Arranging private placements***

Overseas markets—The LTCB Group
- ***Managing and underwriting public Eurobond and Euroyen bond issues***
- ***Arranging private placements***

One of our central strengths in Japanese markets is the close ties we have made with institutional and other investors through the issuing of our own debentures. The close relationships we have developed with the main purchasers of our debentures allow us to function effectively as an arranger of bond issues and other financings.

International clients wishing to place yen bonds in the Japanese market may take advantage of

LTCB's long and in-depth experience as a commissioned bank. In fiscal 1984, we acted as commissioned bank for 32 of the 37 public offerings made in Japan by foreign entities for a total of ¥845 billion (US$3,371 million). Five private placements were lead arranged, raising ¥35 billion (US$140 million).

LTCB derives its strength overseas from a worldwide network that has built a strong foundation of knowledge and experience in securities and securities-related transactions. LTCB has been a prominent issuer of foreign currency denominated bonds in international capital markets since its first offering in 1970, independently and through its subsidiary in Curaçao, the Long-Term Credit Bank of Japan Finance N.V. In fiscal 1984, we made six bond issues: three in U.S. currency for a total of US$325 million, a C$75 million issue, an A$65 million issue, and a SFr120 million issue.

Both domestic and international clients can use our experience in issuing their foreign currency denominated bonds and Euroyen bonds. In fiscal 1984, the LTCB Group acted as lead manager or comanager in 225 issues of foreign currency bonds. Liberalization of the Euroyen bond and certificate of deposit (CD) markets for domestic and international clients produced a large jump in the number of these instruments that were issued. During the fiscal year, the LTCB Group acted as lead manager or co-lead manager in 18 Euroyen bond issues for a total of ¥350 billion (US$1,396 million).

In addition, other services are available to our clients through our worldwide network. In London, LTCB International Limited provides comprehensive international securities-related services, including underwriting, distribution, private placements, trading, and revolving underwriting facilities. Our subsidiary in Brussels, Nippon European Bank S.A., manages issues of private bonds, public bonds, and CDs and trades CDs and foreign currency bonds. This subsidiary has seen a large increase in the volume of business involving ECU loans, bonds, and CDs. LTCB (Schweiz) AG in Zurich manages and underwrites mainly Swiss franc bonds and notes. In Hong Kong, LTCB Asia Limited has been highly active in trading CDs in the Asian market and in underwriting and trading international securities, loan syndications, and trade finance. In addition to providing a full range of banking and trust services, LTCB Trust Company in New York specializes in capital market transactions, such as leveraged or other tax leasing, industrial revenue bonds, commercial paper, and private placements.

Project Finance and Advisory Services

- ***Project finance***
- ***Project advisory services***
- ***Asset-based finance***

LTCB's project advisory services cover all stages of project development from funding to implementation, ensuring the long-term success of the project. LTCB enjoys a reputation as the leading Japanese bank in arranging project finance. Our success is based on our ability to accurately assess and innovatively handle project risk.

Our Merchant Banking Group includes engineers who provide technical expertise in the planning of projects. Several members of our senior staff are held in such high regard that they often serve as advisers to governments and leading companies.

In fiscal 1984, LTCB became the first Japanese bank to arrange a project financing for a private U.S. company in the U.S. market. This involved the arranging of a US$150 million limited recourse credit facility for the Kern River Cogeneration Company, a joint venture between Southern California Edison Co. and Getty Oil Co.

When Australia's largest company, Broken Hill Proprietary Co., Ltd. (BHP), acquired Utah International, Inc., from General Electric Co. in 1984, LTCB acted as one of the lead managers for the entire financing. We also were the agent and front bank for the commercial paper facility.

The People's Republic of China has emerged as one of the most important markets for LTCB and its clients. To further improve our advisory and financing services to Chinese clients and potential investors in China, we set up a China Committee to coordinate our China-related activities.

We have established representative offices in Beijing and Shanghai, and we will soon add another representative office in Guangzhou. We have formed a wide range of cooperative relationships with Chinese institutions, such as the Bank of China, China International Trust and Investment Corporation, and the Chinese Academy of Social Sciences. We are continuing to advise the government of Inner Mongolia on its economic development plan.

In the United States, we concluded agreements with several state governments, including the state of Texas, to provide consulting on the promotion of high-technology industries. In Brazil, we provided advisory services to the Japan-Brazil Cooperation Program for the Agricultural Development of the Cerrado Region and arranged the Japanese yen syndicated loan for this project.

Asset-based financing for overseas clients is an increasingly active area for LTCB. Aircraft, ships, transportation equipment, and real estate are the main items in this type of financing.

New Financial Products and Related Services

- ***Hedge bonds***
- ***Currency rate swaps***
- ***Interest rate swaps***
- ***Futures and options***

Recently, strong growth has occurred in the use of swaps, futures, and options to structure complex financial packages that meet the special needs of clients, and LTCB is acquiring the experience to provide these services. We were one of the first Japanese banks to create a swap-financing team. We have been arranging currency swaps in different currencies as well as interest rate swaps for supranational institutions, governmental agencies, and leading corporations.

LTCB and a subsidiary's arrangement of an ECU50 million currency swap for MOL International S.A., of Luxembourg, and LTCB's participation in the All Nippon Airways Co., Ltd., £50 million interest rate and currency swap are examples of LTCB's capabilities in this area. Recently, we completed an ECU-yen swap for a European government-owned holding company. LTCB's worldwide reputation and network make it particularly adept at finding partners for swaps.

Mergers and Acquisitions and Joint Venture Services

- ***Overseas services for Japanese corporations***
- ***Services in Japan for foreign corporations***
- ***Promotion of international technology exchange and venture capital investment***

The internationalization of world markets has caused a great increase in the demand for mergers and acquisitions and joint venture services. Our research capabilities, broad customer base, and understanding of local economies and financing make these areas in which LTCB will excel, whether for foreign companies wishing to do business in Japan or for Japanese companies wanting to establish themselves overseas. Within our Merchant Banking Group, LTCB recently formed a project team for mergers and acquisitions and joint ventures to extend advisory services, arrange introductions, and provide financing. In fiscal 1984, LTCB lead managed a US$80 million secured term loan for a joint venture that included Kawasaki Steel Corp., Michael Wilkinson, and Companhia Vale do Rio Doce.

In fiscal 1984, we established relations with Peers & Co., of the United States, an investment bank with expertise in mergers and acquisitions. This tie will expand our skills in mergers and acquisitions, joint venture arrangement services, and trade advisory services. This expertise will be available to our domestic and international clients.

In the United States, we are presently cooperating with the U.S. Western Governors' Association in conducting joint research on the possibility of Japanese investment in high-technology industries in the western states. In conjunction with other Japanese banks, we are engaged in organizing a conference with the European Community to promote mutual investment between the Community and Japan.

Venture Capital Services

Consulting services

- ***A venture capital corporation***
- ***A management consulting institution***
- ***A securities company***

International venture capital investment

LTCB has been actively promoting the growth of venture business through our affiliate Nippon Enterprise Development, established in 1972 as the first venture capital company in Japan. We have also been encouraging venture business through the LTCB Research and Management Institute, which offers consulting services in general management, technological applications, overseas investment, and finance. Our close relations with several securities companies are also used to promote venture business.

In the United States, we have invested in several venture capital businesses involved in commercializing advanced technologies. We are participating in a project with the commonwealth of Massachusetts that involves the formation of a venture capital company, cooperative research by some of the finest university laboratories in the United States and by leading corporations in Japan, and the establishment in that state of a research laboratory by Japanese business.

Leasing Services

- ***Leveraged leases***
- ***Services through LTCB Trust Company***
- ***Services through a Japanese leasing company***

Along with loans and securities, lease financing is an important method of raising funds, and the LTCB group is expanding its experience in providing leasing services domestically and internationally.

For example, in fiscal 1983, Nippon European Bank, a wholly owned subsidiary, arranged a ¥25.5 billion (US$102 million) lease financing of rolling stock for the Société Nationale des Chemins

de fer Belges. In fiscal 1984, we arranged a US$200 million leveraged lease as a coarranger and debt agent for New United Motor Manufacturing Inc., a joint venture of General Motors Corp. and Toyota Motor Corporation.

LTCB offers leasing services through LTCB Trust Company in New York and through its close working relationship with Japan Leasing Corporation. Leasing services are also offered through our subsidiaries LTCB International and Nippon European Bank and through cooperation with other leasing companies worldwide, including lease arrangements in Indonesia and China.

Other Services

- ***Trust services***
- ***Investment services***
- ***Foreign exchange and money market services***
- ***Import and export documentation services***
- ***Custodial services***

LTCB Trust Company offers a full range of banking and trust services, such as acting as escrow agent for project finance, real estate investment, and mergers and acquisitions; as depository and issuing agent for issues of commercial paper; and as trustee, fiscal agent, or principal paying agent for U.S. and Eurobond issues and serving as a standing proxy and providing such other related financial services as acting as owner or indenture trustee in lease financing. Custodial and investment management services are also available.

Additional services frequently used by our corporate and public sector clients include securities investment and advice, foreign exchange services, import and export documentation services, and custodial services. These services are explained in more detail in the following section.

FINANCIAL INSTITUTIONS AND INSTITUTIONAL INVESTORS

LTCB's Financial Instruments

- ***Five-year yen debentures***
- ***One-year yen debentures***
- ***Foreign currency bonds***
- ***Certificates of deposit (CDs)***
- ***Bankers' acceptances (BAs)***

Domestically, LTCB issues five-year interest-bearing debentures and one-year discount debentures. Our debentures are especially popular because of their high yield and liquidity.

Internationally, LTCB and its subsidiary in Curaçao, the Long-Term Credit Bank of Japan Finance N.V., make public offerings of long-term debt securities. In fiscal 1984, we made six bond issues in U.S., Canadian, and Australian dollars and in Swiss francs.

(Below left)
Toshiyuki Sakagami, associate general manager, is the chief dealer for overseas clients and trades directly with foreign central banks and governmental agencies.

(Right)
With greater freedom in own-account trading in Japanese government and municipal bonds, LTCB is more actively trading public bonds and CDs. In fiscal 1984, we were the leader among Japanese banks in volume traded.

Trading Services

- ***Japanese government and municipal bonds***
- ***Yen bonds, Euroyen bonds, Eurobonds***
- ***U.S. securities***

In June 1984, banks were granted permission for own-account trading in Japanese government and municipal bonds. Trading in this market had formerly been confined to securities companies. Through preparation and the employment of existing capabilities, we quickly moved to the leading position among Japanese banks in this area. LTCB's total volume of transactions by the end of fiscal 1984 reached ¥11.9 trillion (US$47 billion), a record that places LTCB within the top 10 securities companies in Japan in trading volume.

LTCB had many advantages that allowed such a strong entrance into this market. Long experience in issuing our own debentures domestically and overseas and our participation in the underwriting of Japanese government, government-guaranteed, and municipal securities greatly developed our abilities in these areas. In conjunction with these activities, we have also built close relations with many financial institutions, institutional investors, and corporations, the principal users of these services. Our superior research and market forecasting have also played essential roles in our success.

LTCB offers many effective instruments for fund management, such as domestic and overseas debentures, BAs, CDs, commercial paper, and deposits.

Because of these strengths, we can offer a broad range of domestic asset management services and market information. Internationally, through LTCB International in London, Nippon European Bank in Brussels, LTCB (Schweiz) in Zurich, LTCB Asia in Hong Kong, and LTCB Trust in New York, we deal in Euroyen, Eurodollar, and Asian dollar bonds and in U.S. and other securities.

Funding and Foreign Exchange Trading Services

Funding

Japanese markets

- ***CDs,* gensaki *CDs, foreign currency deposits, nonresident yen deposits, BAs***

Overseas markets

- ***Euroyen deposits, Eurodollar deposits, CDs, BAs***

Foreign exchange

- ***Trading in yen and other currencies***
- ***Short-term forward foreign exchange contracts***
- ***Medium- and long-term forward foreign exchange contracts***

Remarkable progress has occurred in the internationalization and diversification of Japan's markets through the removal of special requirements on foreign exchange transactions and the development of international banking.

As diversification and internationalization progress, the markets are growing, and to cope with this, we have expanded our trading division and established ourselves as a leading trader in securities and foreign exchange. We continue to improve our medium- and long-term forward foreign exchange services. Since a Japanese bankers' acceptance market was formally established and began operations in June 1985, we also now trade in BAs.

Investment Advisory Services

- ***First Capital Management and Research Inc.***
- ***LTCB International Limited***
- ***LTCB Trust Company***

We provide information and advice for investment in Japanese securities and can introduce clients to First Capital Management and Research Inc. (FCR), an experienced investment consulting company with which we have a close relationship. Because Japanese institutional investors manage their surplus funds by investing both in Japan and overseas, LTCB is strengthening these services through FCR.

Through LTCB International, we offer our international clients investment advisory services concerning stocks and bonds.

LTCB Trust offers attractive taxable and nontaxable investment opportunities in the United States.

Custodial Services

The LTCB head office in Tokyo and LTCB Trust Company in New York provide custodial services for foreign investors in Japan and for Japanese investors in the United States. In Japan, our international clients can use our Automated Securities Operation System. This system handles securities transactions quickly and efficiently and can provide these clients with detailed daily transaction reports and monthly portfolio statements that include current market valuation.

INDIVIDUAL CLIENTS

Investment

- ***LTCB five-year yen debentures***
- ***LTCB one-year yen debentures***
- ***LTCB five-year compound interest debentures***
- ***Japanese government securities***
- ***Gold***

Finance

- ***Loans***

LTCB has an extremely broad base of individual customers whose average balances are many times higher than those of ordinary banks. We have relatively few branches compared with the large city banks, and therefore we offer high-quality products to attract deposits.

Our debentures fall under three main categories: coupon debentures, which have a maturity of five years and feature high yields and great liquidity, making them popular with investors; discount debentures, which are bearer instruments and have a maturity of one year; and compound interest debentures, which have a five-year maturity and feature lump-sum payments of interest at maturity that provide tax advantages for those eligible for tax exemption on a limited amount of interest earnings.

We deal to a lesser extent in long-term mortgages and personal loans and also sell national government bonds.

All LTCB branches have electronic tellers, and we are investigating the possibilities of home banking. Electronic banking would allow us to provide more services to an even wider client base.

ADVISORY SERVICES

Besides fulfilling its role as a long-term credit bank, LTCB has made concerted efforts to develop research capabilities in view of their importance to its operations. Based on the wide range of knowledge built up through the research and analysis of our professional staff, we have often advised the government of Japan on proposed economic changes, indicating our strong reputation in these activities in Japan.

As financial services become more diversified, information will become even more important. At LTCB, we use all our experience and forecasting ability, along with our global information network, to provide current information to our clients.

Economic Research and Reports on Countries

- ***Macroeconomic research and forecasting***
- ***Structural analysis of financial systems***
- ***Economic studies of countries***
- ***International and regional economic evaluations***

Large worldwide changes in financial systems and the formation of a global economy have increased the need for reliable, up-to-date information on macroeconomics, financial systems, and countries. LTCB has an international reputation in providing economic information services.

Research and Credit Evaluation of Industries

- ***Research on industrial trends***
- ***Research on trends within industries***
- ***Business development***
- ***Credit evaluation***

Changes are occurring in the industrial structure of Japan as companies are affected by internationalization and a shift toward the service and information industries.

LTCB is investigating these new trends, such as the research and development of advanced technologies and the development of the service industry. We are also actively monitoring high-growth industries and their potential and the rapid development of companies entering new fields or overseas markets.

The joint economic and industrial survey we did with the U.S. Western Governors' Association (WGA) and our participation in the planning of the Softnomics Center in Japan are examples of our research efforts. In the joint study done with the WGA, we researched existing industrial structures, investment promotion policies, and other economic conditions. The results of the study will be used to promote Japanese investment in high-technology industries in the western United States.

Through such research, we are participating in creating projects and providing information for companies entering new business areas or starting operations overseas.

Public Information Services

- ***Seminars and lectures***
- ***Monthly research reports and other financial and economic information***
- ***Consulting on operations and management***
- ***Participating in and making proposals to committees that advise the Japanese government***

LTCB publishes economic and financial information domestically and overseas so that people may take full advantage of any information useful to them. Through our expertise in credit evaluation and cooperation with the LTCB Research and Management Institute, we offer consulting services concerning the operation and management of businesses.

Industrial cooperation is one of the important services LTCB renders. We continually monitor advanced technology progress and industrial growth trends in Japan and overseas. In conference are LTCB and the State and Industrial Associations of Massachusetts representing LTCB is Tesuya Hoie, senior managing director, representing the commonwealth of Massachusetts is Governor Michael Dukakis.

NOTE 4

Company: Industrial Bank of Japan

Date: September 9, 1985

Attended:
- Nobuo Kawamura, General Manager
  International Investment Services Department
  Concurrently Member International Headquarters
- Masayuki Inoue, Senior Manager
  International Investment Services Department
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

Summary

Our meeting with the Industrial Bank of Japan was excellent primarily due to the very supportive, informative and helpful nature of Mr. Kawamura. Our meeting covered a wide variety of topics including IBJ's services, investment trends in Japan today, where Canada fits in the new investment environment and a discussion of appropriate promotional tools for the Japanese market.

Services

The Industrial Bank of Japan offers a wide variety of financial services to their customers, industry research, advisory/consulting services and mergers and acquisitions.

Research

The IBJ research services are primarily for medium sized companies as their larger clients tend to have their own capabilities. IBJ produces regular research reports as well as tailor made reports as a service for their clients. They are very interested in developing some form of consistent information exchange with Canada.

Advisory/Consulting Services

IBJ acts as an advisor, primarily to the medium sized enterprise. The IBJ and other banks in Japan have adopted the role that accounting, management consulting and legal firms perform in Canada more often. Most of the banks provide these services gratis, however, increasingly they are using subsidiary companies which charge for services.

Merges and Acquisitions, Joint Ventures and ?????

IBJ provides a merchant banking service to their clients. Their service tends to be reactive to their clients needs. IBJ will help identify companies, industries, locations for their Japanese clients depending on the company's own priorities. When we asked about the services they could provide for a Canadian company who was interested in technology transfer, joint ventures with a Japanese company etc., their response was that Japanese investment plans were generally not "made" in response to someone else's initiatives. Japanese investment is motivated by self interest and in many cases by fear -- fear of being shut out of a market; fear of losing market share; fear of losing access to technology etc., "the negative prospect of the future is driving their investment."

Investment Trends in Japan

The large companies due to protectionist pressures have been investing in North America and will continue to do so to secure market access. However, an emerging trend is the increase in the number of medium sized companies who are looking for new markets and establishing some presence outside Japan.

The large companies according to IBJ prefer greenfield investment or direct acquisition (100%) to ensure the plant can be run in a "totally Japanese way". Generally in technology/venture capital deals they take a "token" equity position. The Japanese like to start slowly when dealing directly with foreign partners to "find out what kind of people they are". The medium sized business in Japan, because their international capabilities are limited, are more likely to enter into a joint venture or licencing situation.

The large companies tend to be export pushed and driven by protectionist pressures, whereas the small and medium sized enterprises are market driven and look for opportunities where there is an obvious fit.

The distributor is a key player in Japanese investment activity and can be helpful in indentifying or influencing "intentions" to invest. However, in cases where the distributor is not a wholly owned subsidiary, the Canadian owned distributor can become vulnerable and jobs can be put at risk if the Japanese company establishes its own operations in Canada.

Canada - Key Selling Message

IBJ had some insightful comments about how Canada can be differentiated from the United States to attract Japanese investment.

The protectionist mood was identified by IBJ as being the key influence which is motivating Japanese companies to invest in North America. IBJ identified three factors which will work in Canada's favour as investment levels increase:

(i) The Japanese do not like to feel vulnerable - if there is an excessive concentration of the same kind of industry in the U.S. competing against American companies, the environment may grow less hospitable (anti-trust). There is a tendency to "diversify out of vulnerability";

(ii) The Japanese do not like to put all their eggs in one basket. Canada as a "neutral" country with a secure and stable political and economic evnironment is an attrative alternative.

(iii) Canada is often cheaper and access to the North American market is easy.

Canada - Key Weaknesses/Problems

Without a doubt Canada's reputation for militant and organized labour is our biggest "perceptual" problem, and one that discourages Japanese from taking this country seriously. The Japanese companies have to be reassured that (i) there is not a high level of unionization in all sectors; (ii) reliability (i.e. days lost) is much better than thought; (iii) labour productivity is very high and (iv) labour is cheaper in Canada. Contrary to certain "enlightened" individuals, hiding the presence of unions in Canada will not make the problem go away. Visits, of individuals, such as Bob White of the UAW to reassure Japanese companies of Canadian union "reason" is a very effective selling tool.

The second problem or issue is one of market penetration. The Japanese have a "different psychology" - investment generally follows exports as compared with the more North American approach of investment following "opportunity". Thus the thinking of many Japanese companies is that an investment will be considered only once a reasonable business base has been established. Export sales act as an "early warning system" for investment prospects. Therefore if Canada does not have significant market potential (pruchasing power), Canada will not appear on the all important "short list", although Canada may be the cheaper and better alternative to service a market region.

The third issue is one of "quality of life" and the Canadian image. The Japanese businessmen tend only to differentiate the U.S. from Canada on the basis of weather and their image of a rugged out-doorsy people, Niagara Falls and the Rockies. "They are not aware of Toronto". IBJ suggested that Canada needs to do a serious selling job to the Japanese to demonstrate that (i) this country is sophisticated and rich in culture; (ii) Canada is a multicultural and tolerant nation; (iii) Canada is a safe and secure country and (iv) Canadians are productive and positive!!.

They suggested one effective vehicle to reach Japanese audience is through Japanese television, e.g. a Canadian week featuring top Canadian programs or a movie week showing top Canadian firms.

Investment Promotion Techniques

IBJ suggested a number of techniques to provide investment in Japan.

1. The Brazil Example

Although Canada is not as "desperate" for investment as Brazil, the Brazilian investment campaign has had impressive results in Japan.

The Brazilian campaign was based on providing copious quantities of information on a very frequent basis. A mailing list was developed and a monthly magazine was circulated complete with "impressive" monthly statistic e.g. coal production, export values etc. This was supported by a number of other efforts and a system of sending telexes on release of relevant statistics to interested companies.

2. The Japanese Ambassador to Canada as Promoter

Mr. Kawamura indicated that the new Ambassador to Canada is very keen to make a mark on Japan-Canada relations as this is likely to be his last posting and because he is a very enthusiastic business developer. IBJ suggested Mr. Labbé make contract with the Ambassador and that relations between Investment Canada staff and the Japanese commercial staff be established. As the Japanese enjoy social gatherings, it was suggested that we also have a reception to introduce the Japanese Ambassador and Commercial staff to Investment Canada and develop some method of working together.

3. IBJ Arrangement

IBJ have entered into contractual arrangements with certain states and they act in an advisory capacity and assist in facilitating projects as they surface.

IBJ would be interested in developing a like arrangement with Canada. However, they understand that Ontario has already another banking relationship.

4. Editorial Coverage

The editorial press are very influential in Japan. The most important business paper is the Nihon Keizei. To effectively get the Canadian message across, they suggested enlisting their reporter in Toronto to write a series of stories on Canada and the new investment climate. Also they recommended inviting a Japanese journalistic group to visit Canada for the same purpose.

5. Testimonials - Taking Advantage of Group Think

IBJ also suggested creating heightened awareness of the number of Japanese companies succesfully doing business in Canada, (e.g. a brochure "Japanese businesses in Canada" with a case history and listing format). There is a high degree of group think and a "herd" mentality in Japan. "Japanese companies tend to do the same think at the same time".

6. Japanese in Canada; Canadians in Japan as Ambassadors.

Encourage more effective use of groups to network and communicate to increase awareness of Canada.

7. Seminars

It was generally agreed that there are too many seminars however, there are those which are essential (e.g. Keidanran). Afternoon and lunch seminars tend to attract the general managers and their deputies in addition to their research staff whereas evening receptions are more likely to be attended by senior people, presidents and managing directors. Only senior speakers can attract senior company officials.

8. Twinning

If properly arranged, twinning of Canadian provinces and cities with their Japanese counter parts can promote strong economic relations as well. Both Nova Scotia and British Columbia have active twinning arrangements.

Things that don't work

1. Japanese Missions to Canada

Investments by Japanese companies have a high level of secrecy attached, therefore they are unlikely to feel comfortable in a fact finding mission.

2. Advertising

Straight advertising is not credible among the Japanese. If accompanied by an "editorial feature" by a writer whom they respect in a respectable journal e.g. Nihon Keizei, then it will have more influence.

3. Seminars

Basically they indicated there are too many seminars, however, the Keidanran is important to keep awareness levels high.

Action Plan

1. Continue talks with IBJ about having some sort of contractual agreement e.g., information exchange, matchmaking etc.

2. Discuss with provinces their priorities and the possibility of an IBJ agreement.

3. Contact IBJ rep in Canada - develop dialogue.

4. Prepare package of materials as suggested by IBJ e.g. comparataive data, list of Japanese cos. etc. in consideration of what we know about where the Japanese are coming from and what the future holds - distribute sufficient copies for their clients.

5. Work with Canada/Japan "Ambassadors"
   - (i) identify
   - (ii) nurture contacts.

6. Examine Brazil's efforts and see how we could develop a similar program e.g. newsletter and targeted periodic news releases.

7. Prepare meeting and reception for Japanese Ambassador and commercial officers - invite Japanese representatives and Canada/Japan society.

8. Examine PR efforts in light of IBJ's suggestion.

NOTE 5

Company: Mitsubishi Electric Corporation

Date: September 9, 1985

Attended:
- Sozaburo Ihara, Director, Deputy General Manager, International Operations Group.
- Y. "Super" Yamaguchi, General Manager Industrial & Consumer Products Marketing Division International Operations Group.
- Hiroshi Ishikawa, Manager, Affiliate Operations Department
- Y. Okutomo, Manager, Planning & Administration Department, International Operations Group.
- Paul Labbé, INC
- David Dix, Embassy
- Deborah Moores, INC.

Summary:

Mitsubishi Electric is one of Canada's most successful Japanese owned companies. They produce CRT's for color televisions in Midland, Ontario. They purchased the plant from RCA Canada, and have invested over $6 million to modernize the facility. They are currently producing CRT's for 14" and 20" televisions. Their plans for expansion include producing a new line of CRT's for 28" and 30" TVs in 1986 and the development of an R&D company in Midland. Mitsubishi is considering Kitchener and the acquisition of an existing facility for their new plant. Mitsubishi Electric is also exploring the possibility of producing color monitors for personal computers from the new Kitchener plant.

Mutsubishi Electric has an agreement with American Motors to supply car radios. They are producing these now in Singapore, however, they are considering production in North America (Larry Duffield to follow up here).

Mutsubishi suggested that we put together a profile of what's happening in the automotive sector in Canada to demonstrate that a viable market exists. Larry Duffield suggested at this point that maybe with all this information, Mitsubishi Electric could see the benefits of producing electrical auto parts in Canada e.g. starters and generators.

Mitsubishi Electric indicated however, that Mexico is increasingly a more attractive location for investment to serve the North America's market.

Mitsubishi Electric are very pleased with the Midland operation. They credit labour costs and the quality of work (the rejection rate is much lower than in the U.S.) with being the key success factors (Mitsubishi indicated they would be pleased to offer testmonials).

Midland exports approximately 60% of their product, primarily to Commonwealth countries including Australia where Mitsubishi Electric has a joint venture. Mitsubishi Electric has a quid pro quo relationship with RCA (USA - Los Angeles) and a limited number of CRT's are shipped to the U.S.

Fee Trade - Tariffs

There is a 15% tariff on CRT's shipped to the U.S. If this was eliminated, the Midland plant would benefit. Mitsubishi takes advantage of duty drawback on components sourced in the U.S. and this reduces the tariff to approximately 10%.

Glass tubes are exported from the U.S. to Canada and Mitsubishi is taking advantage of the duty drawback on products re-exported to the U.S. However, Canada does not have a glass tube making capability and it was suggested INC look into making a recommendation to reduce or eliminate duty on glass tubes. This would impact positively on the Canadian cost of production and help lower the cost to all other markets.

Matsushi, another Japanese company continue their policy of not buying from Mitsubishi.

Labour Relations

Mitsubishi have had to adjust to very different labour relations in Canada. The Midland plant is unionized. All of their U.S. plants are non-union. Their problems have been not wage or salary related but over "who's boss!" and management rights in assigning overtime, shifting people (job rotation) and job classifications. However, they recently signed a three year contract after experiencing a 2 day strike (thought to be a "symbolic" gesture). Mitsubishi found that the Ontario Labour Relations Board was very helpful.

Future of CRT's

Arthur D. Little have done a study for Mitsubishi on the future of CRT's. They indicated it will be a minimum of fifteen years before CRTs will be displaced by liquid chrystals.

Mitsubishi see a large market for their CRTs beyond the traditional TV market. They see increasing demand for color monitors for PC's, for screens used in the financial services business, aerospace business, telephone TV conferencing and many other new applications.

Action Plan

1. Continue corporate liaison program in Tokyo to promote expanded operations and the possibility of a car radio facility.

2. Talk with Automotive department (DRIE) to assess progress of study on auto industry in Canada - liaise with Larry Duffield.

3. Evaluate use of Mitsubishi in testimonals to Canadian productivity and competiveness.

4. Investigate the reduction or elimination of tariffs on glass tubes.

5. Focus on good co-operative relations between labour, government and business in dealing with Japanese companies.

MITSUBISHI ELECTRIC CORPORATION

Established: January 15, 1921 (¥15,000,000)
Capital Stock: ¥85,034,063,272 (August 31, 1984)
Address: 2-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100
Telephone: (03) 218-2111
Cable Address: MELCO TOKYO
Telex Number: J24532 MELCO

GENERAL

BOOKS CLOSED: Mar. 31

SALES COMPOSITION (term ended Mar. 31, 1984)
electric home appliances 24%, electronic & industrial equipment 38%, heavy electrical machinery 24%, standard electric equipment 14% [Exp. 28%]

BACKGROUND
Originated in Kobe shipyard of Mitsubishi Limited Partnership to manufacture electric equipment for marine and mining use, 1905. Completed turbine generator and large capacity induction motor, first in Japan, 1910. Incorporated by taking over business of electric machinery dept. of Kobe Shipbuilding & Engine Works, Mitsubishi Shipbuilding (present Mitsubishi Heavy Industries), 1921. Concluded technical tie-up agreement with Westinghouse Co. (present Westinghouse Electric Corp.), USA, 1923. Set up research laboratory, 1944. Concluded new technical exchange agreement with Westinghouse, 1966. Established the Overseas Project Dept., 1979

Offices Abroad: Sydney, Seoul, Taipei, Hong Kong, Manila, Jakarta, Beirut, Johannesburg, London, Paris, Mexico City, Bogota, Pittsburgh, Beijing

Subsidiaries Abroad: U.S.A.–Mitsubishi Electric America, Inc.; Mitsubishi Electric Sales America, Inc.; Mitsubishi Electronics America.; Mitsubishi Consumer Electronics America, Inc.; Mitsubishi Semiconductor America, Inc.; Canada–Mitsubishi Electric Sales Canada Inc.; U.K.–Mitsubishi Electoric (U.K.) Ltd.; W. Germany–Mitsubishi Electric Europe, GmbH and many others.

OFFICERS (Sept. 1, 1984)
Chairman: Sadakazu Shindo
President: Nihachiro Katayama
Vice President: Takashi Azegami
Senior Managing Directors: Shinichi Yufu, Fukuichi Hirose, Yoshiya Nakatani, Tsunero Ushio, Moriya Shiki
Managing Directors: Toshikazu Hashimoto, Hiroo Namaezawa, Tamotsu Saito, Kimio Sato, Yasuo Endo
Other Officers: 13 Directors, 2 Standing Auditors, 2 Auditors

EMPLOYEES (Mar. 31, 1984)

	Male	Female	Total
Number:	42,276	5,918	48,194
Average Age:	38	29	37
Average Monthly Pay (¥):	311,282	155,926	292,184

BANK REFERENCES: Mitsubishi Bank, Dai-Ichi Kangyo Bank, Mitsubishi Trust & Banking, Mitsui Trust & Banking

STOCK (Mar. 31, 1984)
Authorized: 3,456,000,000 shrs. Par Value: ¥50
Issued Total: 1,611,273,852 shrs. Stockholders: 121,367
Owned by Foreigners: 284,904,523 shrs. (17.7%)
Listed: Frankfurt, Amsterdam, Tokyo, Osaka, Nagoya & 5 others

Major Stockholders	shrs. (thousand)	%
Meiji Mutual Life Insurance	78,534	4.9
Nippon Life Insurance	69,671	4.3
Mitsuibishi Bank	49,821	3.1
Westinghouse World Investment Corp.	42,714	2.7
Lloyd's Bank International	36,602	2.3

Recent Capital Increase (¥ million)

REOPEN	550	3/83 C.B.	79,197
8/62 1:0.5	43,200	5/83 C.B.	79,257
9/69 1:0.25	54,408		

Underwriters: Main–Daiwa; Sub–Nomura, Nikko, Yamaichi

BALANCE SHEET (¥ million)

	Mar. '84	Mar. '83
ASSETS		
Current Assets	1,199,602	1,146,137
Quick Assets	659,868	614,134
Cash & Deposits	81,181	80,036
Notes Receivable	90,780	85,145
Accounts Receivable	400,402	372,462
Securities	87,505	76,471
Inventories	375,175	389,757
Merchandise, Finished Goods	60,028	59,179
Goods in Process	300,387	317,981
Fixed Assets	307,577	253,123
Tangibles	242,962	194,216
Depreciables	208,821	168,709
Land	16,587	13,984
Non-Tangibles	1,161	1,125
Investments	63,454	57,782
Deferred Accounts	–	–
TOTAL	1,507,179	1,399,260
LIABILITIES		
Current Liabilities	1,061,756	992,451
Notes Payable	205,442	152,199
Accounts Payable	155,539	118,177
Short-Term Borrowings	177,946	194,118
Fixed Liabilities	172,059	161,709
Borrowings	29,456	54,505
Bonds	104,030	72,348
Special Reserves	–	–
TOTAL	1,233,815	1,154,160
CAPITAL	273,364	245,100
Capital Paid-up	83,209	79,197
Capital Reserve	62,916	57,376
Legal Earned Surplus	15,515	14,556
Voluntary Reserve	76,783	63,786
Unappropriated	34,941	30,185

PROFIT & LOSS STATEMENT (¥ million)

	Mar. '84	Mar. '83
Sales	1,587,690	1,392,234
Cost of Sales	1,217,429	1,047,138
Gross Profit	370,261	345,096
Administrative & Sales Expenses	266,255	245,451
Operating Profit	104,006	99,645
Non-operating Profit	31,797	28,225
Non-operating Expenses	80,282	77,483
Ordinary Profit	55,521	50,387
Special Profit	231	505
Special Loss	160	2,267
Reserves Used	–	2,155
Reserves Appropriated	–	–
Pre-tax Profit	55,592	50,780
Provision for Income Taxes	27,200	25,700
Net Profit	28,392	25,080
DEPRECIATION	54,984	44,023

Note: Items of minor accounts are omitted.

RATIOS	Mar. '84	Mar. '83	Mar. '82	Mar. '81	Mar. '80
PER SHARE DATA, ETC.					
Earnings/Share (¥)	17.62	15.83	14.14	15.49	17.89
Earnings/Share Adjusted (¥)	17.62	15.83	14.14	15.49	17.89
Dividend/Share (¥)	6.50	6.00	6.00	7.00	6.00
Book Value/Share (¥)	169.66	154.74	144.24	132.90	117.86
P.E.R. (Times)	25.48	23.75	18.32	17.18	10.79
FINANCIAL POSITION ANALYSIS					
Profitability (%)					
Net Profit/Total Assets	1.95	1.85	1.78	2.09	2.47
Gross Profit/Sales	23.32	24.79	24.63	24.74	26.49
Operating Profit/Sales	6.55	7.16	7.18	7.08	7.90
Ordinary Profit/Sales	3.50	3.62	3.63	3.85	4.53
Net Profit/Sales	1.79	1.80	1.69	1.90	2.33
Dividend Payout Ratio	36.72	37.78	42.02	44.44	33.52
Net Profit/Equity	10.95	10.57	10.44	12.73	16.32
Stability (%)					
Fixed Assets/Capitalization	69.05	62.22	64.59	63.28	68.69
Liquidities (Months)	1.28	1.35	1.38	1.50	1.61
Debt/Total Assets	24.57	27.17	26.87	27.74	28.81
Net Interest Cost/Sales	1.24	1.70	2.07	2.23	1.24
Turnover					
Sales/Total Assets (Times)	1.09	1.03	1.06	1.10	1.06
Sales/Tangible Fixed Assets (Times)	7.78	8.02	8.42	8.61	8.41
Sales/Stockholders' Equity (Times)	6.12	5.87	6.18	6.70	7.01
Accounts Receivables/Sales (Months)	3.84	4.10	3.92	3.82	3.99
Inventories/Sales (Months)	2.84	3.36	3.50	3.29	3.37
Finished Goods/Sales (Months)	0.45	0.51	0.61	0.64	0.79

TEN-YEAR REVIEW

Fiscal Year	Sales (¥ million)	Operating Profit (¥ million)	Ordinary Profit (¥ million)	Net Profit (¥ million)	Earnings/ Share (¥)	Dividend (%)	Stock Price Range (¥)
1983	1,587,690	104,006	55,521	28,392	17.6	13	459–340
1982	1,392,234	99,645	50,387	25,080	15.8	12	401–214
1981	1,315,538	94,475	47,726	22,197	14.1	12	506–205
1980	1,221,397	86,534	47,072	23,191	15.4	14	254–182
1979	1,075,446	85,015	48,733	25,106	17.9	12	214–171
1978	934,712	60,985	33,425	14,502	10.6	11	203–146
1977	792,179	41,708	17,547	9,760	7.5	10	165–116
1976	696,288	43,212	14,535	8,555	7.0	10	137–102
1975	591,713	35,113	6,156	4,003	3.4	8	125– 90
1974	620,893	38,406	11,605	7,455	6.3	11	155– 97

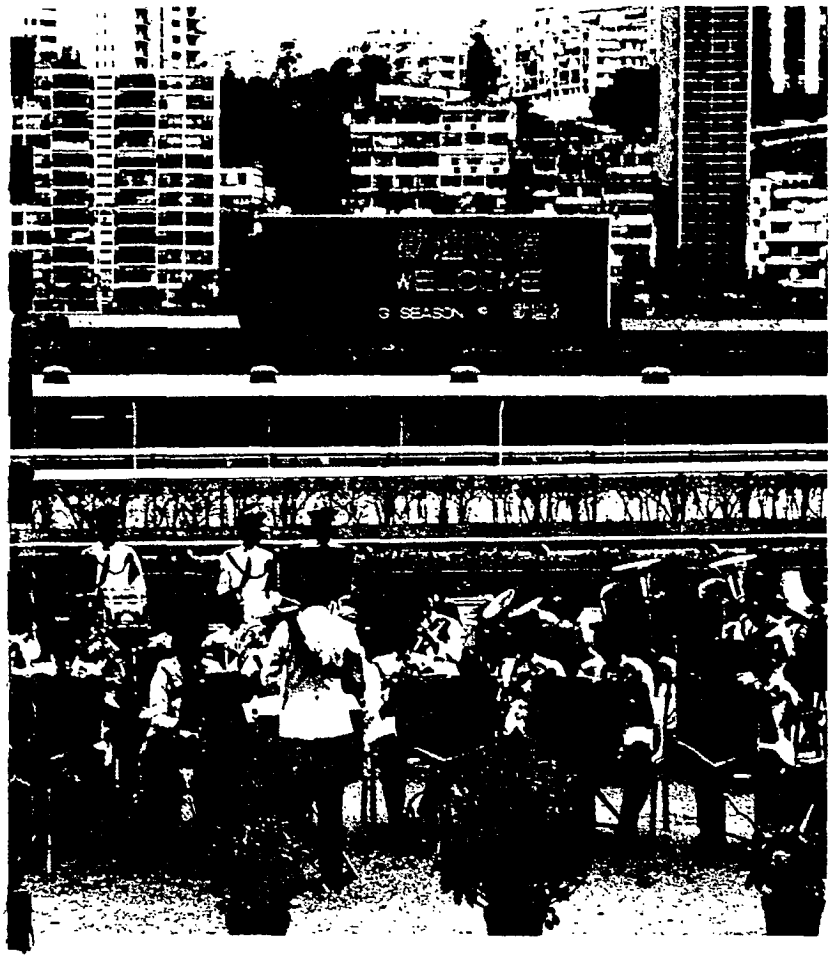
DIAMOND'S COMMENT

Mitsubishi Electric, an influential member of the Mitsubishi Group, is the third largest manufacturer of electric machinery and appliances in Japan. It maintains close relations with Westinghouse Electric Corp. of the United States. It turns out a wide range of products, including heavy electric machinery, home appliances, electronic and industrial equipment. Its transformers and elevators are especially competitive. It has many sales companies and parts makers under its control.

For the first half of the annual term ending Mardh 31, 1985, Mitsubishi Electric declared ordinary profit of ¥35,090 million on sales of ¥874,768 million. They represented a 23.7% rise in sales and a 45.2% gain in ordinary profits over the previous corresponding period. The strong performance was due to brisk sales of communications equipment and electronic devices.

While demand for heavy electric machinery and household electric appliances has been marking time, sales of communications equipment, semiconductors and office automation devices have been growing smoothly in the second half of the March 1985 term. Aggregate sales for the entire annual term are estimated at ¥1,850,000 million, up 16.5% from the preceding term, while ordinary profits are expected to increase a little over 53% to ¥85,000 million. The company will raise its annual dividend from ¥6.50 per share to ¥7 or ¥8 per share. It intends to issue convertible bonds abroad in 1985.

The company is active in expanding overseas markets. While constructing an IC manufacturing plant in the United States, it has started producing picture tubes in Canada and VTRs in Britain.



The world's largest electronic display screen, the 19.6 x 7.3m DIAMOND VISION, was installed at the Happy Valley Course of the Royal Hong Kong Jockey Club.

International Activities

Overseas sales increased 27.8 percent, accounting for 27 percent of total net sales compared with 24 percent in the previous year. In heavy machinery, highlights for the year included orders received for a power supply control system and substation equipment in Kuwait, together amounting to ¥40 billion (US$174 million). A milestone was reached in the Company's elevator operations, as the 100,000th unit was produced during the year. Some 20,000 of these have been sold overseas. The biggest factor contributing to the increase in overseas sales was the rapid growth of the electronics field. Especially dramatic results are being registered in semiconductors, computer peripherals, and VCR equipment.

High appraisal of the Company's technology and quality in the semiconductor field has meant that demand for its semiconductors remains strong. In particular, the U.S. sales subsidiary, Mitsubishi Electronics America, Inc., has a high order backlog. To ensure a stable supply in that market, a new subsidiary was established in August 1983 called Mitsubishi Semiconductor America Inc., which is building the Company's first overseas semiconductor production base in North Carolina. The factory will employ 200 people and produce 3 million 64K DRAM chips a month.

Among computer peripherals, flexible disk drives and high-resolution CRT monitors showed particularly good results. In addition, Mitsubishi Electronics America's sales of flexible disk drives tripled over the previous year and sales of personal computers on an OEM basis have begun in overseas markets. Overseas production of CRTs began in November 1983 by a new subsidiary, Mitsubishi Electronics Industries Canada, Inc.

In response to the increasing demand for VCRs overseas, a VCR plant under the auspicies of Mitsubishi Electric (U.K.), Ltd.

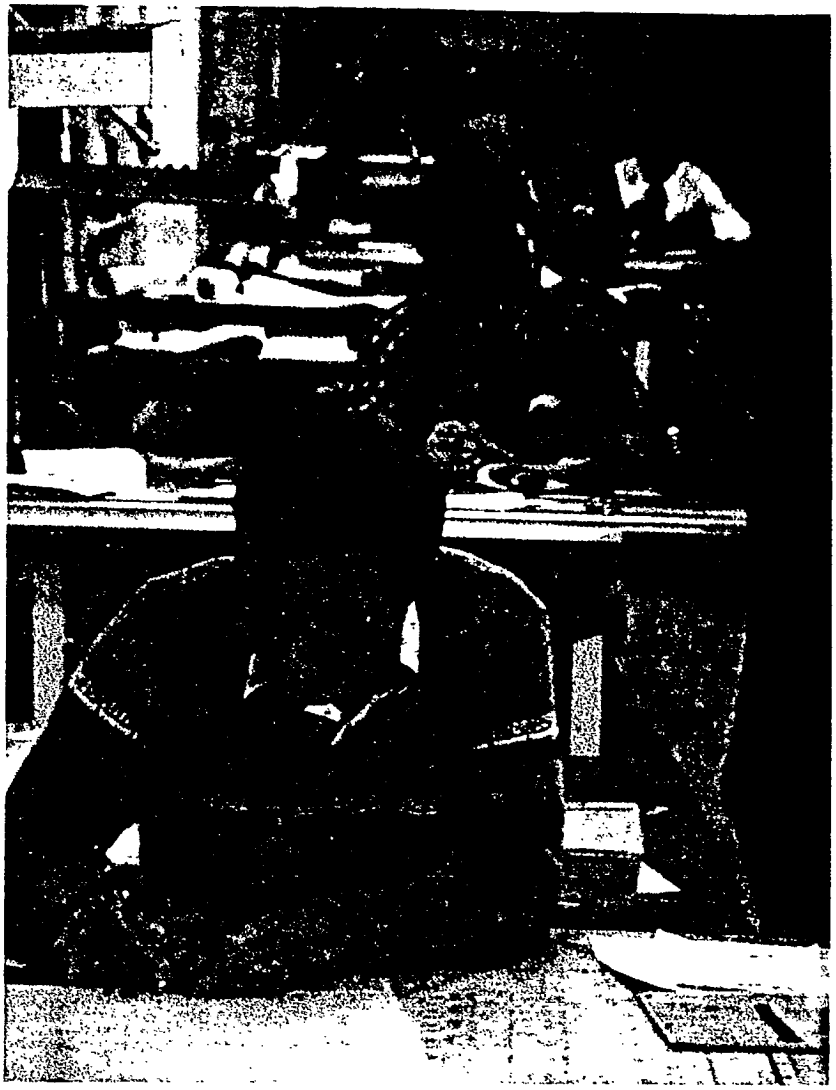
went on stream in Scotland in September 1983. As the market continues to expand, production at the plant will increase, doubling within a year. Mitsubishi Electric's long-standing strength in the European VCR market has been supplemented recently by rapid growth in North America.

Results were also extremely encouraging for other household appliances. Sales of color TVs and air conditioners were strong, and the Company's rear-projection TV has a 20 percent market share in the U.S., and has commanded the top position for three successive years.

The structure of Mitsubishi Electric's overseas sales oriented activities are changing, with growing weight being given to operations combining overseas production, sales, and technology transfer by licensing and other means. There are now 58 overseas subsidiaries and affiliates located throughout the world with a total of 21 production facilities. Television set production facilities were among the first established overseas. Plants are now located in Singapore, the U.S., Great Britain, and Australia. Their combined annual output is 600,000 units.

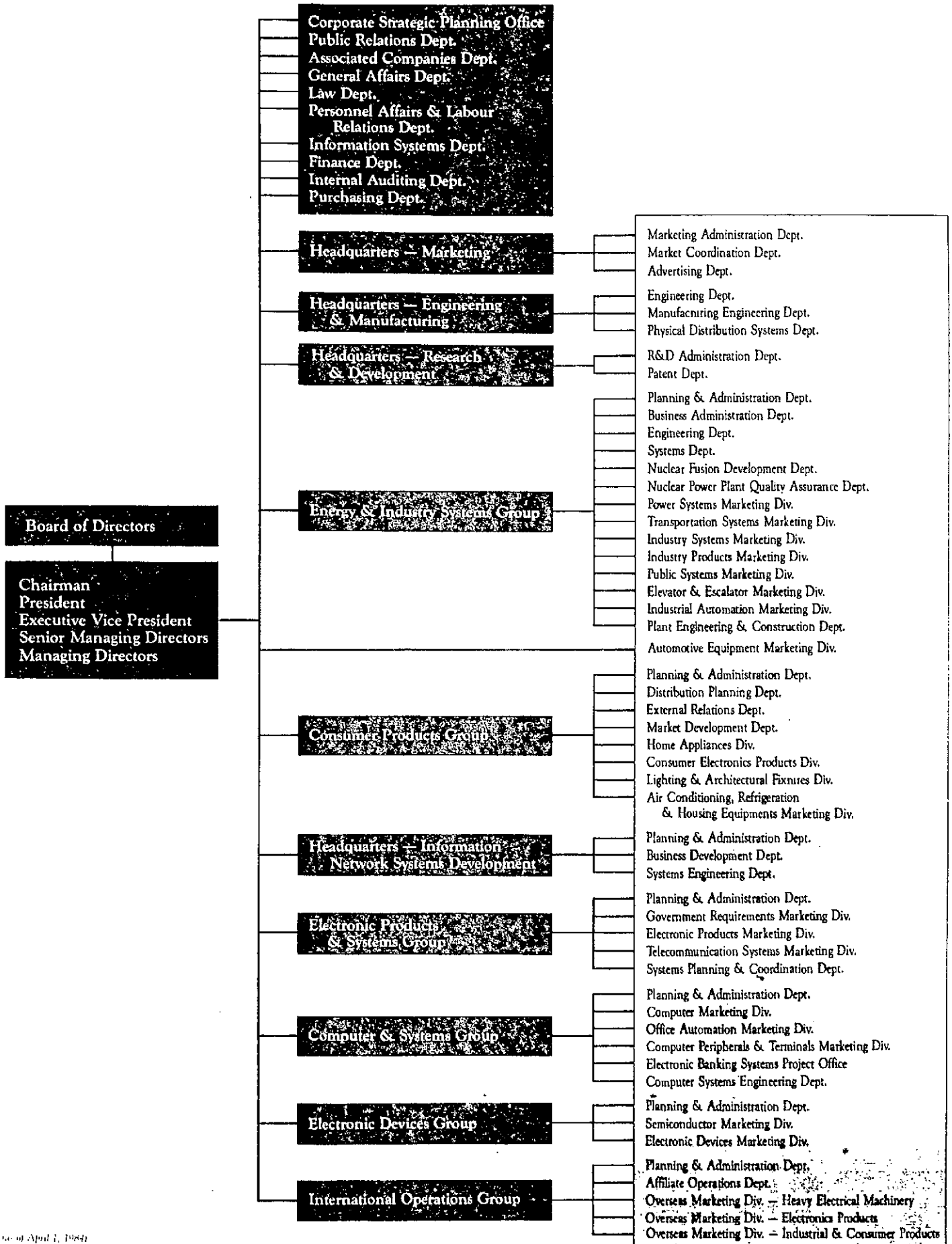
Mitsubishi Electric's largest overseas presence is in North America. Operations in the U.S. began ten years ago with the establishment of Mitsubishi Electric America. There are now six subsidiaries operating there, with a total of 1,020 employees, of whom 90 percent are hired locally. One of those subsidiaries is Mitsubishi Consumer Electronics America Inc., whose 420 employees produce television sets. In Canada, the Company has two subsidiaries, including Mitsubishi Electric Sales Canada, Inc.

Currently, Mitsubishi Electric's technology is made available overseas through a number of licensing agreements. Such agreements are an important way of resolving trade friction problems and contributing to growth in overseas economies.



This CRT plant in Ontario was established with the support of local residents. More than 90% of its employees were locally hired.

ORGANIZATION CHART



As of April 1, 1984

NOTE 6

Company: The Bank of Tokyo

Date: September 9, 1985

Attended:
- Roy Takata Jr., Managing Director
- Motokazu Shichijo, General Manager
- Keishi Fujii, Senior Deputy General Manager
- Armand Blum, Embassy
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

Summary

We had informal discussions over lunch on the Bank of Tokyo's activities in Canada and their general perceptions. The Bank of Tokyo has been quite successful in Canada and is developing their business aggressively to attract Canadian clients in Canada.

They do not have an organized mergers and acquisitions department in Canada but act for others on a "request" basis for their clientele in Canada and Japan.

They too suggested that we make contact with the Toronto office for Business/Investment development purposes.

Action:

1. Send all promotional material to Tokyo and Toronto.

2. Maintain and develop corporate liaison in Japan and Canada.

THE BANK OF TOKYO, LTD.

Established: December 17, 1946 (¥50,000,000)
Capital Stock: ¥80,000,000,000 (April 30, 1977)
Address: 6-3, Nihonbashi Hongokucho 1-chome, Chuo-ku, Tokyo 103
Telephone: Tokyo (03) 245-1111
Cable Address: TOHBANK
Telex Number: J22220

GENERAL

BOOKS CLOSED: Mar. 31
FUND SOURCES (term ended Sept. 30, 1984)
deposits 80%, debentures 20%

BACKGROUND

Established as successor to Yokohama Specie Bank, 1946; Y.S.B. founded as national bank, 1880 and appointed Foreign Exchange Special Bank, 1887. With enactment of Foreign Exchange Bank Law in 1954, Bank of Tokyo was granted exclusive license to specialize in international finance. The Bank of Tokyo enjoys the largest share in the volume of foreign exchange dealings and acts as the fiscal agent or the paying agent for all Japanese Government and Government-guaranteed bonds. Trade and investment information services strengthened in New York, Seattle, Portland, Buenos Aires, London, Düsseldorf, Bangkok, Kuala Lumpur, Singapore, Hong Kong, San Francisco, Los Angeles, São Paulo.

Branch and Sub-Branch Offices Abroad: 51 across the world.

Representative Offices Abroad: 25 across the world.

Major Subsidiaries and Associated Institutions Abroad (head offices): California First Bank (San Francisco), Bank of Tokyo Trust Co. (New York), Chicago-Tokyo Bank (Chicago), Bank of Tokyo International U.S.A. (Florida), Tokyo Bancorp International (Houston) Inc. (Houston), Bank of Tokyo Canada (Toronto), Bank of Tokyo (Panama) S.A. (Panama), Banco de Tokyo S/A (São Paulo), Bank of Tokyo (Curacao) Holding N.V (Curacao), Bank of Tokyo (Switzerland) Ltd. (Zürich), Bank of Tokyo (Holland) N.V. (Amsterdam), Banque Européenne de Tokyo S.A. (Paris), Bank of Tokyo (Luxemburg) S.A. (Luxemburg), Bank of Tokyo (Deutschland) A.G. (Frankfurt), Bank of Tokyo International Ltd. (London), Saudi International Bank (London), Bank of Tokyo Holding S.A. (Luxemburg), Bangkok Tokyo Finance and Securities Co., Ltd. (Bangkok), Singapore-Japan Merchant Bank Ltd. (Singapore), BOT International (H.K.) Ltd. (Hong Kong), Kincheng-Tokyo Finance Co., Ltd. (Hong Kong), Uban International Ltd. (Hong Kong), BOT Australia Ltd. (Sydney), Beneficial Finance Corp. Ltd. (Adelaide), Partnership Pacific Ltd. (Sydney)

OFFICERS (June 30, 1984)

Chairman: Yusuke Kashiwagi
President: Yasushi Watanabe
Deputy Presidents: Minoru Inoue, Toshio Nagamura
Senior Managing Director: Shotaro Tanaka
Managing Directors: Juichiro Yokoyama, Tomoo Miyazaki, Osamu Kogure, Kanji Goto, Jiro Ishizaka, Masanao Shinpuku, Shin-ichi Kinoshita, Eiichi Matsumoto, Tsunamasa Kikui, Tasuku Takagaki, Kikuo Nishida, Ryoichi Takata
Other Officers: 16 Directors, 5 Auditors

EMPLOYEES (Mar. 31, 1984)

	Male	Female	Total
Number:	3,230	2,561	5,791
Average Age:	38	28	34
Average Monthly Pay (¥):	352,390	183,755	270,723

STOCK (Mar. 31, 1984)

Authorized: 2,400,000,000 shrs. Par Value: ¥50
Issued Total: 1,600,000,000 shrs. Stockholders: 20,270
Owned by Foreigners: 30,770,000 shrs. (1.9%)
Listed: Tokyo, Osaka & 4 others

Major Stockholders	shrs. (thousand)	%
Meiji Mutual Life Insurance	101,266	6.3
Nippon Life Insurance	94,740	5.9
Dai-ichi Mutual Life Insurance	88,777	5.5
Taiyo Mutual Life Insurance	44,000	2.8
Mitsubishi Corp.	34,300	2.1

Recent Capital Increase (¥ million)

REOPEN	700	3/73 1:0.3 & P.O.	40,000
7/61 1:1	10,000	7/75 1:0.45(5%G.)	60,000
12/64 1:1	20,000	4/77 3:1	80,000
5/72 1:0.5	30,000		

Underwriters: Yamaichi, Nomura, Daiwa, Nikko, Sanyo

BALANCE SHEET (¥ million)

	Mar. '84	Mar. '83
ASSETS		
Cash & Due from Banks	2,596,955	2,735,181
Call Loans	987,192	1,100,985
Securities	1,550,697	1,415,657
Loans & Bills Discounted	6,698,186	6,469,511
Foreign Exchanges	1,294,534	1,542,345
Domestic Exchange Settlement A/C	61,683	–
Customer's Liabilities for Acceptances & Guarantees	2,703,552	2,737,349
Bank Premises & Real Estate	55,483	56,437
Others	254,453	310,773
Total	16,202,439	16,368,241
LIABILITIES		
Deposits	7,223,885	7,658,756
Debentures	2,146,070	1,135,204
Call Money	900,521	877,782
Borrowed Money	945,484	1,049,022
Foreign Exchanges	233,750	173,338
Domestic Exchange Settlement A/C	68,099	
Acceptances & Guarantees	2,703,552	2,737,349
Others	327,884	383,113
Total	15,938,652	16,121,839
CAPITAL	263,787	246,401
Capital Paid-up	80,000	80,000
Capital Stock Subscribed	–	–
Legal Reserves	24,638	22,718
Surplus	159,149	143,683
General Reserve	129,714	–
Other Reserves	–	–
Undivided Earned Surplus	29,434	24,330

PROFIT & LOSS STATEMENT (¥ million)

	Mar. '84	Mar. '83
Income	1,213,366	1,493,068
Interests on Loans	552,249	605,062
Interests & Dividends on Securities	116,336	108,727
Fees & Commissions	–	–
Others	544,781	779,279
Expenses	1,150,906	1,442,613
Interests on Deposits	579,927	769,731
Interests on Borrowings	85,827	–
Operating Expenses	99,778	98,420
Others	385,374	574,462
Ordinary Profit	62,459	50,455
Special Profit	19	72
Special Loss	626	108
Transfer to/from Reserves	–	472
Pre-tax Income	61,852	50,891
Corporate Income Taxes	34,717	26,561
Net Profit	27,135	24,330
DEPRECIATION	4,395	4,417

Note: Items of minor accounts are omitted.

RATIOS	Mar. '84	Mar. '83	Mar. '82	Mar. '81	Sept. '80	Mar. '80
PER SHARE DATA, ETC.						
Earnings/Share (¥)	16.96	15.20	14.49	13.18	12.17	9.03
Earnings/Share Adjusted (¥)	–	–	–	–	–	–
Dividend/Share (¥)	6.00	6.00	5.00	5.00	5.00	5.00
Book Value/Share (¥)	164.87	154.00	144.13	134.69	130.64	127.09
P.E.R. (Times)	29.13	19.41	20.29	15.55	16.76	23.48
FINANCIAL POSITION ANALYSIS						
Profitability (%)						
Net Profit/Total Assets	–	–	–	–	–	–
Gross Profit/Sales	–	–	–	–	–	–
Operating Profit/Sales	–	–	–	–	–	–
Ordinary Profit/Sales	–	–	–	–	–	–
Net Profit/Sales	–	–	–	–	–	–
Dividend Payout Ratio	35.38	39.46	37.95	37.94	41.09	55.35
Net Profit/Equity	10.64	10.20	10.39	9.93	9.44	7.16
Stability (%)						
Fixed Assets/Capitalization	–	–	–	–	–	–
Liquidities (Months)	–	–	–	–	–	–
Debt/Total Assets	–	–	–	–	–	–
Net Interest Cost/Sales	–	–	–	–	–	–
Turnover						
Sales/Total Assets (Times)	–	–	–	–	–	–
Sales/Tangible Fixed Assets (Times)	–	–	–	–	–	–
Sales/Stockholders' Equity (Times)	–	–	–	–	–	–
Accounts Receivables/Sales (Months)	–	–	–	–	–	–
Inventories/Sales (Months)	–	–	–	–	–	–
Finished Goods/Sales (Months)	–	–	–	–	–	–

TEN-YEAR REVIEW

Fiscal Year	Income (¥ million)	Ordinary Profit (¥ million)	Net Profit (¥ million)	Earnings/ Share (¥)	Dividend (%)	Stock Price Range (¥)
1983	1,213,366	62,459	29,135	17.0	12	311–289
1982	1,493,068	50,455	24,330	15.2	12	306–288
1981	1,445,254	50,693	23,186	14.5	11	304–204
1980	1,010,772	49,512	20,276	12.7	10	229–202
1979	785,624	33,049	15,970	10.0	10	240–200
1978	492,556	39,068	17,627	11.0	10	204–179
1977	457,867	39,365	18,574	12.0	10	274–256
1976	499,035	40,418	19,491	16.0	10	265–208
1975	517,211	31,710	17,034	15.0	10	269–200
1974	577,604	37,890	15,102	19.0	10	319–185

DIAMOND'S COMMENT

The Bank of Tokyo is the only Japanese financial institution specializing in the foreign exchange business. The bank has been given "Triple A" rating in the U.S. securities word.

With almost 300 branches, agencies, representative offices, subsidiaries and associated institutions located throughout the world, the bank is well-known in foreign financial and trade circles. The bank handles about 30% of Japan's total foreign trade. At the same time, it is placing emphasis on retail banking services at its domestic branches, though their number is still small. It is authorized to issue bonds for fund-raising.

Since a revision of the foreign exchange control law at the end of 1980, competition in foreign exchange business has intensified more than ever. As a result, the bank has lost the predominant position it had built as a specialized foreign exchange bank, and its trade financing business has leveled off. The bank is endeavoring to further expand its international business. It has provided the Canadian Government ¥120,000 million and played an important role in the Japanese Government's extention of yen loans to China. Profits on international transactions account for 80% of its total. Those profits for the half-year period ended September 30, 1984, totaled ¥68,398 million, up 5.7% from the previous corresponding period.

As the Japanese economy becomes more and more internationalized, the bank is expected to display its strength further as a bank specialializing foreign exchange business. Income for the annual term ending March 31,1985, is estimated at ¥1,250,000 million, bringing in ordinary profits of ¥67,000 million.

NOTE 7

Association: Japan Small Business Corporation

Date: September 9, 1985

Attended:
- Seiichiro Tanaka, Vice President
- Kazuo Noguchi, * Deputy Director
  International Business Affairs Office
  Infomation and Research Department
- Mutsushi Ibuki, Assistant Director
  International Business Affairs Office
  Information and Research Department
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

* On loan from Bank of Tokyo

Summary

We met with the Japan Small Business Corp., a government sponsored association representing small business interests, to identify if there were any areas of common interest where we might develop a working relationaship.

Language proved to be a barrier in dealing with the JSBC, however we managed to uncover two possible options which we should explore more fully with them the next time we meet.

One is to access their newsletter of 30,000 small business subscribers as a method of communicating Canada's new investment invironment and related opportunities. Secondly is to tie in with their program of promoting technology transfer between Japanese companies and abroad.

We agreed that an exchange of information would be useful between the two companies.

Action Plan

1. Investigate newsletter option and technology transfer program

2. Send Canadain Edge and promotional material.

GUIDE to JAPAN SMALL BUSINESS CORPORATION

Outline of the Japan Small Business Corporation

Small and medium enterprises in Japan are playing a significant role in the Japanese economy. Nevertheless, they suffer various disparities which include limited financing and information collecting capabilities and technology in comparison to large enterprises. In order for the small and medium enterprises to develop, needless to say, it is necessary to eliminate such limitations and encourage self-help efforts by the enterprises themselves. However, efforts by small and medium enterprises alone will incur many difficulties.

In view of the above, the Government has drawn up various measures to achieve modernization, structural strengthening, and management and technological improvements of small and medium enterprises.

The Japan Small Business Corporation was established in accordance with the Small Business Corporation Law to serve as a comprehensive implementing body of measures directed toward small and medium enterprises. The work of the Corporation may be roughly divided into the following five categories:

1. Guidance and financing for the structural upgrading project of small and medium enterprises
2. Personnel training for small and medium enterprises
3. Provision of information for small and medium enterprises
4. Management of the small-scale enterprises mutual relief system
5. Management of the small and medium enterprise mutual relief system for preventing chain-reaction bankruptcies

The outline of the Japan Small Business Corporation is as follows:

Funds: ¥810.7 billion (100% funded by the Government, as of March 31, 1983)

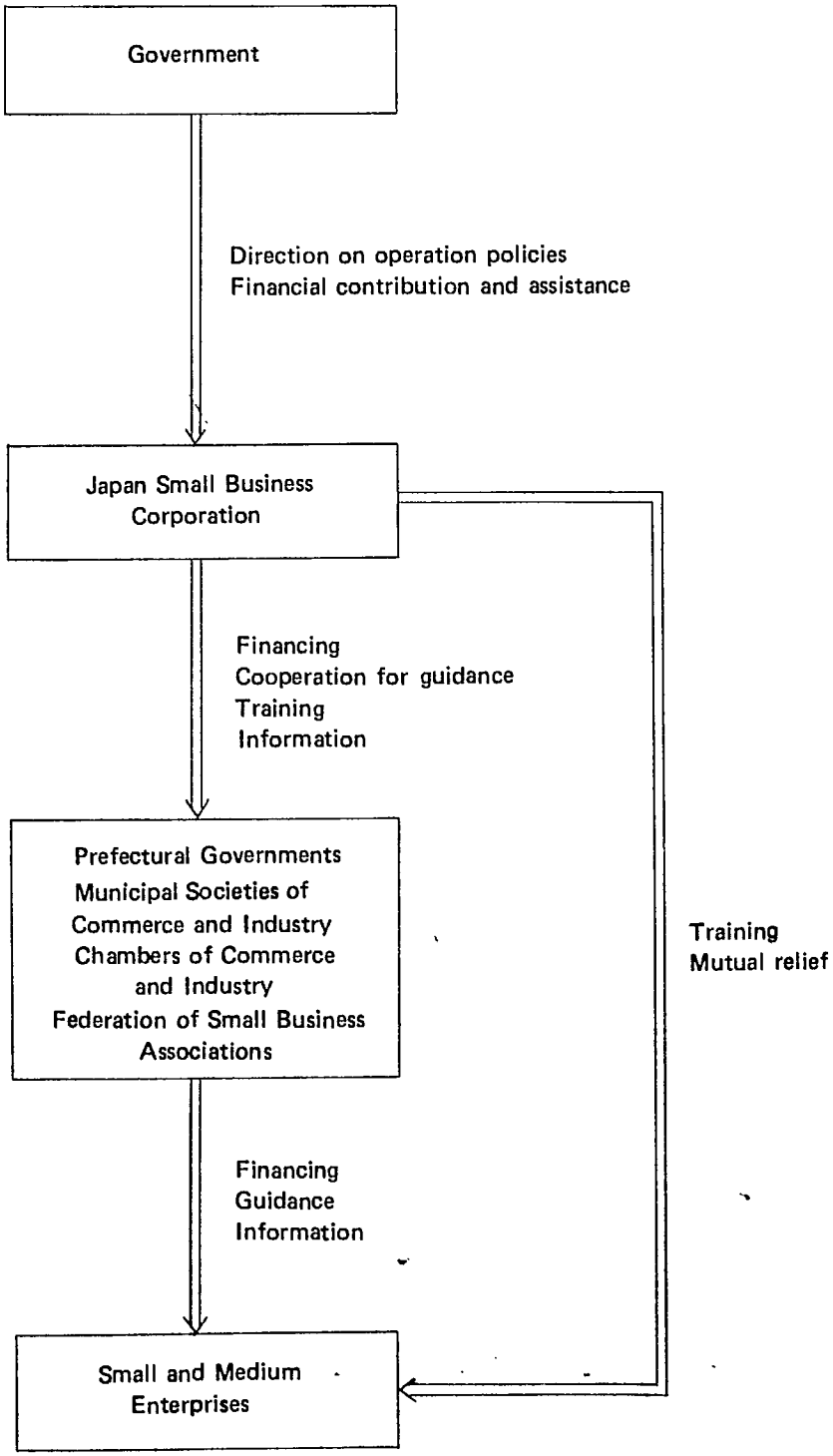
Balance of loans for the structural strengthening of small and medium enterprises: ¥832.2 billion (as of March 31, 1983)

Number of persons trained at the Institute of the Japan Small Business Corporation: 55,291 (as of March 31, 1983)

Number of subscribers in the small-scale enterprises mutual relief system: 1,211,614 (as of March 31, 1983)

Number of subscribers in the small and medium enterprise mutual relief system for preventing chain-reaction bankruptcies: 52,064 (as of March 31, 1983)

Flow of Operations



III. Provision of Information for Small and Medium Enterprises

1. Information Services

The collection and utilization of information for small and medium business management is increasing in importance with the advancement of an information-based society. However, in reality, the discrepancy between large and small businesses as well as between large cities and local areas is expanding in terms of the collection of information and application capabilities in the former case and opportunities in the latter case.

In consideration of this situation, the Corporation has established the Small Business Information Center in order to correct the imbalance. The Center collects information useful for small and medium business management, and disseminates the information after processing it into simpler and clearer forms facilitating better understanding for readers. Moreover, with an aim to justify regional discrepancies, the Corporation is improving its system to allow timely provisions of collected information to local small and medium enterprises by means of on-line systems, etc., through joint collaboration with regional information centers located in each prefecture.

In addition, assistance for overseas investment by small and medium enterprises are also offered by the Center.

1. Information Servic...

(1) Collection of information

a) The center selects the information required by small and medium enterprises and edits the information so that readers may have a better understanding. The information thus collected is stored in a computer (SMIRS = ~~Small Business Management Information System~~ = Data Base).

b) The center conducts various research activities on the characteristics and environment of small and medium business management.

Small and Medium Enterprise Information Research System

(2) Information dissemination

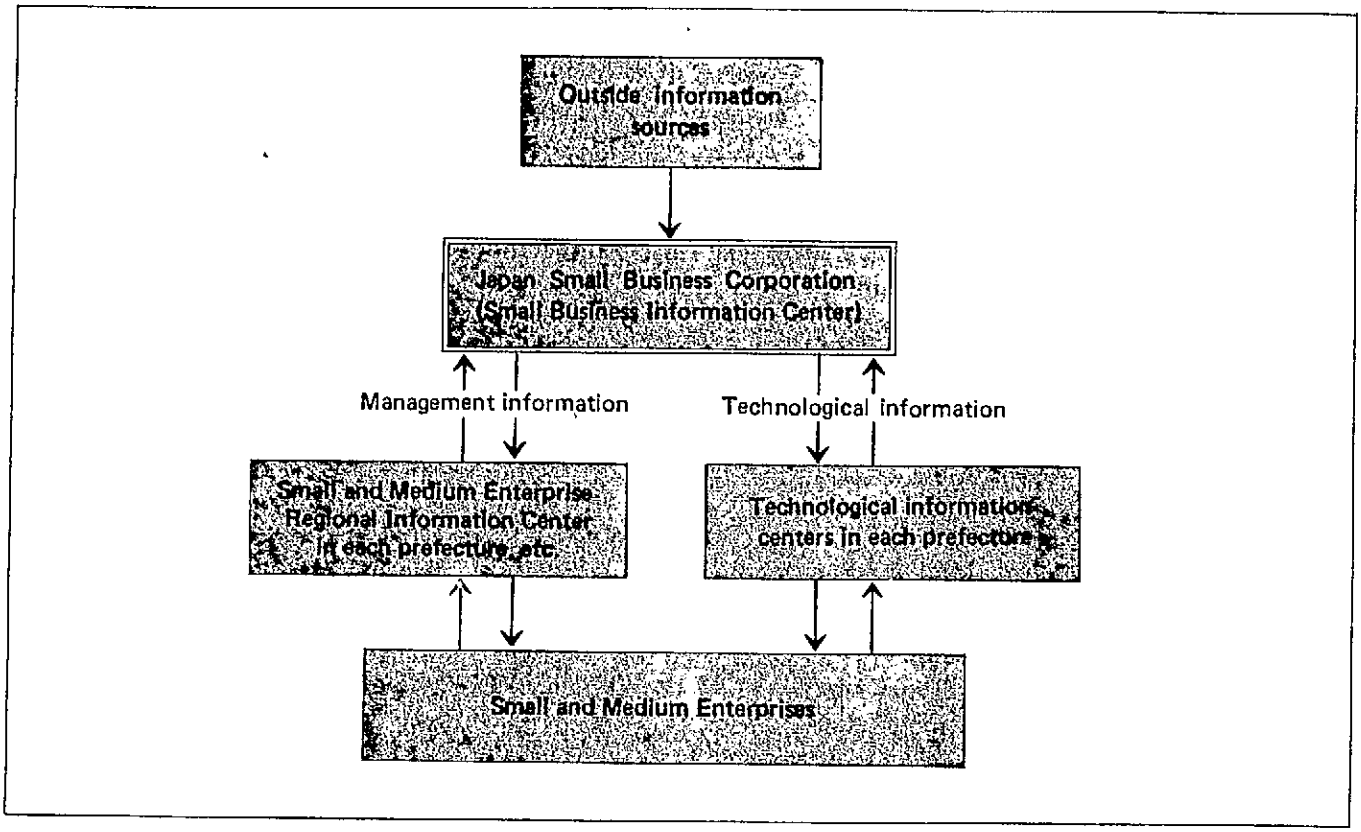
a) Publication services
A list and digest versions of collected information are published regularly.

b) Request services
In collaboration with regional information centers, the Center offers responses to information inquiries made by small and medium enterprises.

(3) Promotion of information activities

With an aim to support information activities of small and medium enterprises, the Center is working on studies and research activities to improve the information dissemination network and the efficiency of information usage.

Information Dissemination Network



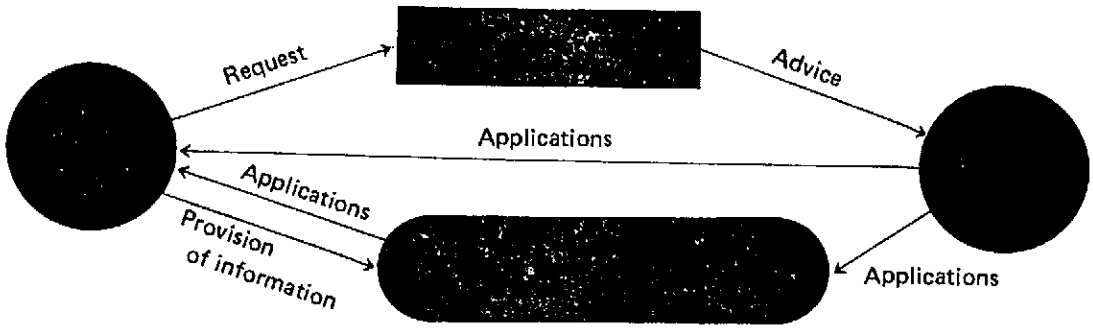
2. Support for Overseas Investment

For the promotion of smooth overseas investment by small and medium enterprises, the Center is offering support in various aspects which include collection and dissemination of information which tend to be lacking in their business as well as guidance and research.

To achieve this end, personnel with overseas business experience are registered at the Center as advisors to provide practical information and know-how on overseas activities to small and medium enterprises upon their request.

In addition, to supplement advisory activities, the Center is engaged in the following: publication of an information journal on investment; indexing of collected information; and investigation of overseas investment.

Advisory System



2. Development and Transfer of Technology

For the purpose of improving the technological capabilities of small and medium enterprises, the Corporation is engaged in activities related to the development of machinery equipment. Furthermore, the Corporation is promoting technology transfer to small and medium enterprises and makes available to them the study results accumulated in various fields.

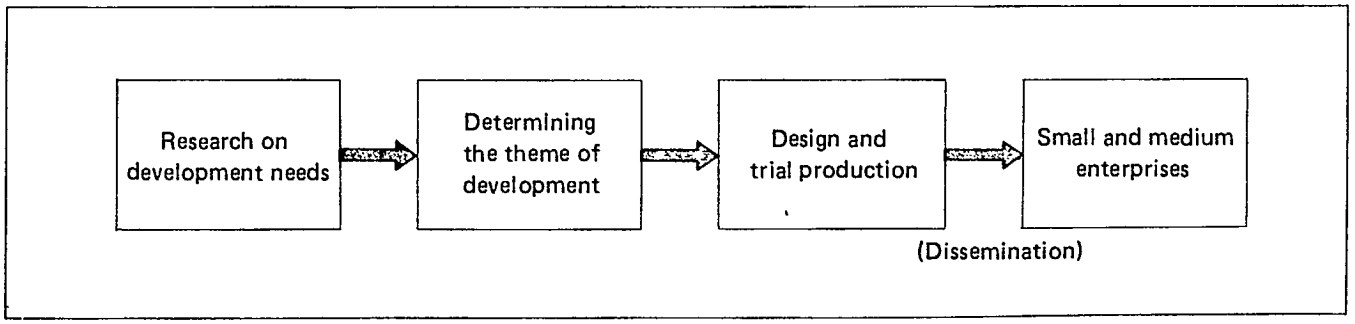
1. Development of Machinery Equipment

In order to meet the current technological requirements of small and medium enterprises, the Corporation both studies and develops machinery equipment under the following themes:

(1) Development of machinery equipment in response to the requirements of small and medium industry groups.
(2) Development of machinery equipment in response to the requirements of local small and medium industries.
(3) Research and development activities for the commercialization of the study results obtained by public research and testing institutions.
(4) Technological development in response to the requirements of small and medium industry groups based on a long-term vision.
(5) Development of energy technology for the purpose of promoting the efficient utilization of energy in small and medium enterprises.
(6) Technological development under advanced development themes for the purpose of vitalizing local small and medium enterprises.

In order to carry out the above activities, the Corporation conducts development activities related to design studies, trial production, and operational studies. Furthermore, practical development and studies are entrusted to the appropriate enterprises or organizations selected from among public applicants. The study results thus generated are widely disseminated among small and medium enterprises in the form of orientations as well as demonstrations for various industry groups, and others.

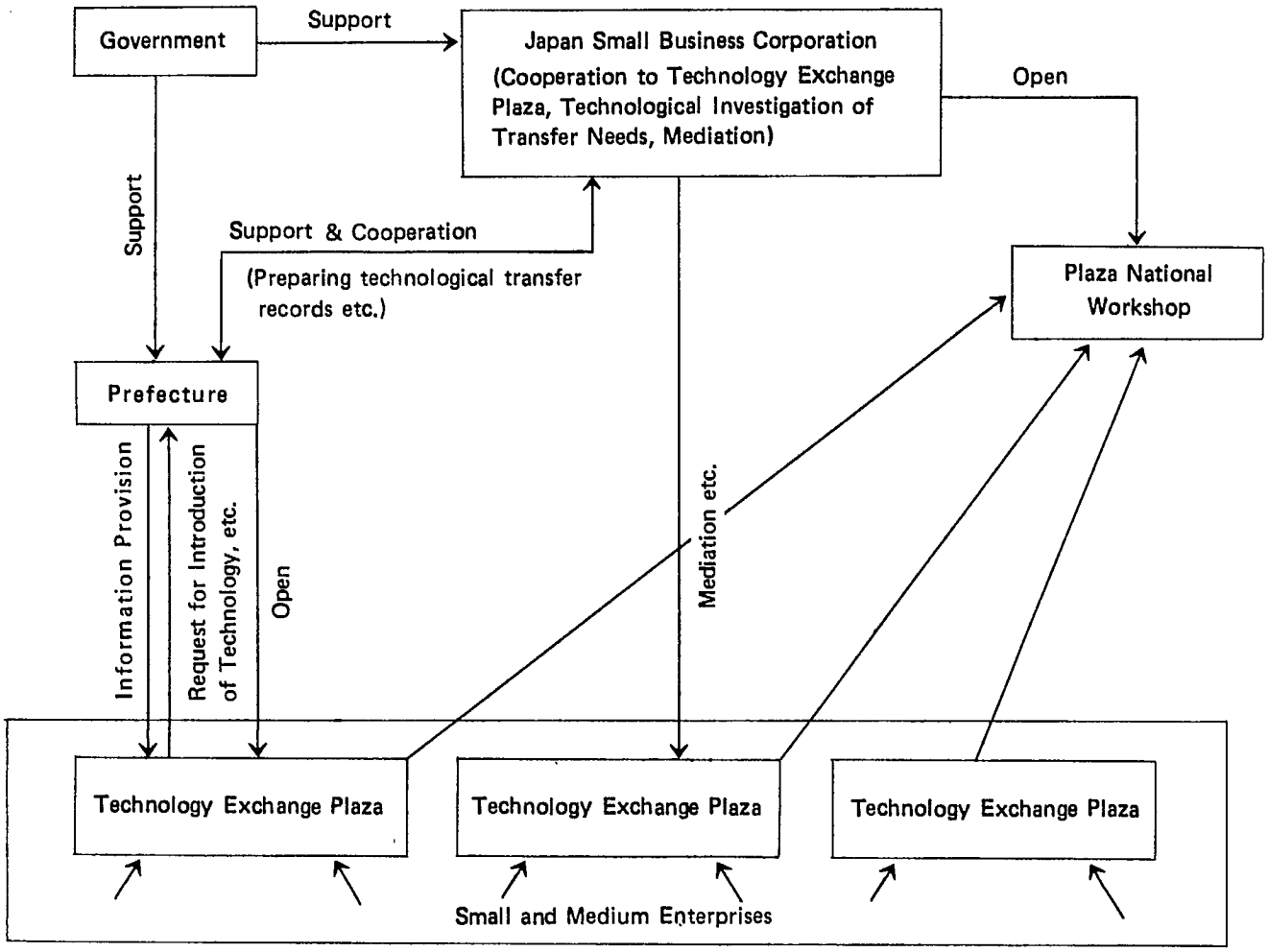
Operational Flow for the Development of Machinery Equipment



2. Technology Transfer

The Corporation is promoting the exchange of technology among and technology transfer to small and medium enterprises, so that the existing technologies may be best applied in the development and production of new products with high value added. In this regard, the Corporation extends assistance and cooperation to the "Technology Exchange Plaza" which is operated by the prefectural governments and organizations in charge of guiding small and medium enterprises. These activities aim at analyzing and discussing technological issues among regionally organized small and medium enterprise groups who are interested in improving their technology. In addition to the above-mentioned activities, the Corporation introduces or assists in providing the necessary technologies for small and medium enterprises requiring such introduction or provision. This activity is carried out in the form of cooperation with prefectural governments.

System of Technology Transfer and Technology Exchange Promotion



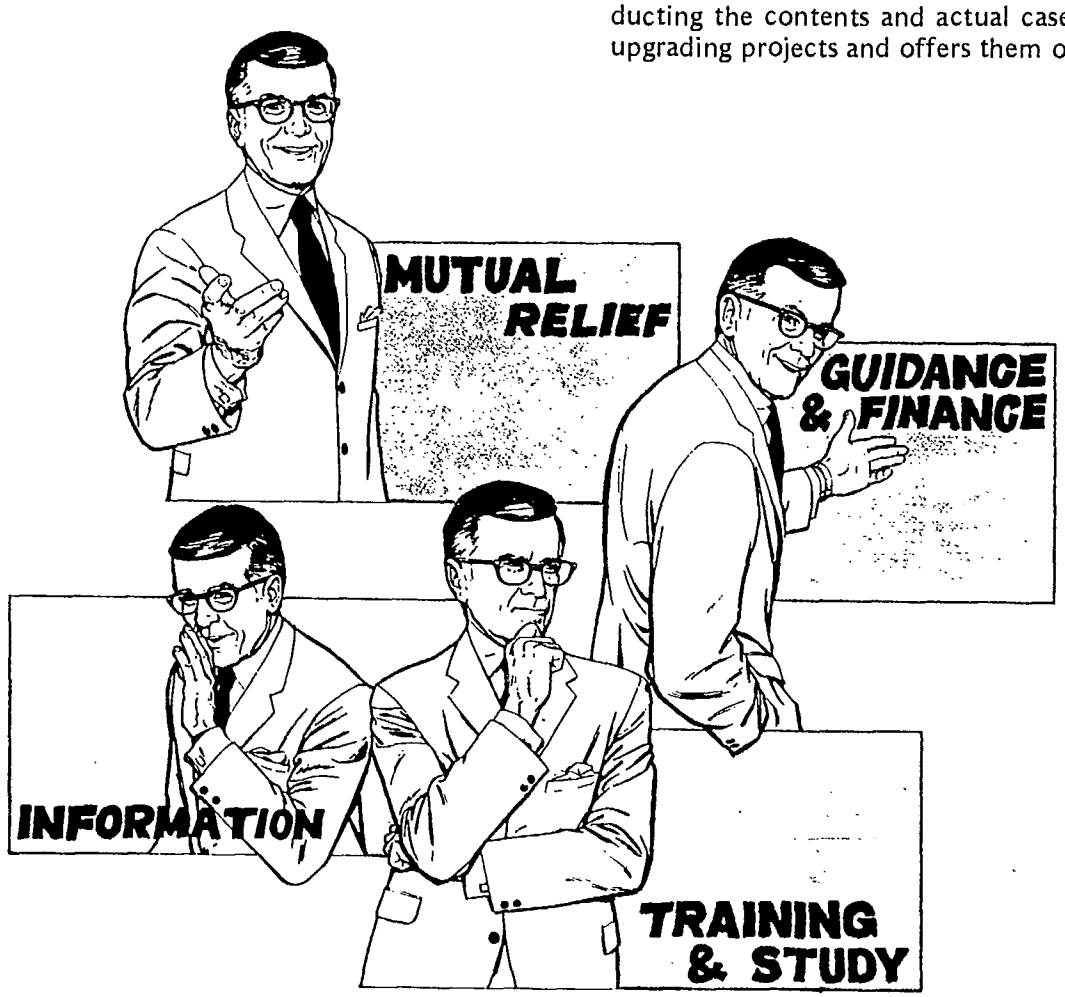
Others

The Corporation publishes a newsletter twice a month for the purpose of providing small and medium enterprises or organizations in charge of guiding small and medium enterprises with information in terms of policy on small and medium enterprises as well as information useful for their business management.

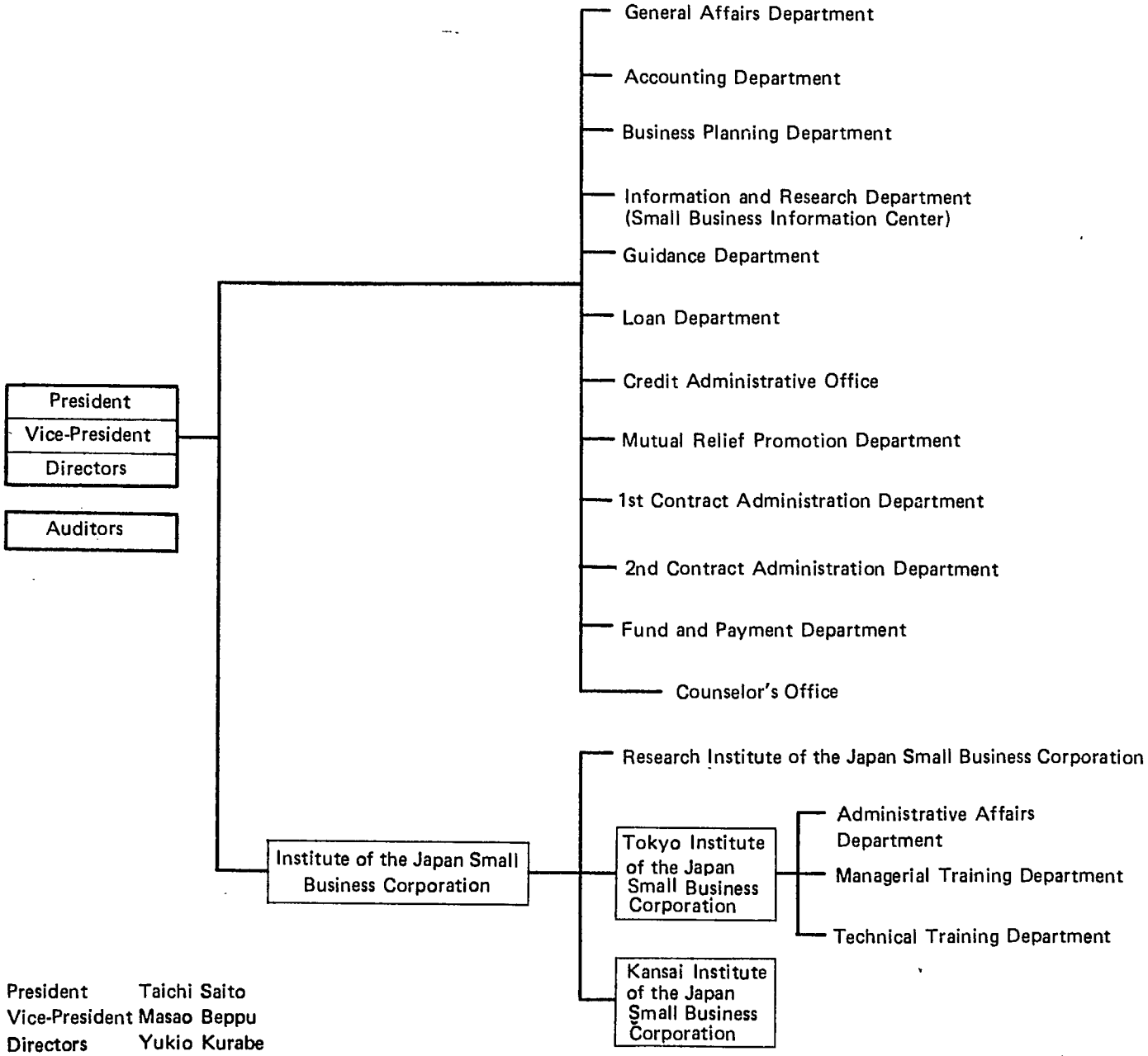
The Corporation holds lecture meetings and seminars inviting prominent lecturers in order for small and medium enterprises to deepen their recognition concerning the problems they face, thus assisting them in problem-solving activities.

The Corporation publishes pamphlets introducing structural upgrading projects and illustrates the methods of implementing such projects.

The Corporation produces films (16mm) introducting the contents and actual cases of structural upgrading projects and offers them on a loan basis.



Organization of the Japan Small Business Corporation

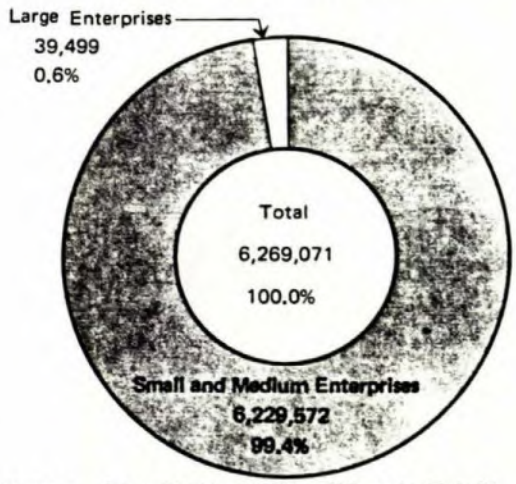


President Taichi Saito
Vice-President Masao Beppu
Directors Yukio Kurabe
Masao Kobayashi
Masakazu Ue
Akira Tahara
Director & President of the Institute of the Japan Small Business Corporation
Mitsugu Ibano
Auditors Hajime Ohshima
Saburo Ohmura

Japanese small and medium enterprises dominate the economy, accounting for 99.4% of all the private non-primary business establishments and 81.4% of the employment. In regard to economic activities, they constitute 51.2% of the shipment value in manufacturing, 61.5% of sales in the wholesale industry, and 79.2% of sales in the retail industry. Thus, they have an important role to play in the Japanese economy.

1. Share of Small and Medium Enterprises in the Number of Business Establishments

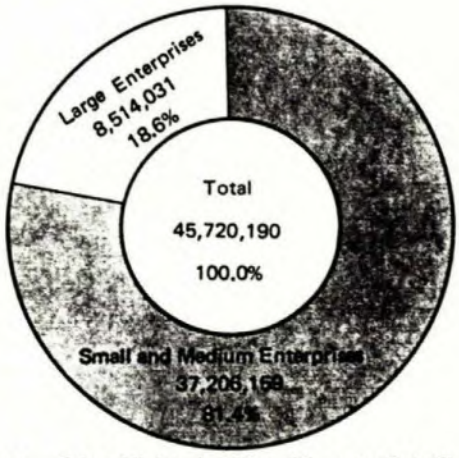
(Non-primary Business) (1981)



Source: Prime Minister's Office, "Jigyosho Tokei" (Statistics on Business Establishments)

2. Share of Small and Medium Enterprises in the Number of Employees

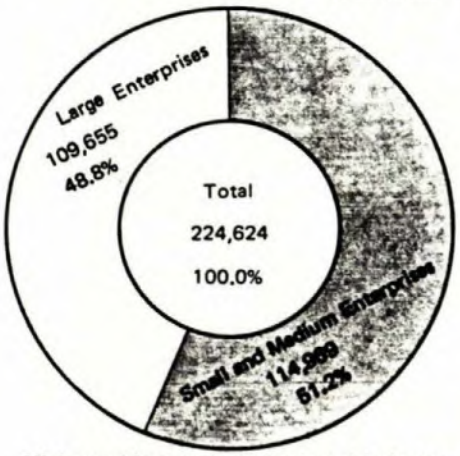
(Non-primary Business) (1981)



Source: Prime Minister's Office, "Jigyosho Tokei" (Statistics on Business Establishments)

3. Share of the Small and Medium Enterprises in the Shipment Value in the Manufacturing Industry

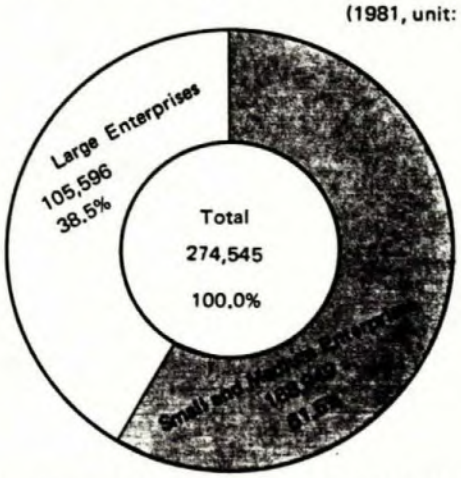
(1981, unit: ¥billion)



Source: Ministry of International Trade and Industry, "Kogyo Tokei Hyo"

4. Share of Small and Medium Enterprises in the Sales of the Wholesale Industry

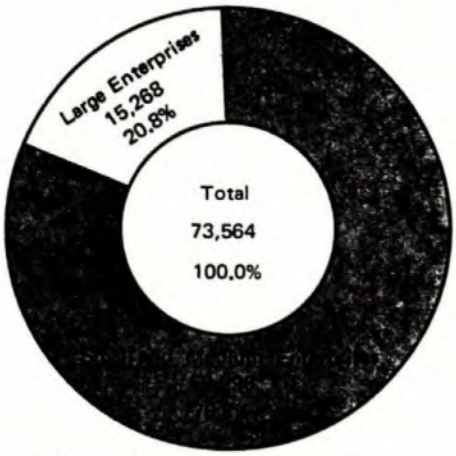
(1981, unit: ¥billion)



Source: Ministry of International Trade and Industry, "Shogyo Tokei Hyo"

5. Share of Small and Medium Enterprises in the Annual Sales of the Retail Industry

(1979, unit: ¥ billion)



Source: Ministry of International Trade and Industry, "Shogyo Tokei Hyo"

'Small and Medium Enterprises' and 'Small Businesses' are defined below by type of industry.

(1) Definition of 'Small and Medium Enterprises'

Type of Industry	No. of Employees and Scale of Capital
Manufacturing, mining, etc.	not more than 300 employees or ¥100 million
Wholesale industry	not more than 100 employees or ¥30 million
Retail and service industries	not more than 50 employees or ¥10 million

(2) Definition of 'Small - Scale Enterprises'

Type of Industry	No. of Employees
Manufacturing, etc.	not more than 20 employees
Commerce, Service	not more than 5 employees

Source: Fundamental Law on Small and Medium Enterprises

NOTE 8

Association: JETRO

Date: September 9, 1985

Attended:
- Jun Shimura, Executive Director
- Iwamoto, Director, Information Service Division and Investment Promotion Division*
- Takayuki Hiraio, Project Director, Machinery and Technology Department
- Y. Kobayashi, Investment Promotion Divisions
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

* in Toronto JETRO office for 3 years

Summary

JETRO is a key player for Canadian investment development efforts. JETRO's role is to promote international trade and other activities including personnel and technology exchanges, industrial co-operation and investment. JETRO is sponsored by Japanese businesses and the Japanese government and is under the jurisdiction of MITI.

JETRO has a network of 31 offices in Japan and 77 offices in 58 countries throughout the world. JETRO has four offices in Canada, Toronto, Montreal, Edmonton, and Vancouver with the major office in Toronto. Recently JETRO has announced its opening of a Center for Industrial and Technological Co-operation (CITEC).

The purpose of CITEC is to help channel Japanese funds into Canadian industry and technology and to encourage capital investment in the Japanese industrial and technological marketplace by Canadian investors. A second goal is to foster greater industrial co-operation between these two important lending partners through increased technology exchange and joint ventures.

CITEC's services will include the preparation of an annual list of potential Japanese investors, consulting and advisory services, seminars ,and co-ordinating visits to Japan. To help implement CITEC's activities JETRO has set up a committee of prominent Japanese companies to act as an advisory board.

JETRO are also preparing an inventory of Canadian companies doing business with Japan.

Services in Japan

JETRO is the research centre of first choice for many Japanese companies. They have an extensive library and provide an excellent counselling service. They have a wide selection of brochures on each jurisdiction.

JETRO has a registry system with over 6,000 companies of whom 1,500 are registered as full investment members. Each year they publish a directory of these companies and indicate what type of investment they are looking for, in what sectors and in what countries.

JETRO's overseas offices also serve as a point of contact for companies interested in doing business with Japanese companies.

JETRO also publishes a monthly newsletter where information can be accessed

The CITEC office must be examined in more detail to see what the service will really mean for Canadian companies.

Japanese Investment Trends

According to JETRO, Japan is now interested in investement opportunities in developed countries, partly in response to protection measures to secure markets, but also due to their shift in focus towards more high technology companies which require a sophisticated well educated workforce.

They indicated that visual support from the government is very important to the Japanese, which not only includes a welcome attitude but a generous provision of incentives. They felt inconsistency and change in government policy has the most negative impact.

Investment Promoton

JETRO stressed "frequency" - repeat presentation is very important. They felt Canada has a distance to go in terms of presenting a very positive image. They indicated that the investment promotion job is very "wide" and that we should undertake our activities not only in Japan with events like Keidanran presentations but also in Canada meeting with Japanese interests including representatives and distributors.

Action

1. Visit JETRO office in Toronto - find out more about CITEC and how it plays a role.

2. Keep JETRO activities (especially in Japan and Canada) up to date with literature and other promotional materials, including revised data base.

3. Advise Canadian companies on how to use JETRO.

The Japan External Trade Organization (JETRO)'s primary aim is to promote international trade in line with the Japanese government's policy of free trade, thus deepen mutual international understanding.

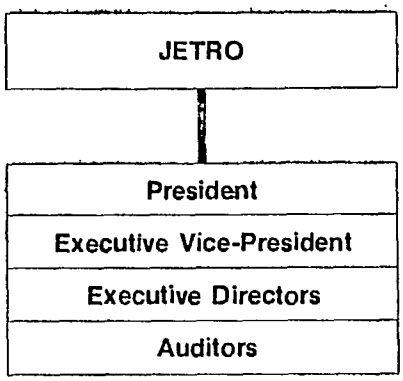
An integrated, non-profit, trade promotional body, JETRO is committed to taking the initiative in promoting two-way trade and other activities, including personnel and technology exchanges, and industrial cooperation and investment, under the jurisdiction of the Ministry of International Trade and Industry (MITI).

With world free trade currently going through a difficult period, JETRO is further increasing efforts to improve international cooperation through its activities.

Organization

JETRO Domestic Offices

Tokyo	Nagano	Fukui	Tokushima
Osaka	Suwa	Kobe	Fukuoka
Sapporo	Yokohama	Okayama	Kitakyushu
Aomori	Shimizu	Hiroshima	Nagasaki
Morioka	Nagoya	Matsue	Kumamoto
Sendai	Tsu	Shimonoseki	Kagoshima
Yamagata	Toyama	Takamatsu	Naha
Niigata	Kanazawa	Kochi	



JETRO Overseas Offices

North America	**Oceania**	**Europe**	**Africa**
New York	Sydney	Paris	Cairo
Chicago	Melbourne	Marseille	Alger
Houston	Perth	London	Nairobi
Dallas	Auckland	Dublin	Dar es Salaam
Los Angeles		Hamburg	Harare
San Francisco	**Asia**	Dusseldorf	Johannesburg
Puerto Rico	New Delhi	Frankfurt	Kinshasa
Toronto	Karachi	Amsterdam	Douala
Montreal	Dhaka	Rotterdam	Lagos
Edmonton	Colombo	Bruxelles	Accra
Vancouver	Singapore	Copenhagen	Abidjan
	Jakarta	Stockholm	
Central & South America	Kuala Lumpur	Oslo	
Mexico	Bangkok	Zurich	
Panama	Hong Kong	Geneve	
Bogota	Manila	Milano	
Caracas	Seoul	Roma	
Quito		Athens	
Lima	**Middle East**	Madrid	
Santiago	Istanbul	Lisbon	
Sao Paulo	Baghdad	Wien	
Rio De Janeiro	Teheran	Warszawa	
Buenos Aires	Dubai	Belgrade	
	Beirut*	Bucharest	
		Sofia	

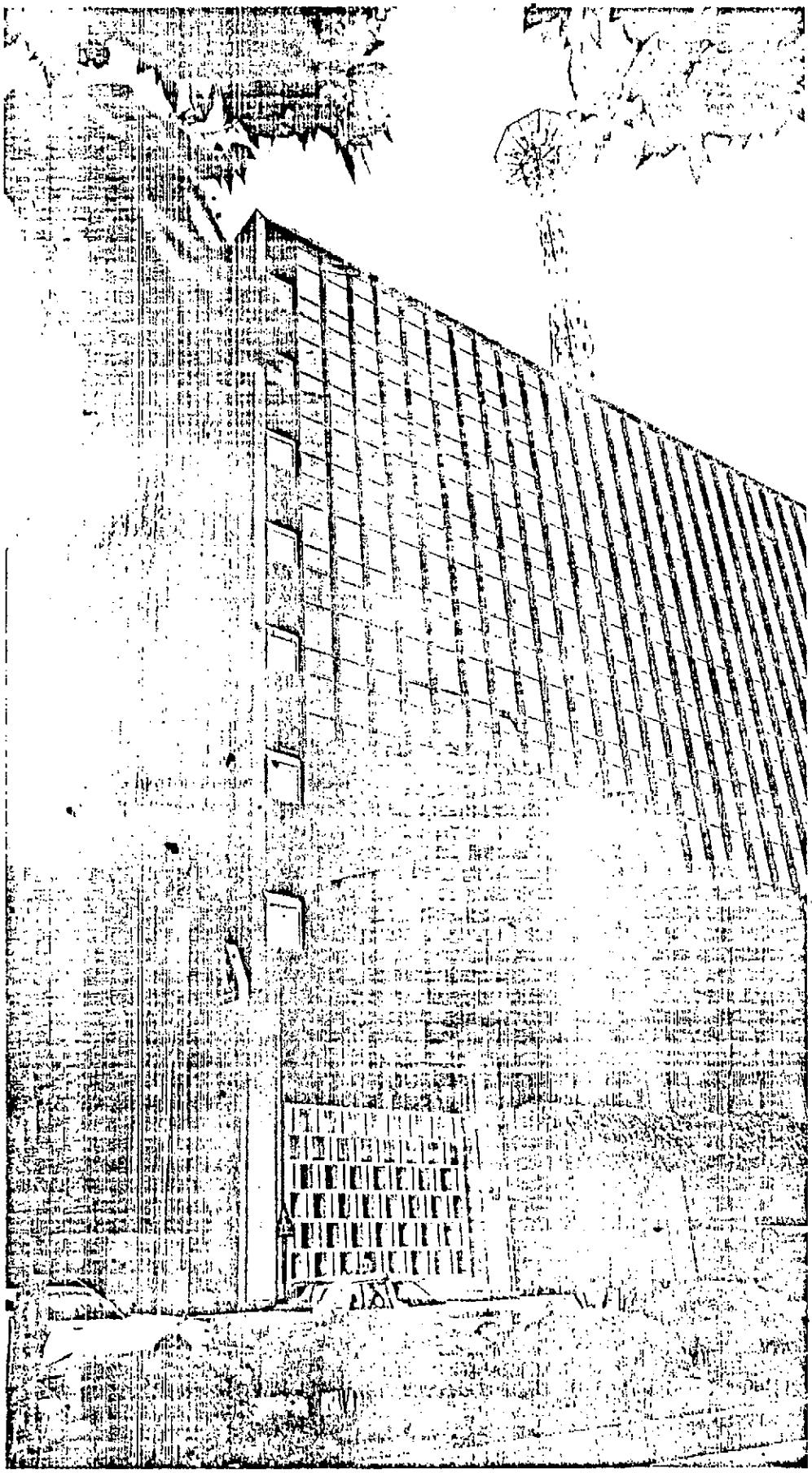
**Temporarily located in Cairo.*

JETRO has a network of 31 offices in Japan, and 77 offices in 58 countries throughout the world. Tokyo headquarters divides into 13 departments, incorporating 48 divisions. The Osaka office and the other 29 local offices liaise with local industries and prefectural governments as well as JETRO's overseas offices.

As of March 1983, JETRO employed about 1,200 people at its domestic and overseas offices. This breaks down into 600 employees in Japan, 300 assigned overseas, and the remainder locally hired.

JETRO, capitalized at ¥10.2 billion, operates under the jurisdiction of the Ministry of International Trade and Industry (MITI). Total budget for fiscal 1983 (April 1983 to March 1984) is about US$100 million, about US$60 million of which is financed by MITI.

History



JETRO Headquarters, Tokyo

JETRO has been promoting friendly ties with the world, under Japanese government policy, since its foundation in February 1951 under the name, the Japan Export Trade Research Organization. Its original responsibility was overseas market research. Since then, JETRO has continuously modified its activities to deal with changes in Japan and the world economy.

The original name was changed to the Japan External Trade Recovery Organization in August 1954, and JETRO's responsibilities extended to displaying Japanese products at exhibitions and fairs, and providing a trade-related inquiry service.

In July 1958 the name was changed again, to the Japan Export Trade Promotion Agency, the new organization's responsibilities being extended to carrying out public relations activities. This organization was established as an integrated government trade promotional body at the 28th ordinary session of the Diet in 1958, under the Japan External Trade Organization Law. This law permits the Japanese government to finance capitalization of JETRO as a governmental agency.

Further progress under Japan's free trade system and changes in the world economic situation led in January 1961 to JETRO's name being changed yet again, to its current form, the Japan External Trade Organization. Under its new name, JETRO has moved on from being just an export promotional body to become an integrated trade promotional organization. To fulfil this role, JETRO has been launching new efforts to encourage imports since June 1966.

Today finds JETRO devoted not only to promoting export-import trade, but also to fostering international cooperation, technology exchanges and investment with the world.

The Japan Trade Centre

Suite 700, 151 Bloor Street West, Toronto, Ontario, Canada M5S 1T7
Telephone (416) 962-5050

JETRO

The Japan External Trade Organization (JETRO)'s primary aim is to promote international trade in line with the Japanese government's policy of free trade, thus furthering mutual understanding.
An integrated, non-profit, trade promotional body, JETRO is committed to taking the initiative in promoting two-way trade and other related activities, including personnel and technology exchanges, and industrial cooperation and investment, under the jurisdiction of the Ministry of International Trade and Industry (MITI).
With world free trade currently going through a difficult period, JETRO is further increasing efforts to improve international cooperation through its activities.
In accordance with changes in the world economy, the role assigned to JETRO, which initially placed more emphasis on the promotion of exports from Japan, has come to encompass more varied functions.
JETRO promotes international trade by acting as an interface between overseas companies and their Japanese counterparts. JETRO informs overseas traders what Japan has to offer marketwise, and attempts to ensure trade relationships with Japan go smoothly. With a network of 77 offices in 58 countries, JETRO is well-equipped to serve overseas businessmen seeking to trade with their Japanese counterparts.

In Canada, JETRO has four offices: the main facility in Toronto (called The Japan Trade Centre) and smaller operations in Montreal, Edmonton, and Vancouver (called JETRO offices).

--ORGANIZATION OF THE JAPAN TRADE CENTRE, TORONTO--

Executive Director	General administration and public relations.
Deputy Executive Director	Administration and public relations.
Director of Energy and Technology	Research into Canadian technology development and energy projects, and providing information on Japanese technology.
Director of Research	General political/economic information gathering, market research, and providing statistical information on Japanese trade and economy.
Director of Industrial Machinery	Research into industrial/economic structure of North America relating to heavy machinery, and general information and public relations activities for Japanese industrial associations.
Director of Agriculture, Food & Fisheries	Information gathering on Canadian agri-food and fishery industries, and providing information on the Japanese market and distribution system for Canadian exporters.

ACTIVITIES OF THE JAPAN TRADE CENTRE

〈PUBLICATIONS〉

JETRO produces a large number of publications in English to help acquaint overseas businessmen with Japanese industry, business, and culture. Some of the titles available from our office are:

"Japan as an Export Market"
"The Japanese Consumer"
"Selling to Japan: A to Z"
"Focus Japan" (monthly periodical)
"Your Market in Japan:Office Automation Equipment
"Keys to Success in the Japanese Market"

〈FILMS AND VIDEOTAPES〉

In order to introduce the industry, economy, market, and culture of Japan, JETRO presents films for overseas audiences. They are widely distributed for showings to schools and business groups (more than 40,000 viewers last year across Canada) as well as for broadcast on television. Some of the titles are:

"Decision-Making in Japan"
"Where is the Real Japan?"
"The Japanese Attitude Toward Imports"
"Welcome to the Japanese Market"

〈SEMINARS AND SYMPOSIA〉

JETRO regularly sends Japanese opinion leaders and experts to speak at gatherings to inform businessmen about areas of interest. Recently, the following seminars were organized by the Japan Trade Centre in Toronto:

"Productivity and Quality Control--The Japanese Experience"
"Issues in Industrial Robotics"
"Small Business in Canada and Japan"

〈NEW PROGRAMS〉

In addition to the above-mentioned activities, JETRO offers various programs to support businessmen in exporting products to Japan.

BUSINESS CONSULTATION SYSTEM--A special system of consulting operated in cooperation with experts from Japanese trading companies in Canada, this program evaluates potential exporters' products and provides useful information on the market, distribution system, and consumers' tastes in Japan.

OFFICE OF THE TRADE OMBUDSMAN [O.T.O.]--An action desk created to deal with grievances related to the openness of the Japanese market, including import inspection procedures.

INDUSTRIAL COOPERATION & TECHNICAL INTERCHANGE--A project aimed at:(1)promoting industrial cooperation, (2)furthering international industrial and technological development, and (3)promoting investment interchanges.

Headquarters, Tokyo 03-582-5511

NORTH AMERICA
New York 212-997-0400
Chicago 312-726-4390
Houston 713-759-9595
Los Angeles 213-626-5700
San Francisco..... 415-392-1333
Toronto..... 416-962-5050
Montreal..... 514-861-4554
Edmonton..... 403-428-0866
Vancouver..... 604-684-4174

CENTRAL AND SOUTH AMERICA
Mexico City 5-533-21-40
Panama 64-61-05
Bogota..... 234-82-08
Caracas 2-332349
Quito..... 2-546-930
Lima 22-0914
Santiago..... 2-377682
Sao Paulo 11-287-2855
Rio de Janeiro..... 21-262-0598
Buenos Aires..... 1-35-9399

EUROPE
Paris..... 1-255-35-82
London 1-486-6761
Dublin..... 1-714003
Hamburg 40-34-17-63
Düsseldorf 211-80702
Frankfurt 611-28-32-15
Amsterdam..... 020-765075
Rotterdam 010-113360
Brussels..... 2-230-48-58
Copenhagen 01-14-73-12
Stockholm 8-11-81-73
Oslo 2-422609
Zurich..... 01-362-2323
Geneva 022-32-13-04
Milan 2-807-837
Athens 1-3630820
Madrid..... 1-215-6208
Lisbon 19-659381
Vienna 222-421570
Warsaw 22-27-95-42
Belgrade 11-495-391
Bucharest..... 0-148876
Sofia 52-29-59
Marseille 91-91-79-15

ASIA
New Delhi..... 11-42194
Karachi..... 21-510459
Dacca 230575
Colombo..... 1-23354
Singapore 2218174
Jakarta..... 21-583186
Kuala Lumpur 3-930244
Bangkok..... 2-2515801
Hong Kong 5-264067
Manila..... 2-88-43-59
Seoul..... 2-752-8648
Beijing..... 52-3996

OCEANIA
Sydney 2-241-1181
Melbourne..... 3-654-4949
Perth..... 9-325-2809
Auckland 9-797-427

MIDDLE EAST
Istanbul..... 1-46-33-24
Baghdad..... 1-8871736
Teheran 21-624716
Dubai 4-232093

AFRICA
Cairo..... 2-740942
Algiers..... 63-78-32
Nairobi 2-26741
Dar es Salaam..... 51-33576
Harare 791116
Johannesbourg..... 11-29-8231
Kinshasa 24877
Douala..... 42-17-56
Lagos..... 1-613751
Abidjan..... 32-78-15

New Center To Promote
Investment And Technology Exchange

The Japan External Trade Organization (JETRO) has announced the opening of the Center for Industrial & Technological Cooperation, (CITEC).

"The purpose of CITEC is to help channel Japanese funds into Canadian industry and technology and to encourage capital investment in the Japanese industrial and technological marketplace by Canadian investors," said the executive director of JETRO Toronto. "A second important goal is to foster greater industrial co-operation between these two important trading partners through increased technology exchange and joint ventures."

The Canadian CITEC joins other CITEC's that have already been opened in New York, San Francisco, Chicago, Houston and Los Angeles in the United States and in London, Paris, Milan, Dusseldorf and Brussels in Europe. "Promotion of industrial co-operation is essential for revitalizing the world economy and encouraging beneficial inter-relationships among nations. CITEC can make an important contribution to this process," said a JETRO spokesman.

In promoting Japanese investment in Canada, CITEC will continue and expand many JETRO programs already in progress such as preparation of an annual list of potential Japanese investors and will provide more extensive advice to Canadians seeking capital. In encouraging Canadian investment in Japan, information will be disseminated through seminars and counselling and co-ordinating visits to Japan by interested Canadian groups.

In promoting technology exchange, CITEC will serve as a consultant to Canadians, will facilitate introductions between Japanese and Canadian interests and provide information through seminars. The CITEC concept and philosophy were originated by JETRO, a quasi governmental organization staffed by specialists in trade and industry, which has worked for several decades to promote trade between Japan and its trading partners. "CITEC reflects JETRO's long-standing belief that co-operation rather than confrontation and competition among countries will revitalize the world economy and the economies of individual nations," said JETRO's director.

To help implement CITEC activities, JETRO has set up a committee to act as an advisory board in promoting Canada-Japan industrial and technical co-operation. The committee, which held its formation meeting on June 4, is composed of repre- ▶

sentatives from the following major Japanese companies operating in Canada: The Bank of Tokyo Ltd.; Canon Canada Inc.; The Export-Import Bank of Japan (Canada); C. Itoh & Co. (Canada) Ltd.; Marubeni Canada Ltd.; Mitsubishi Canada Ltd.; Mitsubishi Electrical Sales Canada Inc.; Mitsui & Co. (Canada) Ltd.; Nissan Automobile Company (Canada) Ltd.; Nissho Iwai Canada Limited; Pacific Automotive Co-operation Inc.; Sony of Canada Ltd.; Sumitomo Canada Limited; Toyota Canada Inc.; Embassy of Japan (advisor); Consulate General of Japan, Toronto (advisor); Japan External Trade Organization, Toronto (secretariat).■

* * * *

Listing Canadian Companies
Doing Business With Japan

A current project in progress of the Canada-Japan Trade Council involves the compilation of an "inventory" of Canadian companies successfully doing business with Japan. The list covers companies in joint ventures, operating a subsidiary or branch office in Japan or exporting goods and services to Japan.

By mid-summer more than 300 companies had been listed and described in the inventory and the work is to be completed in early September. Henceforth the inventory will be maintained and up-dated and coded by province, type of activity etc. Copies of the stored information, which of course will not include such as confidential marketing information of companies, in due course will be available to researchers, journalists, business people, academic people etc. on request.■

* * * *

Tokyo Disneyland

Tokyo Disneyland celebrated its second anniversary of opening on April 15. It had more than 10 million visitors in each of its first two years. About ten per cent of the visitors were from foreign countries but on the basis of statistics it can be assumed that about one out of six or seven persons of the total Japanese population has visited Disneyland. Many people have visited two or three times.■

* * * *

NOTE 9

Company: Export/Import Bank

Date: September 9, 1985

Attended:
- Michio Nakayama, Executive Director
- Kanji Sekimoto, Director, Loans Dept III, (The Americas, Ships and Aircraft).
- Shigeru Nozaki, Senior, Managing Officer Loans Dept. III (The Americas, Ships & Aircraft) Division
- Suriki, Special Consultant's Office
- Paul Labbé, INC
- David Dix, Embassy
- Deborah Moores, INC

Summary

We met with the Exim Bank at the suggestions of IBJ. Exim is an independent government financial institution that is in the business of providing a wide range of financial services to supplement and encourage the financing of exports, imports and overseas investment and direct loans by private financial institutions.

These activities may be divided into two categories: (a) loans to domestic corporations and to foreign governments and corporations and (b) guarantees for financial obligations.

In January 1984, the Exim Bank established its 15th representative office in Toronto. Through this new operating base, the Bank expects to facilitate its activities by gathering information on natural resource development and other industrial projects in Canada and by maintaining close contracts with various agencies and organizations in Canada.

Exim have provided financing for resource development and other industrial projects in Canada including two projects for CIP in B.C. and Eastern Canada.

In addition to its lending activities, the Bank is dedicated to promoting international cooperation. In November 1983 the Exim Bank held an International Finance Symposium on International Cooperation for Overseas Plant Construction. As part of its cooperative program the Exim Bank has held consultations with the World Bank and the Inter-American Development Bank. Also the Bank has conducted a number of seminars.

Action Plan

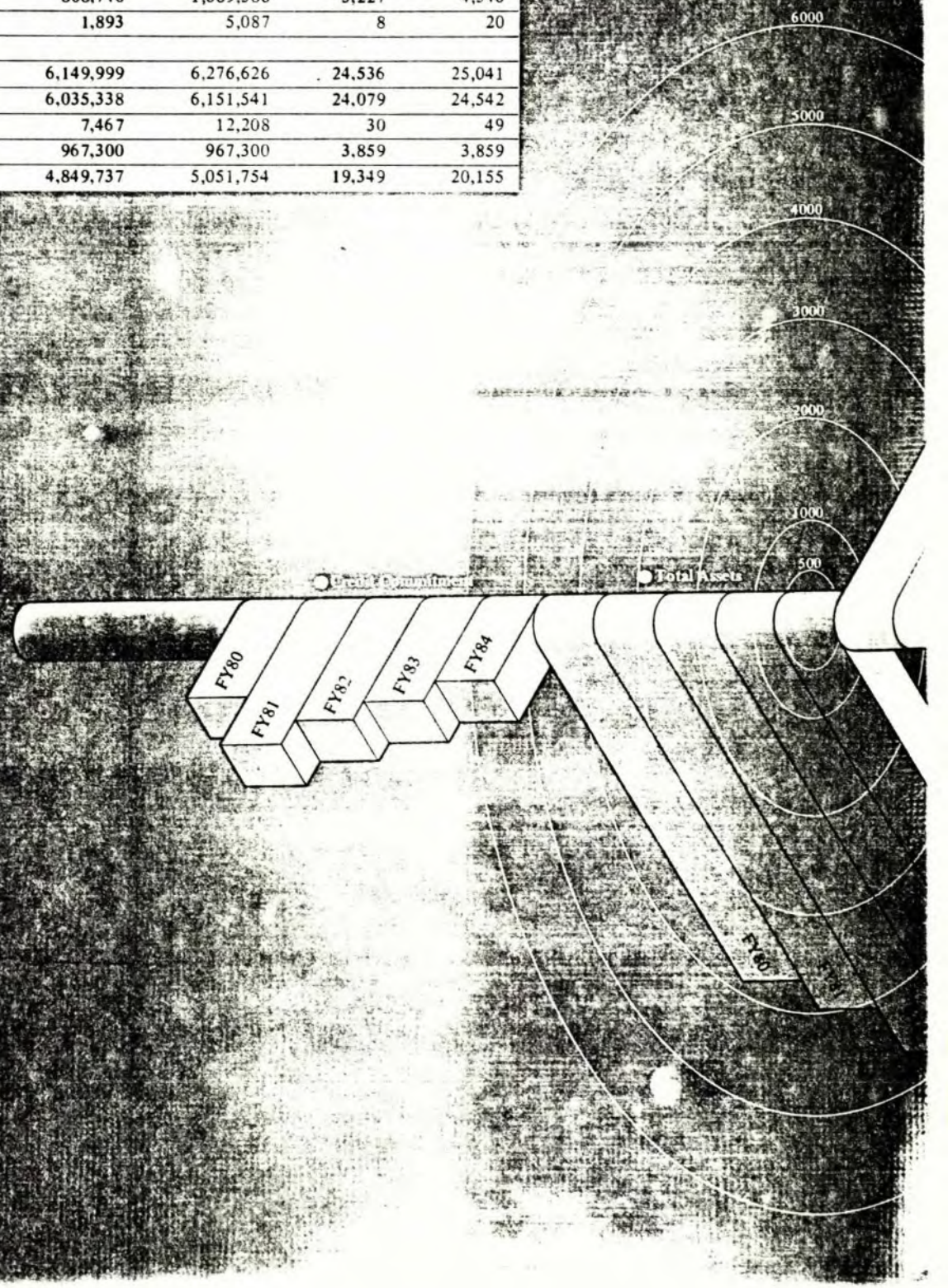
1. Continue corporate liaison work planned meeting to be held with Mr. Nakasone, Toronto representative on October 16, 1985.

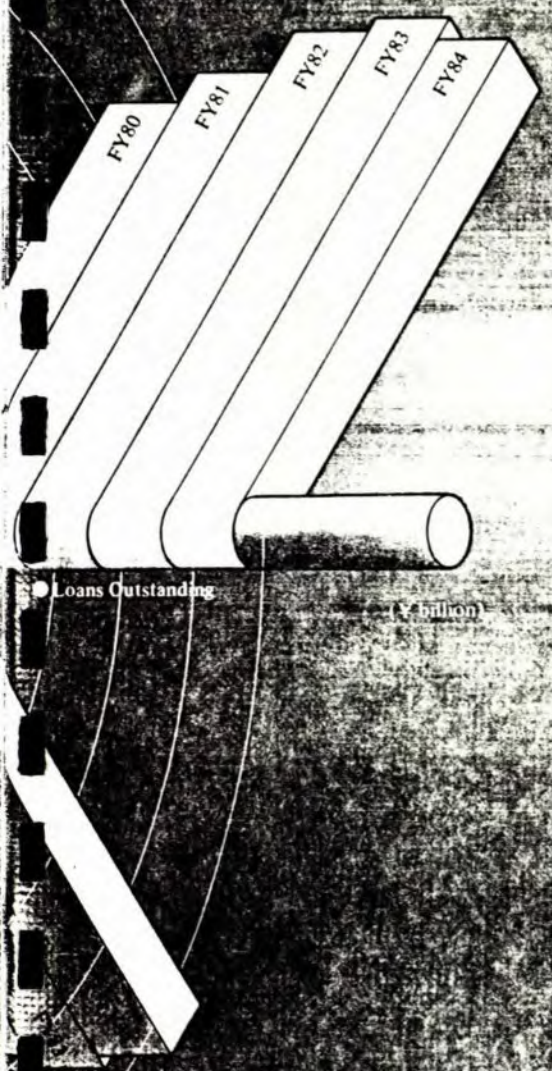
2. Provide them with information package on Canadian benefits.

Financial Highlights

• *Financial Highlights (As of March 31, 1985 and 1984)*

	Yen (millions)		U.S. Dollars (millions)	
	FY 1984	FY 1983	FY 1984	FY 1983
• For the Year				
Credit Commitments	780,343	964,212	3,113	3,847
Disbursements	808,740	1,089,386	3,227	4,346
Guarantees	1,893	5,087	8	20
• At the Year-end				
Total Assets	6,149,999	6,276,626	24,536	25,041
Loans Outstanding	6,035,338	6,151,541	24,079	24,542
Guarantees Outstanding	7,467	12,208	30	49
Capital	967,300	967,300	3,859	3,859
Borrowings	4,849,737	5,051,754	19,349	20,155





LOANS TO DOMESTIC ENTITIES

Supplier's Credits – extended to Japanese corporations for their exports of plants, equipment, and technical

– extended to Japanese corporations for their resources and other items which are deemed essen- Japanese economy. Import credits also cover the to Japanese importers for their imports of goods (Import Credits for Manufactured

stment Credits and Overseas Project Loans – tended to Japanese corporations for their overseas invest- nd overseas projects.

FOREIGN ENTITIES

oans

and Bank-to-Bank Loans – extended to and foreign financial institutions for their ment and technical services from Japan.

ns – extended to foreign governments and institutions to provide long-term funds for development, especially in the energy field. lso made available to international develop- ment banks.

dits – extended to foreign corporations for their s of vital resources to Japan. Import credits also cover provided to foreign corporations in Japan (e.g. subsidiaries and branches of foreign corporations in Japan) for their imports of manufactured goods (Import Credits for Manufactured Goods).

(3) Overseas Investment Credits – extended to joint ventures with Japanese corporations for their overseas projects and to foreign governments for their capital contributions and loans to those joint ventures.

GUARANTEES

Guarantees are made available to (a) domestic corporations for their liabilities incurred in connection with loans from other financial institutions for such purposes as prescribed in the loans to domestic corporations listed above and (b) Japanese private banks for their direct loans to foreign corporations.

GLOBAL ECONOMY

The decade of the eighties, a period of adjustment in the aftermath of the two oil crises, is already half over. The world economy showed substantial improvement in 1984, as evidenced by the fact that world trade expanded after three straight years of decline. One major impetus for global economic recovery was the recovery in the U.S. economy, led by the increase in industrial plant and equipment investment.

In Japan the economy achieved real growth of 5.8% in 1984 as exports continued strong and domestic demand showed steady increases mainly as a result of vigorous plant and equipment investment. In this period, consumer and wholesale prices held steady and mining and manufacturing production levels grew significantly. The heightened interdependence in the world economy makes it imperative that Japan meet its responsibilities in the international community and work to resolve its trade friction with the North American, European, and Southeast Asian countries. The Japanese government and private sector have therefore been making positive and concentrated efforts to alleviate this friction by enhancing market access and promoting imports of manufactured goods.

Despite the world economic recovery, the developing nations still face difficulties resulting from pressing foreign debt obligations and grave food shortages. During 1984, the international financial community continued to place a high priority on the need to help the developing nations overcome their financial difficulties, and international organizations and various financial institutions cooperated to mitigate this source of international financial uncertainty. The Bank believes that medium-to-long-term measures are required to resolve the debt problems of certain countries and, working through its overseas network of fifteen representative offices, the Bank is carefully observing developments in the economies of the debtor nations.

THE BANK'S ACTIVITY

Total credit commitments by the Bank in fiscal 1984 were ¥780.3 billion (US$3,113 million) for 561 projects, down from fiscal 1983's ¥964.2 billion (US$3,847 million) for 652 projects. Likewise, total disbursements were also down, at ¥808.7 billion (US$3,226 million) in fiscal 1984 as opposed to ¥1,089.4 billion (US$4,346 million) in fiscal 1983. Much of this decline is attributable to the borrower countries' revising their economic development plans, the reassessment of Bank-financed project implementation schedules, and the chilling impact which the softening of energy demand has had on major energy development projects. As a result, loans outstanding as of the end of the fiscal 1984 were down 1.9% from the previous year to ¥6,035.3 billion (US$24 billion).

The Bank's ultimate objective remains that of contributing to the harmonious development of the Japanese and world economies. Export credits such as suppliers' credits, buyers' credits, and bank-to-bank loans are important parts of the Bank's lending activities. In deciding upon the terms and conditions for export credits, the Bank has adhered to a policy of observing the OECD Arrangement on Guidelines for Officially Supported Export Credits. Following the October 1983 revision of the guidelines on the regulation of the interest rates and reduction of the minimum export credit interest rate, the guideline rate for yen loans is now set 0.1% higher than the long-term prime rate. Given that this revision has not totally rationalized the interest rate imbalance between matrix-rate countries and low-interest rate currency countries, the Bank advocates further reduction in the basic lending rate and premium levels or any adjustment measures for fairness for yen loans.

In the field of imports, the need to secure stable supplies of natural resources, especially of energy resources, is a long-standing imperative for resource-poor Japan, and the Bank will continue to contribute to large-scale natural resource development projects by providing import credits consistent with the borrowing country's requirements. The importance of such import credits is undiminished. Likewise, the Bank has also implemented a variety of measures to provide financing for expanding and facilitating Japan's imports of manufactured goods as part of the effort to promote the development of harmonious external economic relations. Following the introduction of low-interest credits to assist the import of manufactured goods in October 1983, the Bank further softened the terms and conditions of such import financing for Japanese corporations, and subsidiaries and branches of foreign corporations in Japan in April and July 1985.

As Japan's current account surplus has grown, increasing importance has been attached to capital outflow and direct overseas investment. The Bank is actively seeking to expand such overseas investment both by providing flexible financing for projects which are deemed to have a major impact in economic cooperation with the developing countries and by actively promoting investment in the other industrialized countries in the interests of industrial cooperation. Furthermore, the Bank initiated the drafting of legislation amending the Export-Import Bank of Japan Law to allow more flexible financing for investment project, and this legislation was enacted by the Diet on June 7, 1985.

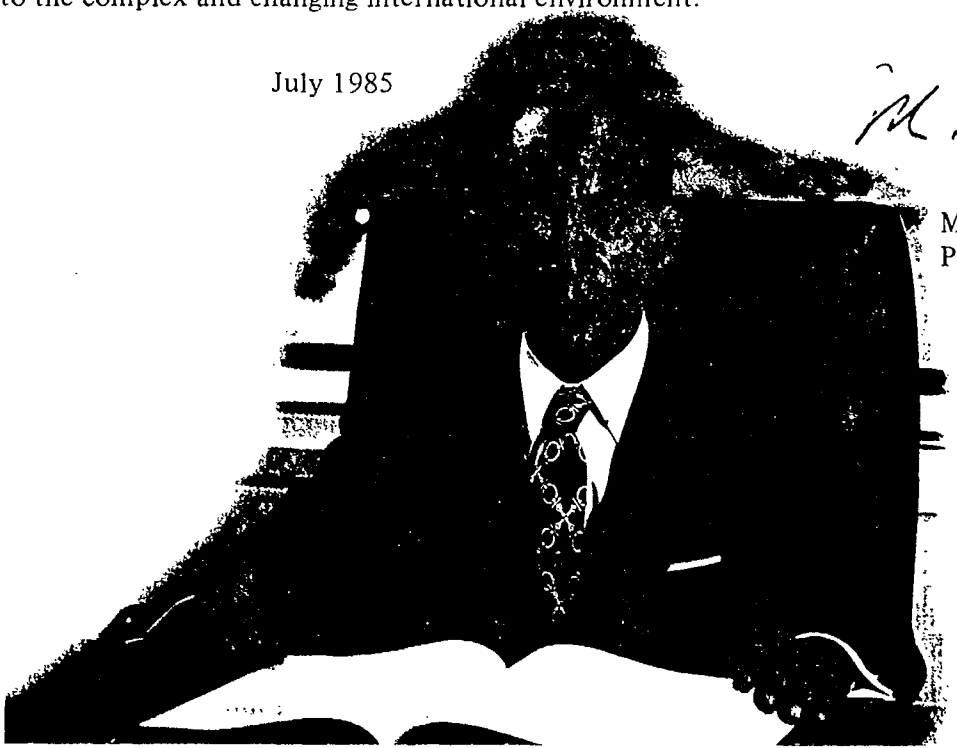
In addition to its lending activities, the Bank is dedicated to promoting international cooperation. For example, in recognition of the importance of financial and economic cooperation between Japan and the other Asian countries, the Bank held the Second Symposium on Financial and Business Cooperation in Asia and the Pacific in the autumn of 1984. In line with its cooperation with organizations around the world, the Bank has also been holding periodical consultation meetings with the World Bank, the Inter-American Development Bank, and other international organizations, as well as conducting a number of seminars.

In all these activities, the Export-Import Bank of Japan believes its mission to be one of promoting harmonious economic development between Japan and rest of the international community, and it is in this cause that the Bank will continue to respond flexibly to the complex and changing international environment.

July 1985

M. Okura

Masataka Okura
President



INTERNATIONAL ECONOMIC TRENDS

In 1984 the world economy continued to be sustained by expansion in the United States, and growth rates in Japan, Western Europe, and the other industrialized countries, as well as in the developing countries as a whole, were higher than in the previous year. There were, however, some African developing countries which experienced further aggravation of their negative growth rates, and the problem of the developing countries' accumulated external debts remains in a critical transitional stage, even though the worst appears over.

The industrialized countries achieved a growth rate of 4.8% in 1984, which was nearly twice as high as the 1983 growth rate, and at the same time managed to bring inflation down from 5.3% in 1983 to 5.0% in 1984. Concurrently, the employment situation has benefited somewhat from the economic expansion, falling from 9.0% in 1983 to 8.5% in 1984 (OECD Economic Outlook). However, despite this overall improvement, most countries continue to be plagued by major difficulties caused by their budgetary deficits.

Japan and most other OECD countries achieved higher growth rates in 1984 than in the previous year, including the 6.8% in the United States. This strong performance is primarily attributed to the fact that the strong growth in the United States manifested itself in trade expansion and hence spread worldwide. Nevertheless, the overall growth rate for the industrialized countries of Western Europe was only a modest 2.3%.

While there continue to be countries with double-digit inflation, including Italy's 10.8%, inflation has largely been on the decline in the industrialized countries.

Although the upturn in economic growth rates and the accompanying expansion in industrial production have brightened the employment situation, there have been wide national disparities in how much unemployment has been brought down. The United States' unemployment rate was 7.4%, which is seen as representing major improvement in light of the assumption that the natural unemployment rate has risen considerably over the past decade. By contrast, unemployment remains a serious problem in Western Europe, where there are some countries with unemployment rates of over 10%, probably because of the fact that real wages are less flexible in Europe.

Nevertheless, the industrialized countries have generally turned in a very good performance, breaking out of their stagflationary rut, calming inflation, achieving economic growth, and bringing unemployment rates down.

The developing countries' overall growth rate was boosted from 1.4% in 1983 to 2.8% in 1984 (IMF: International Financial Statistics) by the economic expansion in the United States and the other industrialized countries. By region, Asia led the list at 6.4%, followed by Latin America at 2.4%, the Middle East at 2.3%, and Africa at 2.2%. Although the Asian figure of 6.4% represents a decline from 1983's 7.1%, this decline is largely explained by the slowdown in the Indonesian economy as oil prices fell and the negative growth in the Philippines as the country undergoes serious economic adjustment measures mandated by its external debt crisis. Latin America's 2.4% represents the first year of positive growth after two years of decline, and this is taken as evidence that the worst is over for the region's external debt problems. However, these countries have yet to regain their 1981 levels of economic activity, and it is expected that they will continue to be in an adjustment process for some time to come.

Agricultural production in the developing countries has shown good growth overall, with grain production up 2.5% over the previous year. However, the grain figure for the African region shows a decline again in 1984 for the second straight year that agricultural production has fallen, and the food crisis has grown serious in some areas. Production in

such products as rubber, palm oil, and cotton have shown satisfactory growth over the previous year, but, production was at less than previous-year levels for such products as coffee beans, sugar, and jute (FAO: Monthly Report).

The oil-exporting countries continue to suffer as a result of the slump in oil prices, and there is no dramatic recovery in sight at present. At the March 1983 OPEC meeting, it was decided to set oil prices at $29/barrel and production at no more than 17.5 million barrels per day, yet the continuing slump in oil demand generated a continuing glut and forced the OPEC meeting in January 1985 to lower production to a maximum of 16 million barrels per day and to abandon the standard oil price system. At the same time, the price of Arabian light, long the benchmark for oil prices, was reduced to $28/barrel. OPEC's oil production fell in 1984 for the third straight year of declining production. Given this background, the economic growth rate for the oil-exporting countries in 1984 was 2.0%, a considerable improvement over the previous two years of negative growth but still a sluggish growth figure.

In the centrally planned economies, China is maintaining strong economic growth but the Soviet Union and the East European countries have done slightly worse than the previous year's figures as a result of the lackluster performance by the Soviet Union (IMF: International Financial Statistics).

Coming on the heels of last year's 9.1%, China's 12.0% growth was its second straight year of strong growth. Both industrial production (14.2%) and agricultural production (14.5%) evidenced very high growth rates. Growth was especially strong in the Special Economic Zones (SEZ) as industrial production in Shenzhen and other SEZ recorded 51.5% growth. Yet even as the Chinese economy was achieving this rapid growth, bottlenecks appeared in some sectors, such as the conspicuous shortfalls in energy supplies. In addition, prices are edging up as a result of the effort to adjust the price structure.

Soviet economic growth was 2.5% in 1984, short of the economic plan's target of 3.1%. Both industrial production and agricultural production were stagnant and failed to achieve their targets. The East European countries maintained 4.0% growth for the second straight year. While this indicates that these countries are achieving a satisfactory recovery after the two years of negative growth in 1981 and 1982, they are still in a transitional phase in their external debt problems. Industrial production growth was slightly below the figure for 1983, but agricultural production was up a strong 4.5% in 1984 as opposed to only 1.5% in 1983 (IMF: International Financial Statistics). Nevertheless, the countries of Eastern Europe continue to face a number of long-term problems, including the need to make their economies more efficient.

INTERNATIONAL TRADE AND BALANCE OF PAYMENTS TRENDS

World trade improved considerably upon 1983's 2.1% expansion by growing 8.8% on a volume basis in 1984. Prices, on the other hand, were down 1.8% (in U.S. dollar terms) to somewhat slow the price deterioration. As a result, the nominal value of world trade was up in 1984 after three years of decline. Led by the economic recovery in the United States, the industrialized economies expanded their imports 12.2% by volume and their exports 9.9% by volume.

The growth in the industrialized countries also had a major impact on the non-oil-producing developing countries, which were able as a consequence to expand their ex-

ports 12.0% by volume and their imports 5.9% by volume. By contrast, the oil-producing developing countries expanded their exports 2.5% by volume but saw their imports down for the third straight year (4.9% by volume) as a result of project postponement and other factors.

While the Soviet and East European countries increased their exports 4.0% and their imports 3.0% by volume, export growth still recorded a decline of 2.0% from 1983's 6.0% growth. Looking at these countries' dependencies on trade with Western Europe, while the Soviet Union dependence is fairly consistent for both exports and imports (52% of all exports and 49% of all imports being in trade with Western Europe), the East European countries are becoming increasingly dependent on Western Europe for imports (68% of all imports in 1984) (IMF: International Financial Statistics).

There were also significant changes in the different groups of countries' current account balances in 1984. The industrialized countries saw the United States go sharply deeper into the red in its current account (from $35.5 billion in 1983 to $93.4 billion in 1984) while Japan expanded its current account surplus (from $22.2 billion in 1983 to $36.4 billion in 1984). The industrialized countries as a whole slipped from a $2.2 billion surplus in 1983 to a $34.2 billion deficit in 1984.

By contrast, the developing countries as a whole narrowed their margin of current account deficit from $70.5 billion in 1983 to $43.9 billion in 1984. Much of this improvement was scored by the non-oil-producing developing countries, which cut their current account deficit by $15.4 billion to only $38.2 billion in 1984. Likewise, the oil-producing developing countries sharply curtailed their imports to slash their current account deficit from $17.0 billion in 1983 to only $5.7 billion in 1984 (IMF: International Financial Statistics).

While the world economy continues to be severely tried by the developing countries' external debt problems, the extreme crisis of the past two years seems to be over as the debt service ratio for the developing countries overall has stabilized at 24.6% in 1982, 22.2% in 1983, and 22.5% in 1984. Nevertheless, adjustments will continue to be needed for some time to come.

JAPANESE ECONOMIC TRENDS

The Japanese economy in fiscal 1984 enjoyed a period of expansion as the economy overall grew a strong 5.8% in real GNP and prices were stable for the second straight year.

By demand sector, private sector equipment investment was up a high 11.1%. While much of this growth is attributable to equipment investment to take advantage of the favorable export climate created by the economic recovery in the United States, there was also a significant contribution made by the strength in investment to incorporate advanced technologies. At the same time, private-sector equipment investment for export-oriented industries has recently been joined by increasing investment to produce for the domestic market, and it is expected that domestic consumption will contribute to sustaining Japanese growth. With this expansion in private-sector equipment investment, industrial production was up a very strong 11.1% in 1984. Both individual consumption and housing investment showed little growth and at best lethargic recovery as the relatively strong growth in corporate earnings was not accompanied by similar growth in household earnings. At the same time, public investment showed negative growth as the government sought unflinchingly to hold down public expenditures and put its fiscal house in order.

Japan's trade balance in 1984 was firmly in the black, up $13.0 billion over the previous year to $44.3 billion. Yet the long-term capital account was deep in the red with a deficit of $49.7 billion, with the result that the basic balance shifted from a $3.1 billion surplus in 1983 to a $14.6 billion deficit in 1984.

While export growth was up sharply to the United States as a result of the strong economic expansion, the U.S. dollar's appreciation, and other factors, export growth was less than last year to Western Europe and Southeast Asia. At the same time, there was a precipitous 17.2% drop in exports to the Middle East.

Plant exports (on an approval base) have been declining since fiscal 1982, falling to approximately one-third of the level achieved in fiscal 1981. By region, the good prospects for an upturn in plant exports to Southeast Asia are more than offset by the continuing slippage in exports to the Middle East, Africa, and Latin America, and the economic outlook for these regions makes it difficult to expect a sudden recovery. As a result, fierce competition has developed among the industrialized countries in these countries' plant import markets.

Private direct overseas investment in fiscal 1984 rose to $10.2 billion (on the basis of reports to the Bank of Japan) with investment in fiscal 1984 centered in the United States. One of the characteristics of direct overseas investment in fiscal 1983 was the regional shift as investment was up to the United States and down to Southeast Asia, and this trend is continuing in fiscal 1984. This shift appears to be caused not only by the vigor of the U.S. economy but by the impact of U.S. corporate investment tax credits. At the same time, investment in non-manufacturing industries has been far more active than investment in manufacturings.

Given these economic circumstances in Japan and overseas and the continuing current account surpluses which they have engendered, every effort is being made to manage the Japanese economy so as to promote imports, to further deregulate Japanese markets, and to stimulate domestic demand centering upon the private sector.

OVERVIEW

During fiscal 1984 the Bank made 561 credit commitments amounting to ¥780.3 billion (US$3,113 million).

By geographical distribution, 32% of total credit commitments were made for Asia and the Pacific; 43% for Europe, the Middle East, and Africa; 24% for North America and Latin America; and 1% for International Financial Institutions.

A total of ¥5.6 billion (US$22 million) was extended to such international financial institutions as Banco Centroamericano de Integración Económica (BCIE) and Corporación Andina de Fomento (CAF) during fiscal 1984.

Total disbursements made by the Bank in fiscal 1984 amounted to ¥808.7 billion (US$3,226 million), a decline of 26% from the previous year. Repayments in fiscal 1984 were ¥932.5 billion (US$3,720 million). As a result, the cumulative balance of loans outstanding as of the end of fiscal 1984 was ¥6,035.3 billion (US$24 billion).

SOURCES OF FUNDS

The Bank obtains its operating funds from the following sources.

Capital : Paid-up capital wholly subscribed by the Japanese government from the Industrial Investment Special Account amounting to ¥967.3 billion (US$ 3,859 million).

Borrowings : · Borrowings from the Japanese government's Trust Fund Bureau, Foreign Exchange Fund Special Account, and General Account Budget totaling ¥4,849.7 billion (US$19,348 million)

Others : · Internal resources generated by the Bank's activities, loan repayments, interest payments, and internal reserves.

· Issuing of foreign currency-denominated bonds in the international capital markets.

Loans Outstanding (as of March 31, 1985) (¥ billion)

	Export Credits	Import Credits	Overseas Investment Credits	Overseas Direct Loans	Total	%
Asia and the Pacific	958	418	516	732	2,624	43
Europe, the Middle East, and Africa	745	87	356	807	1,994	33
Americas	380	356	311	327	1,374	23
International Financial Institutions	–	–	–	43	43	1
[illegible]	2,083	[illegible]	1,183	1,909	[illegible]	100
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXPORT SUPPLIERS' CREDITS

Commitments for export suppliers' credits numbered 227 in fiscal 1984, with a total value of ¥430.1 billion (US$1,716 million), a decrease of 17% from the previous year.

Ships: In fiscal 1984, the Bank made total credit commitments of ¥72.2 billion (US$288 million) for ship-exporting credits, a slight increase of 7% over the previous year.

Plants: Commitments for plant exports in fiscal 1984 had a total value of ¥358.0 billion (US$1,428 million). By region, commitments for Africa, Latin America, and the Middle East increased substantially from the previous year while those for Asia, North America, Europe, and the Pacific contracted, resulting in a net decline of 20% from fiscal 1983.

Credit Commitments by Type of Credit (FY 1984)

	(¥ billion)
Export Suppliers' Credits	430.1
Import Credits	44.7
Overseas Investment Credits	196.5
Overseas Direct Loans	109.0
Total	780.3

Export Suppliers' Credit Commitments by Item

	FY 1984		FY 1983		(¥ billion)
	Amount	%	Amount	%	
Ships	72.2	17	67.3	13	
Plants	357.9	83	450.3	87	
Vehicles and Rolling Stock	24.0	6	40.4	8	
Electric Machinery	115.3	27	42.1	8	
Communication Equipment	4.5	1	19.5	4	
Textile Machinery	1.3	0	1.3	0	
Steel Products	29.8	7	42.7	8	
Other Industrial Machineries	171.5	40	293.3	57	
Technical Services	11.6	3	11.0	2	

IMPORT CREDITS

With 103 commitments totaling ¥44.7 billion (US$178 million) in fiscal 1984, the Bank recorded an increase of 11% in import credits from the previous year. Principal commitments made were for the import of uranium from Australia and Canada, liquefied petroleum gas from Indonesia, and raw cotton from the United States.

	FY 1984		FY 1983	
	Amount	%	Amount	%
Uranium	31.3	70	–	–
Petroleum Gas	11.0	25	–	–
Natural Gas	–	–	36.3	91
Raw Cotton	2.3	5	3.7	9
Aircraft	–	–	–	–
Electric Machinery	0	0	–	–
Other Industrial Machineries	0	0	0	0
Total	44.7	100	40.1	100

Import Credits for Manufactured Goods: The world is today facing a rising tide of protectionism unparalleled in history, and the future of free trade system is seriously in jeopardy.

Seeking to live up to the responsibilities that go with its standing in the international community, Japan has developed and instituted a number of very positive measures to facilitate market access and otherwise contribute to the strengthening of the trade system. However, still-further efforts are needed to promote imports of manufactured goods and to alleviate protectionist pressures.

Determined to help maintain harmonious external economic relations, the Bank has moved to soften the terms and conditions of its lending to Japanese corporations, and subsidiaries and branches of foreign corporations in Japan wishing to import manufactured goods, including a special effort to provide especially favorable terms for imports of eligible specific items.

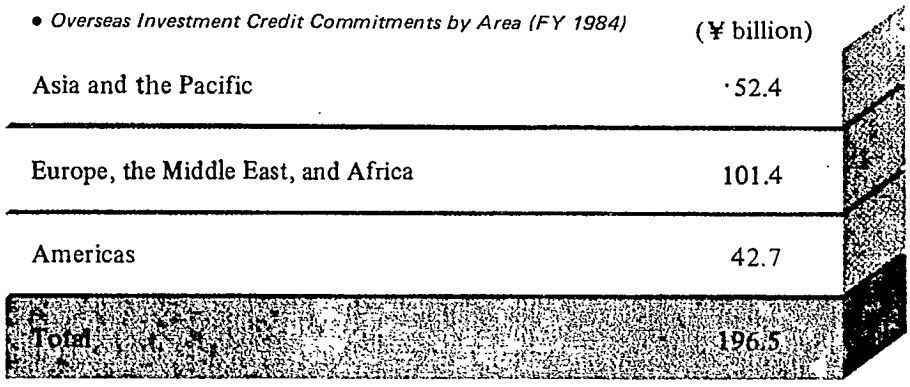
OVERSEAS INVESTMENT CREDITS

During fiscal 1984 the Bank made 145 commitments for overseas investment credits amounting to ¥196.5 billion (US$784 million). Of these, credits for resource development projects accounted for 84 commitments totaling ¥121.5 billion (US$485 million), down 47% from the previous year, while those for manufacturing projects were up 35%, amounting to ¥75 billion (US$299 million).

Direct overseas investment makes a major contribution to the economic development of the host country by creating new employment opportunities, promoting technol-

ogy transfer, and breathing new life into the community, and such direct overseas investment is a major part of Japanese private-sector economic and industrial cooperation.

However, because the immaturity of financial markets in many of the developing countries makes it difficult for joint ventures to raise capital locally, the Bank is vigorously supporting Japanese direct overseas investment both by providing direct investment loans for overseas joint ventures involving Japanese capital and by lending foreign governments capital for relending to local joint ventures. Legislation was submitted to the Japanese National Diet in 1984 (and passed on May 31, 1985 and enacted on June 7, 1985) amending the Export-Import Bank of Japan Law to allow such lending.



OVERSEAS DIRECT LOANS

In fiscal 1984 the Bank made 86 commitments for overseas direct loans amounting to ¥109.0 billion (US$435 million), a decline of 9% from the previous year. Included were bank-to-bank loans to Nacional Financiera S.N.C. (NAFIN) and Banco Nacional de Comercio Exterior S.A. (BANCOMEXT) of Mexico and buyers' credits to Corporacion Autonoma Regional del Cauca (CVC) and Corporacion Electrica de la Costa Atlantica (CORELCA) of Colombia.

The Bank also provided a loan to Bank Bumiputra Malaysia Berhad amounting to ¥1.2 billion (US$5 million) to promote small plant projects.

GUARANTEES

In fiscal 1984 new guarantees for obligations amounted to ¥1.9 billion (US$8 million). Guaranteed obligations totaling ¥6.6 billion (US$26 million) expired. As a result, the outstanding balance of obligations guaranteed by the Bank amounted to ¥7.5 billion (US$30 million).

INTERNATIONAL SEMINAR EXIM JAPAN

The International Seminar EXIM Japan (ISEJ) is an annual event in which the Bank invites representatives of foreign governments, central banks, development banks, and private institutions having close relations with the Bank to participate in a two-week seminar to promote better understanding of the Japanese economy, Japanese culture, and the Bank's functions.

The ninth ISEJ was held May 17 through 31, 1984, with the participation of twelve distinguished guests from ten countries in Latin America and the Asia-Pacific region. Participants took part in lectures, discussions, and field trips, exchanging first-hand information on their countries with other participants and Bank staff in an informal atmosphere.

In addition to the ISEJ, the Bank stands ready to offer other seminars or programs describing its lending and other activities for both Japanese and overseas organizations.

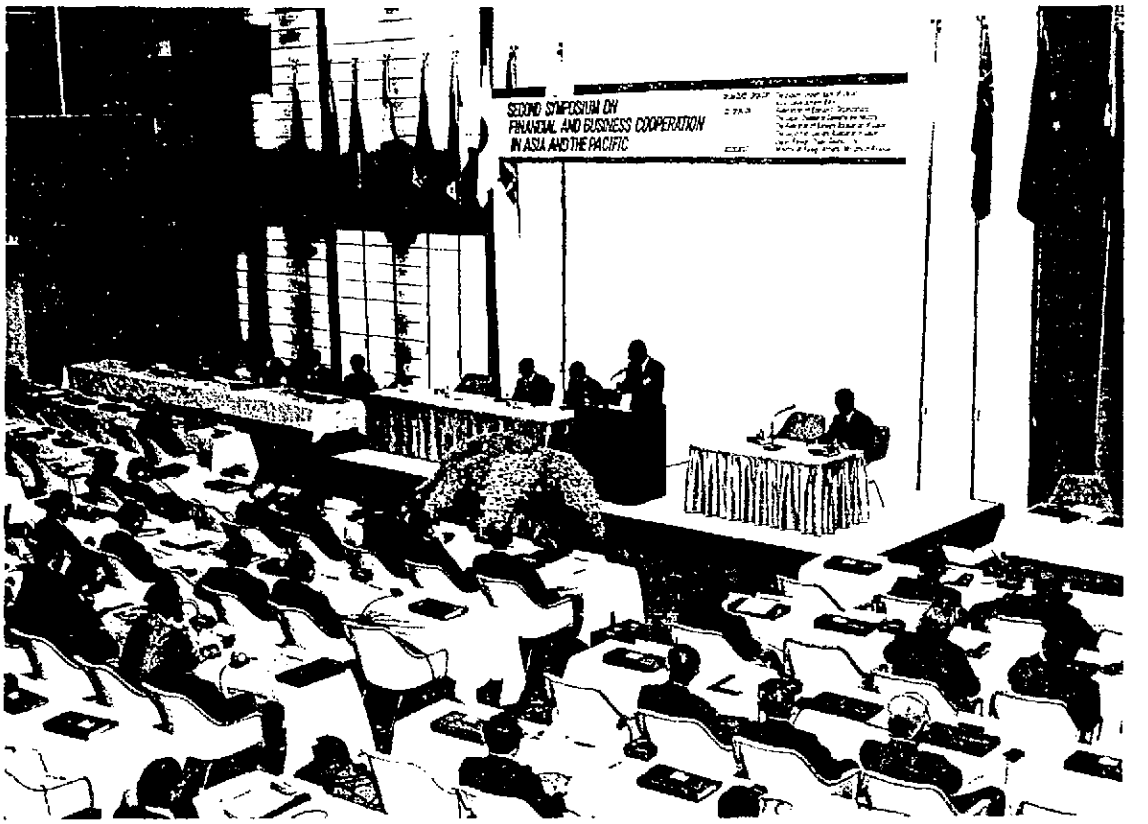
SECOND SYMPOSIUM ON FINANCIAL AND BUSINESS COOPERATION IN ASIA AND THE PACIFIC

The Bank held a two-day symposium on financial and business cooperation in Asia and the Pacific in Tokyo on October 31 and November 1, 1984. The symposium was held in association with the Asian Development Bank (ADB) with the co-sponsorship of five other leading Japanese economic organizations: Federation of Economic Organizations (Keidanren), Japan Chamber of Commerce and Industry, Federation of Bankers Associations of Japan, Securities Dealers Association of Japan, and Japan Foreign Trade Council, Inc. The symposium also had the support of the Ministry of Finance and the Ministry of Foreign Affairs. Some 250 government and business leaders from the Asia-Pacific countries took part in the symposium to further enhance intraregional economic development ties.

The symposium had five plenary sessions with distinguished speakers on the outlook for the Asian countries, the changing structure of trade and the potential for complementarity, technological transfer in Asia, the potential for trade and investment cooperation within the region, and the potential for intraregional financial cooperation.

Among the points stressed in the candid discussions on how the countries of the region can best cooperate in terms of trade, investment, technology transfer, and financing was the imperative of having all countries understand each other's positions better and promote economic exchanges in full realization of the close interdependence which prevails.

This symposium was very significant in enhancing the mutual understanding needed to effectively promote further economic exchange between Japan and the other Asia-Pacific countries in the years ahead. The Bank intends to make further efforts to have the results of the symposium reflected in future lending activities to contribute to the economic development of all of the countries of the region.



COOPERATION WITH INTERNATIONAL ORGANIZATIONS

The Bank has been cooperating in financial activities and exchanging information with such international financial institutions as the World Bank, the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), the African Development Bank (AfDB), the Banco Centroamericano de Integración Económica (BCIE), Corporación Andina de Fomento (CAF), and the Caribbean Development Bank (CDB).

The Bank has been providing funds in cooperation with these international organizations to meet the developing nations' increasing need for financial assistance. In fiscal 1984, the Bank extended loans to BCIE and CAF totaling ¥5.6 billion (US$22 million).

In contributing to the further development of the world economy, the Bank intends to expand its co-financing activities in cooperation with international organizations. In this respect, the Bank holds periodical meetings with the World Bank (IBRD) and its affiliates IDA and IFC.

NOTE 10

Company: Canadian Embassy

Date: September 10, 1985

Attended:
- Staff of Canadian Embassy
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

Summary

Mr. Labbé discussed the new Investment Canada Agency, its mandate, roles and responsibilities and how we will be working together.

He distributed organizational charts identifying key people and discussed their activities. He discussed Investment Canada's plan and our strategic orientation.

He asked the Embassy for their support and answered questions from the floor.

NOTE 11

Company: C. Itoh & Co. Ltd.

Date: September 10, 1985

Attended:
- Seiki Tozaki, Chairman
- Yukio Ohnuma, Manager, Planning and Co-ordinating Team, Western Henisplece Team
- Armand Blum, Embassy
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

Summary

Mr. Blum hosted a luncheon for Mr. Tozaki and Mr. Ohnuma from C. Itoh. The prupose of the lunch was to introduce C. Itoh to the new benefits and the changed economic environment in Canada. C. Itoh exports Mazdas to the Canadian market, in addition to electronics and imports raw materials.

They were interested in hearing about the new business climate in Canada, however, did not indicate that Canada was a priority in their expansion plans. We discussed the new climate for the automotive industry in Canada, however their interest was primarily in the U.S.

Mr. Tozaki is an avid golfer!

Action Plan

1. Provide updated information and all information kits.

2. Develop working relationship with Mr. Ohnuma.

3. Provide automotive sector note with comparative statistics.

C. ITOH & CO., LTD.

Established: December 1, 1949 (¥150,000,000)
Capital Stock: ¥43,176,624,450 (October 1, 1981)
Address: Head Office: 68, Kita-kyutaromachi 4-chome, Higashi-ku, Osaka 541
Tokyo Office: 5-1, Kita-Aoyama 2-chome, Minato-ku, Tokyo 107
Telephone: Head Office: (06) 241-2121; Tokyo Office: (03) 497-2121
Cable Address: Head Office: CITOH OSAKA; Tokyo Office: CITOH TOKYO
Telex Number: Head Office: J63280 ITOHCHU, J63286 ITOHCHU, J63335 ITOHCHU
Tokyo Office: J22295 ITOHCHU, J22296 ITOHCHU, J22297 ITOHCHU

GENERAL

BOOKS CLOSED: Mar. 31

SALES COMPOSITION (term ended Mar. 31, 1984)
textiles 13%, machinery & construction 22%, metals 15%, foodstuffs 14%, petroleum & chemicals 33%, lumber, paper & other raw materials 3% [Foreign Trade 54%]

BACKGROUND
Origin dates back to Chubei Itoh's establishing a wholesale business in linen cloth, when Japan, signing trade treaties with USA, Russia, Netherlands, UK and France, opened her doors after two and a half centuries of isolation, 1858. Business survived troubled 1860s and expanded as Japan's trade progressed. Chubei Itoh II took over father's business, 1903; transferred it from individual to family management, 1908; reorganized it as partnership corporation (cap. ¥10 million), 1918; amalgamated with Marubeni & Co. and Kishimoto & Co., changing name to Sanko K.K., 1941; further amalgamated with Kureha Spinning & Weaving and Daido Trading Co., changing name to Daiken Sangyo K.K., 1944. Separated production and trading departments and formed present company, 1949. Active in offshore trade and developing overseas resources, especially energy resources since oil crisis in 1973.

Subsidiaries Abroad (head offices): New York, Montreal, Mexico City, São Paulo, Buenos Aires, Caracas, Bogota, Hong Kong, Bangkok, Paris, Milan, Düsseldorf, Athens, Lagos, Tehran, Sydney, Auckland

Branches & Offices Abroad; Panama, London, Rotterdam, Johannesburg, Bangkok, Kuala Lumpur, Singapore, Manila, Seoul, Taipei

OFFICERS (Sept. 1, 1984)
Chairman: Seiki Tozaki
Vice Chairman: Takio Kanai
President: Isao Yonekura
Vice Presidents: Kenji Aoyagi, Tokihiko Kito, Hiroshi Kamiya, Ichio Tetsuya, Teruo Hotta
Senior Managing Directors: Hachiro Iyama, Kaoru Nakamura, Kenjiro Kazahaya, Shunsaku Aoki
Managing Directors: Toshinori Hayashi, Masataka Utsubo, Hideto Miyake, Yoshihide Nakayama, Kunio Kakizawa, Yoshinosuke Katoh, Takaharu Matsui, Tooru Yoshida, Taketo Furuhata, Yuichiro Tsutsui, Norio Nakayama, Takasuke Kambayashi
Other Officers: 21 Directors, 3 Auditors

EMPLOYEES (Mar. 31, 1984)

	Male	Female	Total
Number:	5,757	1,842	7,599
Average Age:	40	28	37
Average Monthly Pay (¥):	445,160	174,459	368,693

BANK REFERENCES: Dai-Ichi Kangyo Bank, Sumitomo Bank, Bank of Tokyo, Fuji Bank, Taiyo Kobe Bank

STOCK (Mar. 31, 1984)
Authorized: 2,000,000,000 shrs. Par Value: ¥50
Issued Total: 863,532,489 shrs. Stockholders: 50,837
Owned by Foreigners: 9,031,000 shrs. (1.1%)
Listed: Luxembourg, Tokyo, Osaka, Nagoya & 5 others

Major Stockholders	shrs. (thousand)	%
Dai-Ichi Kangyo Bank	48,173	5.6
Sumitomo Bank	43,697	5.1
Tokio Marine & Fire Insurance	38,529	4.5
Nippon Life Insurance	32,427	3.8
Bank of Tokyo	30,153	3.5

Recent Capital Increase (¥ million)

7/50 OPEN	150	12/77 Merger	37,251
10/72 1:0.1 G.	25,222	4/81 P.O.	39,251
7/73 P.O.	26,856	10/81 1:0.1 G.	43,177
4/74 1:0.3 G.	34,913		

Underwriters: Nikko, Nomura, Daiwa, Yamaichi, New Japan, Nippon Kangyo Kakumaru

BALANCE SHEET (¥ million)

	Mar. '84	Mar. '83
ASSETS		
Current Assets	2,642,527	2,390,299
Quick Assets	2,094,150	1,837,140
Cash & Deposits	315,404	304,004
Notes Receivable	439,094	391,344
Accounts Receivable	1,090,873	940,502
Securities	248,779	201,290
Inventories	219,968	226,494
Merchandise, Finished Goods	219,968	226,494
Goods in Process	—	—
Fixed Assets	398,377	429,282
Tangibles	37,069	35,587
Depreciables	15,501	13,826
Land	21,350	21,473
Non-Tangibles	1,774	2,026
Investments	359,534	391,669
Deferred Accounts	—	—
TOTAL	3,040,904	2,819,581
LIABILITIES		
Current Liabilities	2,330,011	2,050,858
Notes Payable	710,047	690,814
Accounts Payable	493,926	414,130
Short-Term Borrowings	917,252	753,921
Fixed Liabilities	622,397	679,754
Borrowings	584,127	646,730
Bonds	21,761	21,839
Special Reserves	—	—
TOTAL	2,952,408	2,730,612
CAPITAL	88,496	88,969
Capital Paid-up	43,177	43,177
Capital Reserve	27,611	27,611
Legal Earned Surplus	7,170	6,781
Voluntary Reserve	100	100
Unappropriated	10,438	11,300

PROFIT & LOSS STATEMENT (¥ million)

	Mar. '84	Mar. '83
Sales	12,987,257	12,490,220
Cost of Sales	12,805,497	12,307,832
Gross Profit	181,760	182,388
Administrative & Sales Expenses	128,324	131,090
Operating Profit	53,436	51,298
Non-operating Profit	115,058	132,101
Non-operating Expenses	137,527	149,592
Ordinary Profit	30,967	33,807
Special Profit	1,193	5,085
Special Loss	26,100	41,072
Reserves Used	—	9,260
Reserves Appropriated	—	—
Pre-tax Profit	6,060	7,080
Provision for Income Taxes	2,648	4,005
Net Profit	3,412	3,075
DEPRECIATION	1,874	2,022

Note: Items of minor accounts are omitted.

RATIOS	Mar. '84	Mar. '83	Mar. '82	Mar. '81	Mar. '80
PER SHARE DATA, ETC.					
Earnings/Share (¥)	3.95	3.56	5.81	6.07	3.66
Earnings/Share Adjusted (¥)	3.95	3.56	5.81	6.07	3.66
Dividend/Share (¥)	3.00	3.00	5.00	5.00	3.00
Book Value/Share (¥)	102.48	103.03	101.97	116.59	96.80
P.E.R. (Times)	79.72	92.11	51.67	64.38	111.48
FINANCIAL POSITION ANALYSIS					
Profitability (%)					
Net Profit/Total Assets	0.12	0.11	0.18	0.17	0.11
Gross Profit/Sales	1.40	1.46	1.29	1.64	1.66
Operating Profit/Sales	0.41	0.41	0.35	0.49	0.48
Ordinary Profit/Sales	0.24	0.27	0.11	0.12	0.14
Net Profit/Sales	0.03	0.02	0.04	0.04	0.03
Dividend Payout Ratio	75.91	84.23	82.21	82.34	81.99
Net Profit/Equity	3.85	3.30	5.73	5.69	3.82
Stability (%)					
Fixed Assets/Capitalization	56.04	55.84	54.97	68.04	64.24
Liquidities (Months)	0.52	0.49	0.42	0.44	0.50
Debt/Total Assets	55.87	57.40	54.18	54.60	52.15
Net Interest Cost/Sales	0.27	0.29	0.28	0.41	0.42
Turnover					
Sales/Total Assets (Times)	4.43	4.40	4.44	3.97	3.51
Sales/Tangible Fixed Assets (Times)	360.01	349.49	325.84	275.11	249.35
Sales/Stockholders' Equity (Times)	146.36	134.10	141.05	134.67	124.27
Accounts Receivables/Sales (Months)	1.76	1.69	1.78	1.95	2.44
Inventories/Sales (Months)	0.20	0.22	0.23	0.19	0.21
Finished Goods/Sales (Months)	0.20	0.22	0.23	0.19	0.21

TEN-YEAR REVIEW

Fiscal Year	Sales (¥ million)	Operating Profit (¥ million)	Ordinary Profit (¥ million)	Net Profit (¥ million)	Earnings/ Share (¥)	Dividend (%)	Stock Price Range (¥)
1983	12,987,257	53,436	30,967	3,412	4.0	6	353–275
1982	12,490,220	51,298	33,807	3,075	3.6	6	345–248
1981	12,335,652	42,870	13,675	5,014	5.8	10	434–320
1980	10,704,609	52,350	13,194	4,525	6.0	10	554–389
1979	8,862,034	42,344	11,976	2,726	3.7	6	612–238
1978	6,560,739	33,980	6,112	2,232	3.0	6	293–208
1977	6,355,973	28,076	8,353	−1,127	−	8	330–220
1976	6,332,657	37,133	15,138	5,354	7.7	12	381–265
1975	5,630,673	28,946	3,592	−5,770	−	12	483–313
1974	5,231,747	32,654	13,577	3,978	5.6	12	734–661

DIAMOND'S COMMENT

C. Itoh & Co. is a central member of the Dai-Ichi Kangin Group. Originally based in Osaka, the company traditionally excels in textile business. Today, Tokyo is becoming increasingly important in business operations; the function of its Tokyo Office has been so expanded that it may be called a second head office. The company ranks third among major trading houses in terms of the value of business transactions.

Its scope of business further expanded as it absorbed Ataka & Co. on October 1, 1977. Especially its position in the steel and chemical fields was strengthened after the merger. The company has been engaged in the development of LNG and coal mines in Australia and has been studying coal liquefaction.

The company suffered a decline in ordinary profits in the annual term ended March 31, 1984 because its main business division, the energy division, was hit hard by the sluggish domestic market. The energy division has continued to stagnate in the annual term ending March 31, 1985, although there has been some improvement in the financial balance as seen in the settlement of bad debts and reduced interest payments. Ordinary profits for the whole term are expected to total around ¥30,000 million, or about the same level as in the previous year.

C. Itoh & Co. has actively participated in communications satellite business in tie-up with Mitsui & Co. and Hughes Aircraft Co. of the United States, andestablished an international financing company in Britain. High hopes are placed on its overseas activities.

NOTE 12

Association: Sumitomo Corporation

Date: September 10, 1985

Attended:
- Akio Suzuki, Director, Corporate Planning
- Tsunao Nakaemura, Deputy General Manager
  Overseas Department (American Group) Planning
  Co-ordination Division
- Hirohisa Mitsuchi, Deputy General Manager
  Overseas Department
- Fukozo Ida, General Manager
  Overseas Department
- Paul Labbé, INC.
- David Dix, Embassy
- Deborah Moores, INC.

Summary

Sumitomo is one of Japans largest trading companies. Sumitomo is very aware of the changing international investment environment and what Sumitomo must do to be competetive in the next decade. Sumitomo historically has focused on the domestic market, however they are now undergoing a shift of global resources towards other countries and development in host countries.

On Canada

Sumitomo management indicated they were looking at Canada as a market with more potential. They feel it is now the right time to invest. Sumitomo was in partnership with Noranda for the LNG project, however they lost the deal to Dome. This however has not dampened their enthusiasm.

Sumitomo has concentrated on natural resource opperations in Canada. However in line with their new management style, of not staying in static traditional trading patterns, they are now investigating opportunities in electronics and telecommunications.

Research

Sumitomo is participating in a major task force to analyse and forecast the economic prospects of the Pacific Basin, (being chaired by Mr. Itoh, President of Sumitomo and prepared by the Japan Foreign Trade Commission).

Their initial findings support the restructuring of traditional industrial and trade patterns to ensure more equitable division of employment among developed and developing countries.

In summary Sumitomo Corp. has the following:

Goals

1. Sustain and expand transactions in their traditional markets and commodity areas.

2. Build new businesses in high growth fields.

3. Expand trade operations.

Services

1. Trading - import and export as principle key to markets around the world;
   - identify new trade opportunities.

2. Information gathering

3. Market research

4. Project planning

5. Finance and investment (financing)

6. Establishment of joint ventures

7. Warehouseing, shipping and transportation

8. Resource development

9. Hybred projects - co-ordination of large scale integrated projects

10. Tourism and real estate

11. Technology exchange promotion

12. Long range development projects (e.g. biotechnology, new ceramics, C&C telematics

Activities

1.	Iron and Steel Raw Material Division	27.3%*
2.	Iron and Steel Divisions	
3.	Iron and Steel Import and Export Division I	
4.	Iron and Steel Import and Export Division II	
5.	Non Ferous Metals Division	
6.	Heavy and Chemical Machinery Division	29%
7.	Trasnportation Equipment Divison	
8.	Industrial Machinery Division	
9.	Electronics and Electric Division	25.3%
10.	Chemicals and Plastic Division	
11.	Fuel and Carbon Divsion	
12.	Food Stuff and Fertilizer Division	6.9%
13.	Textile Division	2.6%
14.	General Products Division	8.9%
15.	Construction and Real Estate Division	

* % total trading volume *52.6 billion

Destination

Domestic - 50.5%
Export - 22.8%
Import - 15.1%
Offshore - 11.6%

Action Plan

1. Continue corporate liaison in Japan and Canada.

2. Investigate specific business opportunities that may be of interest to Sumitomo.

3. Provide all current materials and data base.

SUMITOMO CORPORATION

Sumitomo Corporation is one of Japan's major general trading companies and is a key member of the Sumitomo Group, one of the largest domestic industrial groupings.

Size: *In addition to an extensive network of domestic offices, our international operations span 129 cities in 81 countries, with offices strategically located to serve customers worldwide. We have more than 8,000 employees, including teams of experts in all aspects of business and trade.*

Scope: *Our trade transactions encompass more than 20,000 items in virtually every sector of economic activity. The business we conduct includes domestic transactions, which account for half of our gross trading volume, imports, exports, and offshore transactions between nations other than Japan. In addition to trading activities, we undertake investments in resource development, manufacturing, distribution, and other areas essential for the promotion of trade flows. These investments are frequently in the form of joint venture projects. We function as an organizer, utilizing our expertise in research, marketing, planning, financing, and investment.*

Profitability: *The parent company has maintained the highest level of transactions and net income per employee among Japan's nine largest general trading companies. Consolidated figures also point to one of the highest returns on assets and equity.*

Sumitomo Corporation and Consolidated Subsidiaries

FINANCIAL HIGHLIGHTS

Years ended March 31

	Millions of yen except Per Common Share Amounts				
	1984	1983	1982	1981	1980
Gross Trading Volume	**¥11,781,835**	¥11,433,604	¥11,009,200	¥9,762,989	¥7,653,167
Net Income	**27,885**	22,875	29,054	21,299	27,378
Per Common Share Amounts:	Yen				
Net income	**¥43.08**	¥35.34	¥46.55	¥36.24	¥50.01
Cash dividends applicable to the year	**6.67**	6.67	6.06	5.36	4.01

	Thousands of United States dollars except Per Common Share Amounts				
	1984	1983	1982	1981	1980
Gross Trading Volume	**$52,597,478**	$51,042,875	$49,148,214	$43,584,772	$34,165,924
Net Income	**124,487**	102,121	129,705	95,085	122,223
Per Common Share Amounts:	Cents				
Net income	**19.23¢**	15.78¢	20.78¢	16.18¢	22.33¢
Cash dividends applicable to the year	**2.98**	2.98	2.71	2.39	1.79

1. *Effective April 1, 1981, the companies adopted the method of accounting for foreign currency translations provided by Statement No. 52 of the Financial Accounting Standards Board. Financial statements for prior years have not been restated.*
2. *The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥224 = $1.*
3. *Net income per common share is based upon the weighted average number of shares outstanding, adjusted retroactively for free share distributions and other effective stock splits.*

MANAGEMENT PERSPECTIVE

In the following pages we

- *review the results for the year and discuss our corporate strategy in the Message from the President, which begins on the next page, and*

- *explain the business principles that form the core of the Sumitomo tradition and discuss the specific ways we are expanding into high-growth fields in The Entrepreneurial Spirit in a Changing Environment, beginning on page 6.*

A MESSAGE FROM THE PRESIDENT

BUSINESS ENVIRONMENT

During the fiscal year ended March 31, 1984, the accelerated pace of recovery in the United States had a positive influence on the world economy, although large-scale investment and resource development activities remained slow. The United Kingdom and the Federal Republic of Germany experienced moderate economic recovery, but other European countries failed to show marked improvement and remained troubled by fiscal deficits and high unemployment rates. Many developing countries suffered from continued slackness in exports of primary products, particularly petroleum, and thus were unable to emerge from recessionary conditions.

In the spring of 1983 the Japanese economy finally began to pull out of a protracted recession, spurred by a relatively strong pickup in exports, particularly of electronics-related products. Domestic demand, however, remained restrained because of low levels of personal consumption and residential construction, slow recovery in basic materials industries, and stagnant investment in plants and equipment. Despite government efforts to stimulate domestic demand through such measures as lowering the official discount rate in October 1983, the recovery of the economy as a whole failed to achieve strong momentum.

PERFORMANCE

In this environment, Sumitomo Corporation was able to increase gross trading volume 3.0% over the previous year, to ¥11,782 billion (US$52,597 million). Net income also rose, climbing 21.9%, to ¥27,885 million (US$124,487 thousand), as the result of continued efforts to improve performance and increase efficiency in all our operations.

In February 1984 we issued convertible notes totaling SFr50 million in foreign markets, centering on the Swiss market. These notes mature in March 1989 and bear interest of 2% per annum. In May, in a public offering centering on the Euromarket, we issued convertible bonds totaling US$70 million that mature in March 1999 and bear interest of 2⅞% per annum. The funds procured from these issues were appropriated to general working capital. On May 1, 1984, we made a free share distribution at the rate of one new share for each 20 shares held to shareholders of record as of March 31, 1984.

OUTLOOK

Although strong economic recovery is continuing in the United States and promoting recovery in several other countries, structural problems in the overall world economy, such as international financial uncertainties, tight monetary conditions, and high unemployment, are raising concern about the sustainability of the recovery. In Japan domestic demand has failed to pick up as much as expected, and rising protectionism in foreign countries and trade friction with them forebode tighter limitations on trading activities.

Japanese society and industry are undergoing many changes, such as the diversification and sophistication of demand and the rising importance of knowledge-intensive industries, particularly information, electronics, biotechnology, and new materials. The emergence of a radically new society and industrial structure based on these industries is already in sight, and emphasis

throughout the economy has shifted toward software, services, and large-scale systematization. The long-term survival of companies has become dependent on their ability to adapt appropriately to the requirements of this new industrial revolution.

STRATEGY

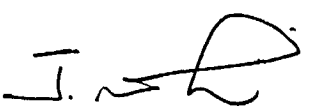
Sumitomo Corporation, as a *sogo shosha*, or general trading company, has developed and grown mainly through trading in hard commodities and materials. World economic stagnation and the changing structure of Japanese industry, however, have necessitated a fundamental reappraisal of our corporate direction. Clearly, our continued growth will require the creation of new functions that go beyond the traditional activities of the *sogo shosha*. Thus, as we work to sustain and expand transactions in our traditional markets and commodity areas, we are also building new business by developing new markets, commodities, and types of service. As part of this strategy, we have established several new companies and departments in high-growth fields, and we will apply our full managerial and organizational resources to the further development of our business in these areas.

The expansion of trade is another of our priorities, and to this end we are conducting extensive market analysis covering all the fields in which we are active. We are widely involved in the trade of virtually every kind of commodity, including iron and steel, nonferrous metals, electric and electronic equipment, machinery, fuels, chemicals, foodstuffs and fertilizers, textiles, and general products, as well as construction and real estate. Furthermore, these activities are supported by an integrated network of overseas offices covering 129 cities in 81 countries, through which we can instantly obtain all types of information relevant to the conduct of trade from every corner of the world. The analysis of this information enables us to respond to consumer needs and adjust to changing conditions promptly, accurately, and economically, wherever they may arise.

Beyond trading and information gathering, our expertise extends to market research, project planning, finance and investment, establishment of joint ventures, shipping and transportation, and resource development. Through the full use of each of these capacities and their coordinated application, we are able to match supply and demand on a worldwide scale and create long-term seller-buyer relationships to promote the balanced and stable growth of trade. We are working to improve our performance in the conduct of trade-related projects of all kinds through greater efficiency in management, in use of personnel, and in control of risk.

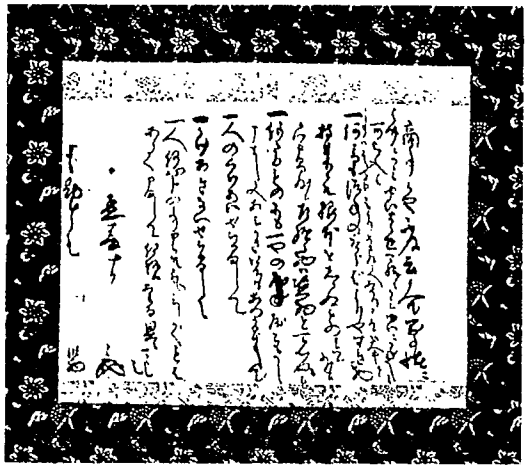
I would like to ask our shareholders and patrons for their continued support as we strive to achieve these goals and meet the challenges that lie ahead.

September 1984



Tadashi Itoh
President

THE ENTREPRENEURIAL SPIRIT IN A CHANGING ENVIRONMENT



The founder's precepts, written in Masatomo Sumitomo's own hand in the mid-17th century, became the basis for the Sumitomo enterprise's distinctive code of business ethics.

THE SUMITOMO TRADITION

Sumitomo Corporation and the Sumitomo Group have roots that go back more than 350 years in Japanese history, an unbroken tradition that has fostered an ability to change flexibly with the times while maintaining a firm sense of purpose and direction. This tradition is epitomized in the principles that have always guided the way Sumitomo conducts business.

Two preeminent personalities were instrumental in the creation of the Sumitomo enterprise, one the spiritual founder, the other the technological pioneer. Sumitomo reveres Masatomo Sumitomo, who lived from 1585 to 1652, as its spiritual founder. Masatomo entered the Buddhist priesthood at the age of 12, and his early religious training continued to mold his thinking even after he returned to lay life. His deeply felt concern for the welfare of humanity led him to open a medicine and scripture shop in Kyoto called the Fujiya.

Masatomo left a set of precepts expounding his business philosophy, which stresses the need for prudence, integrity, and sound management and warns against the pursuit of "easy gains." These precepts were incorporated in the Sumitomo family constitution, which became the basis of the *Sumitomo Business Principles*. One clause of the *Principles* stipulates that "Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently." Thus Sumitomo has always been an organization with a vision, looking to the future and to the larger context of its activities while engaged in the day-to-day conduct of business.

Sumitomo's technological pioneer was a Kyoto coppersmith named Riemon Soga (1572–1636), who married Masatomo's sister. Riemon perfected a practical process for extracting copper and silver from crude copper, based on a foreign method he had heard about. Later, Riemon's son moved his copper workshop to Osaka. He was adopted through marriage into the Sumitomo family, and his flourishing business eventually absorbed the Fujiya shop. The technology Riemon had developed generated a revolution in the domestic mining industry that contributed immensely to Japan's economy. On this foundation, the Sumitomo family enterprise grew into a powerful industrial organization, centered on copper mining and refining, that continued to expand throughout the Tokugawa Period.

With its business already so well established, the Sumitomo enterprise was able to make outstanding contributions to Japan's industrialization after the Meiji Restoration of 1868. One of Sumitomo's early director generals, Teigo Iba (1847–1926), who did much to promote the enterprise's modernization, expressed his business philosophy in the following terms: "Always attach great importance to reality but do not be bound by it; rather, always aspire toward ideals and thus be one step ahead of reality." One of his ideals was the congruence of corporate and social benefit. "Sumitomo is a profit-making enterprise and, as such, must seek profits to the best of its ability. In doing so, however, it must not go against the national and public interests and must not do anything that would arouse shame in retrospect." Built progressively on such principles, Sumitomo emerged in the 20th century as a large and highly respected group of companies involved in many industrial fields.

Today's Sumitomo Corporation was born in the difficult period following World War II. Unlike other large Japanese financial-industrial groupings, or *zaibatsu*, Sumitomo had refrained from engaging in commercial activities except those involving its own products, primarily because of the strong sentiment against trading for profit—pursuing easy gains—that had prevailed within the enterprise. But the postwar economic upheaval and the dissolution of the *zaibatsu* ordered by the Occupation authorities forced a reevaluation of this position. Sumitomo's leaders recognized that the only way to rebuild the country was through trade and that Japanese trading companies were therefore essential. Sumitomo had tremendous resources of talent and experience ready to take on new challenges, and the last director general firmly resolved to launch the enterprise into the field of trade and commerce. This move was made with care to preserve the traditional principles of the enterprise, to "cope effectively with the changing times" while avoiding the pursuit of profit for profit's sake. The key to the transition lay in preserving a long-term perspective focused equally on considerations of corporate growth and benefit to society.

This early wood-block print illustrates the revolutionary copper smelting method, perfected by Riemon Soga, that was the basis of Sumitomo's early development.

MEETING THE CHALLENGES OF A CHANGING WORLD

Sumitomo Corporation is widely engaged in import and export trade, natural resource development, export of industrial plants, finance for trade development, offshore trade, and related transactions, which together form the core of the Company's business. In addition, to remain in tune with changes in society, in patterns of trade, and in the structure of industry and demand, we have been moving into many new fields of activity.

We are promoting new business opportunities primarily through the flexible application of our organizational capabilities, entry into high-technology fields, and the development of new commodities and involvement in downstream business areas. In the following pages, we present a summary of some of our recent activities in these directions.

FLEXIBLE APPLICATION OF ORGANIZATIONAL CAPABILITIES

In November 1983 we established the strategically important Communications Systems Planning Department. This department is responsible for planning and implementing specific projects in new media and advanced communications systems, with the objective of long-term involvement in the core businesses of the coming information society. Projects now in the promotional stage include:

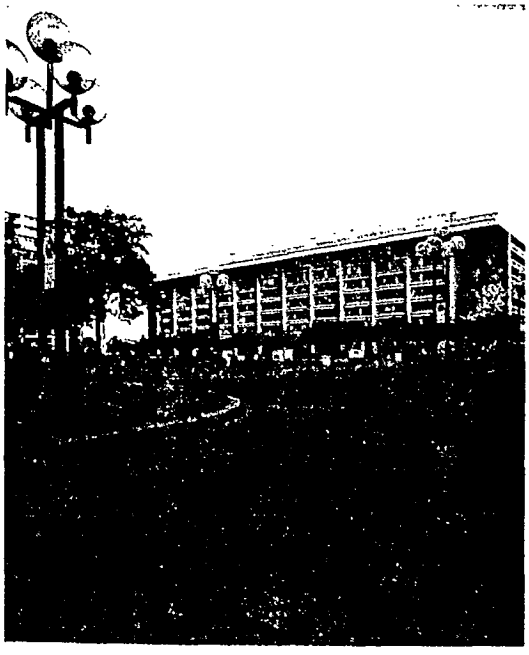
(1) The development of new urban cable-television business in Japan in partnership with other national and local interests, from feasibility studies through construction and operation.

(2) The implementation of value-added networks (VAN)—sophisticated computerized data processing and transmission services.

(3) Software production and distribution, including computer software, cable-television programs, video tape recordings, and videotex. We are also actively participating in the development of satellite communications and broadcasting and the private common carrier business.

The spring shown at lower right, made of a nonferrous new material known as shape-memory alloy, changes form at predetermined temperatures, a capability with a wide variety of applications.

Comsat's headquarters in Washington, D.C. An agreement between Sumitomo Corporation and Comsat will contribute extensively to the development of satellite communications in Japan.



In July 1983 we established the Non-Ferrous New Materials and Semi-Products Department within the Non-Ferrous Metals Division. This department is widely active in the electronics, electric appliance, heavy machinery, automotive, and other industries, especially in the handling of silicon wafers and other semiconductor materials both in Japan and abroad. Applying extensive experience to pursue new business opportunities throughout the world in related equipment and technology, the department has already had several accomplishments in introducing U.S. semiconductor-manufacturing machinery and materials in Japan.

In September 1983 we established the Electronic Chemicals and New Ceramics Department within the Chemicals and Plastics Division. This department has unified our operations in new materials, a highly promising field for future growth, providing a structure for the development of new commodities within the division and systematizing the accumulation of specialized knowledge. Products handled include electronic materials, chemical materials related to fiber optics, and new ceramic materials. The department has obtained general import rights from Lucas Cookson Syalon Ltd. of the United Kingdom for its engineering ceramic material, *Syalon*, and has begun marketing activities. *Syalon* has already proven its excellence in other countries and is expected to find a wide market in Japan in the manufacture of automotive, turbine, and other machinery parts.

ENTERING HIGH-TECHNOLOGY FIELDS

An important step in promoting Sumitomo Corporation's involvement in the biotechnology field was the signing of a contract in October 1982 with Celltech Ltd., a government-supported corporation in the United Kingdom, for distribution rights to Celltech's products in Japan. The items being commercialized and marketed under this agreement include various monoclonal antibodies, developed through Celltech's pioneering research in cell fusion, and medical products based on these antibodies. The agreement also makes us domestic agent for the introduction and licensing of Celltech's recombinant DNA technology.

One achievement of our work as Celltech's agent during fiscal 1984 was the conclusion in September 1983 of a contract between Celltech and Sankyo Co., Ltd., for the cooperative development of two new potential medicines, calcitonin and tissue plasminogen activator. Celltech will apply its technology to the development of economical manufacturing processes, and Sankyo will have exclusive worldwide marketing rights to the products.

In new ceramics, we concluded a contract in January 1984 with A.E. Developments Ltd. (AED) of the United Kingdom to import and market its silicon nitride products and to introduce its production technology in Japan. AED is the central research division of A.E. PLC Ltd., a prominent maker of engine and turbine parts for automobile and aircraft engines. AED is a world leader in the silicon nitride field and is now working on applications of this material in engines and turbines. Silicon nitride is widely regarded as a promising structural ceramic material because of its high resistance to heat, abrasion, and heat impact.

In April 1984 we took an important step into satellite communications by signing a wide-ranging business agreement

with the Communications Satellite Corporation (Comsat) of the United States. Under the terms of the agreement, we have established a joint office in Tokyo through which we will supply Comsat's products, technology, and extensive know-how for the development of the Japanese satellite communications market. Because groups of private companies will soon be entering the satellite communications field, we expect demand for the advanced services, products, and technology our partnership will offer to grow at a rapid pace.

DEVELOPMENT OF NEW COMMODITIES AND INVOLVEMENT IN DOWNSTREAM BUSINESS AREAS

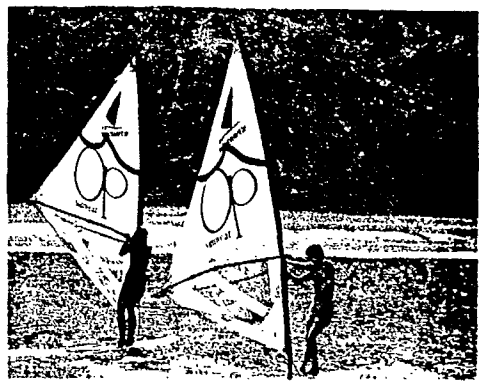
Sumitomo Corporation recently began marketing a clinical chart management system that substantially reduces waiting time in hospital registration centers. The system is organized around an electrically controlled automatic filing machine made by Taiyo Kogyo Co., Ltd., under license from Diebold Inc. of the United States. A minicomputer made by Digital Equipment Corporation, also of the United States, is incorporated in the system to perform automatic clinical chart retrieval and management using magnetic patient consultation cards.

In March 1984 we began to market *Milfull*, a whey product developed by Chugai Pharmaceutical Co., Ltd. *Milfull* is the first whey-based drink to be successfully commercialized in Japan, and it fully meets current consumer preferences for beverages that are nutritionally balanced, natural, and low in calories. As exclusive agent, we will use our broad know-how in food product marketing to promote sales in cooperation with several other companies with which we have organized a nationwide distribution system.

In the apparel field, we recently mediated an agreement between Teijin Ltd. and National Council of the YMCAs of Japan for the use of the YMCA brand for a new line of sportswear, bags, towels, and other sports-related products. These goods, designed to meet new trends in the Japanese consumer's pursuit of a healthy lifestyle, are being manufactured by six apparel makers, including Kashiyama & Co., Ltd., as sublicensees.

As a further step into the booming sportswear industry, we formed a business tie-up with the world's leading maker of aerobics shoes, Reebok Ltd. of the United Kingdom. Because of the aerobics boom, Reebok's shoes have become immensely popular in Europe and the United States. The growing popularity of aerobics in Japan gives them excellent potential in the domestic market as well. This 10-year agreement allows Sumitomo Corporation to import and market Reebok's products, to sell Reebok's production technology to Japanese manufacturers, and to handle the sale and export of the domestically produced shoes.

We also recently mediated a licensing agreement between an Osaka-based apparel maker, Nikki Co., Ltd., and Ocean Pacific Sunwear Inc. of California to manufacture and sell Ocean Pacific products in Japan. These garments are popular in the United States and combine simple, functional design with fresh colors redolent of California's healthy lifestyle, brilliant sunshine, and blue sea. Ocean Pacific's clothing is already manufactured under license in Canada, Mexico, Panama, Australia, and other countries, and Nikki will commence nationwide sales in Japan in the summer of 1984, concentrating on swim wear and related items.



Ocean Pacific sportswear, already popular in many countries, has made its debut in Japan.

A healthy image is reflected in a new line of YMCA-brand sportswear and sports-related products.

NOTE 13

Company: Tohmatsu Awoki and Co. - member firm
Touche Ross International

Date: September 10, 1985

Attended:
- Nobuyuki Hirose, Partner
- Takuro Tagai
- David Dix, Embassy
- Deborah Moores, INC.

Summary

We explained that we were interested in their assesment of their clients knowledge of Canada and how we could reach their clients to inform them of the benefits of investing in Canada.

They explained they had limited information on Canada and that most Japanese were not cognizant of the difference between the U.S. and Canada.

They indicated that they do get requests for information sometime, however they found their clients are more likely to see the banks, trading companies and associations.

They do not see themselves as matchmakers but through their consulting practice, they are active in mergers and acquisition work. They are limited by the size of their staff.

Services

They concentrate on tax and audit practise. The use their association with Touche Ross as a contact for business intelligence. They have regular taxation and audit services and also country seminars.

It was evident in our discussions that accounting firms in Japan relative to Canada, do not have the same degree of influence or diversity in their practice.

Key Concerns

1. What kind of investment incentives exist for Japanese businesses.

2. What are the main difference between Canada and the U.S.A.

3. What are the priority industry sectors and their strengths.

4. More detail on the Investment Canada Act and what it really does.

Action Plan

1. We responded to their key concerns however once the data base is ready, we should send them a copy highlighting their concerns.

2. Investigate how we can provide information for their seminar on Canada.

3. Work with the Canadian office.

4. Keep them on distribution and mailing lists for promotional events and materials.

NOTE 14

Company: Province of Alberta Office

Date: September 10, 1985

Attended:
- Ivan Bothwell, Alberta Representative
- David Dix, Embassy
- Deborah Moores, INC.

Summary

Alberta has a relatively small office in Tokyo with 3 Japanese officers, 4 clerks and Ivan being the only Canadian. Alberta's efforts in Japan have been trade development, specifically agricultural products and petrochemicals.

They recently hired an agricultural expert to be responsible for agricultural trade and once he arrives Ivan's time will be freed up for other activities. Alberta has concentrated their investment efforts in London and New York where investment has been sought for "resource explorations or competitiveness". However there is now an increased interest in the Pacific Rim and the province is also starting a new Hong Kong office (for the entrepreneurial program).

Investment Priorities

Alberta has an active program to diversify and broaden its manufacturing base and to promote alternate industries (natural resources) specifically high technology, micro electronics and medical/health care technologies including pharmaceuticals. To this end they have developed a number of high tech area, industrial parks, a research centre at the University of Calgary and the Alberta Medical Reaseach Fund which has a $300 million endowment.

Alberta has sophisticated oil and gas technology (e.g. oil sands recovery) and are now looking for opportunities to "flog" it in exchange for other technologies.

Information

Information is the key selling tool with the Japanese. Ivan indicated that information given by the government should be consistent because too many discrepancies will turn them off. He stressed that the Japanese feel safe with quantitative data.

Communication

The Alberta office has a flexible approach to reaching its market. They do not have a well developed mailing list and have no formal investment development efforts.

They have, however, established an informal networking system which they use to collect and disseminate information. Ivan has taken advantage of his time in Tokyo to develop contacts and people of influence who advise him and can provide introductions. Ivan maintains that having a core of advisors/contacts is critical to doing business in Japan.

The Alberta office also has an "Alberta" connection where all former residents of Alberta (both Canadian and Japanese) get together for an annual party. This is a very effective means to heighten Alberta awareness and reach a broader audience (who are all potential Alberta sales people).

Stevens Visit

Ivan felt Minister Steven's visit was very successful however he stressed that he must return within a year to demonstrate that he is serious. Alberta sells Canada first and the "political commitment" that comes from a Ministerial visit is very helpful.

Other

We also discussed the importance of testimonials and knowing which Japanese companies are doing business in Canada now. The "strength of the herd mentality" should not be underestimated.

Action Plan

1. Maintain contact with Ivan in Tokyo.

2. Supply with material and data base.

NOTE 15

Association: Japan Chamber of Commerce (Tokyo Chamber).

Date: September 11, 1985

Attended:
- Yoshihiro Akimune
  Manager, International Division
- Hikoshi Era
  Manager, International Division
- Hiroshi Kawahara
  Assistant Manager, Tokyo Economic Co-operation Centre, International Division.
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

The Japan Chamber of Commerces are organized by specific local areas and represent primarily the small and medium size enterprise. We met with the Tokyo Chamber which represents over 40,000 firms in the Tokyo region. The Tokyo Chamber has many departments and we met with representatives from the International Division. Mr. Yoshiro Akimure is on secondment from Mitsui for a 2 year period. The Tokyo Chamber is funded by its members, the government (MITI-SME) and from rent they receive from the Chamber building.

Activities

The Japan Chamber's international activities include:

1. International Conferences

The Japan Chamber is actively involved in three regional organizations - CACCI - Asia Pacific activities; PBEC - Pacific Basin countries and Asean - Japan, Japan and S.E. Asia. They also participate and organize a number of bilateral conferences with such countries as Australia, Malaysia, Egypt, and New Zealand. They have just recently completed such a conference with the Australian Federation of Industry. It is their experience that the Canadian Chamber usually does like conferences in Japan with the Keidanran.

2. Missions

The Japan Chamber hosts a variety of international missions and have initiated some of their own. They recently completed an investment mission for some of their members to China. They have not arranged a mission to Canada but this might be worth pursuing given the right mix of industry groups and companies (secrecy).

3. Seminars

The Tokyo Chamber have regular seminars each month on business, trade and investment issues. They indicated that they could accomodate any reasonable request for a company or government representative to meet with their members. In October, the Montreal firm of Gotlieb, Kaynor and Stock will be presenting an investment related seminar to the Chamber. The Tokyo Chamber provides this service free of charge.

4. Information service

The Japan Chamber publishes a newsletter (the J.C.C.I's Business Guide) every 10 days. This newsletter is used to inform Japanese companies of international business offers and opportunities. According to their brochure, the Japan Chamber receives over 10,000 letters of inquiry annually from all over the world about business and trade opportunities in Japan. The newsletter is available only in Japanese. For more extensive information and more country specific information, they indicated that most of their members will go to JETRO.

5. Economic Co-operation

A system of business exchanges has been initiated between Japan and a variety of other countries. Most recently, a series of interchange have taken place between cities in Japan and cities in New Zealand. No such plan has been considered for Canada.

We asked if the Tokyo Chamber would be in a position to arrange introductions for Canadian businesses who were interested in joint venturing, transfering technology or licencing with Japanese companies. This question required much discussion (in Japanese) before an affirmative answer was given. As was indicated by the Fuji Bank, referrals must be well qualified and be legitimate business opportunities or else the introducer loses credibility with his client group.

However, according to their brochure, they do offer "consulting and intermediate services" for Japanese SME interested in joint ventures and technical co-operation projects abroad and for foreign businessmen interested in investment in Japan.

In order to facilitate these "economic co-operation" arrangements the Chambers of Commerce and Industry of Tokyo, Nagoya, Osaka and Fukuoka have been integrated into a system of close liaison with the Japan Chamber and its five offices in Korea, Indonesia, Malaysia, Mexico and the USA.

6. Publications for Overseas

The following are published by the Japan Chamber for overseas business:

(i) Standard Trade Index of Japan - annually. (It is a reliable trade directory designed to assist in developing business relationships with Japanese firms. About 8500 manufacturers, business and trading firms are listed in alphabetical order, 28,000 products and services, together with the company name and 2,700 brand names classified into 35 commodity categories are listed.)

(ii) Japan Commerce and Industry - acticles on Japan's economic conditions and industrial trends; and

(iii) Japan New Products and Marketable Commodities - which introduces new and recommended products by photographs with their explanation and names and addresses of suppliers.

7. Special Arrangements

The Japan Chamber has no special arrangements with any of the U.S. states to date but they indicated they would like to develop more contact.

The Chamber's Views on Canada

Their knowledge of Canada was fairly limited. They emphasized that the country investment climate was very important in attracting Japanese investment. They suggested the following points as critical if Canada is to make headway in Japan:

(i) For Canadians to be successful, once the awareness campaign is complete, Canadians must focus on very specific, very concrete opportunities in order to generate Japanese interest;

(ii) It is very important to show (quantitatively) what kind and the degree of benefit a Japanese company will receive by investing in Canada;

(iii) It is important to provide comparisons of Canadian attributes with those of the Unites States (our main competition);

(iv). Information should be widely available in Japanese and convincingly demonstrate the benefits of investing in Canada. Information should be made available to the Canadian Chamber of Commerce in Japan and the Canada/Japan society and to enlist these members as personal salesmen.

(v) The two industries which they mentioned which are fast growing and offer potential are electronics and fine ceramics.

ACTION PLAN

1. Continue corporate liaison work with Tokyo Chamber.

2. Investigate with Canadian Chamber why relationship cannot be extended to include the Japanese Chambers as well as the Keidanran.

3. Develop idea with Canadian Chamber of doing some kind of bilateral conference with the Japan Chamber ("JC").

4. Include JC in discussions of incoming missions from Canada to explore ideas on how we can meet Japanese companies, give presentations to increase awareness etc.

5. Discuss the possibility of Canada as a destination for an outgoing JC sponsored investment mission.

6. Monitor seminars put on by JC for Canadian participation and possible input.

7. Ensure JC has all up-to-date information on Canada in Japanese.

8. Request that specific news items be included in their monthly newsletter.

9. Explore possibility of promoting increased awareness by Canadian companies of the JCCI's Business Guide and the possibility of publicizing Canadian business opportunities.

10. Through the Canadian Chamber, explore the possibility of developing a system of business interchanges.

11. Explore now we can use the JC in our "Matchmaking" efforts.

12. Subscribe to those english publications offered by the JC for research and information purposes.

13. Consider entering into some form of arrangement to work directly with the JC.

14. Send data base when available.

PRESENTATION OF OPINIONS ON POLICIES

One of the most important functions of the Chamber of Commerce and Industry is to serve as a pipeline between the regional economic circles and the central Government authorities. Views and requests are conveyed to the Chamber through Divisional Meetings, Committees, branch activities and research, reports, and the Chamber in turn transmits these views and requests to the National Diet and Government authorities so that they may receive due consideration by those in power.

Alternatively, Government authorities often actively seek the views of the Chamber on many issues of national importance.

PROMOTION OF COMMERCE AND INDUSTRY IN WIDE FIELDS

The Chamber of Commerce and Industry conducts extensive activities designed to promote and develop commerce and industry. In order to coordinate the activities of different industrial circles, the Chamber engages in large-scale projects, regional redevelopment, the construction of joint facilities and the sponsoring of exhibitions.

The Chamber, taking advantage of its proven capacity for guidance and its high level of credibility, also issues professional certificates, undertakes appraisals, administers vocational qualification tests, awards letters of commendation to outstanding executives and employees and renders assistance to other organizations.

A system of "Management Consulting Services" provides counseling and advice on accounting, taxation, loans, labour affairs, business dealings, legal affairs, pollution problems, the remodelling of shops, sub-contracting relations, trade dealings and methods of utilizing computers in the workplace. In particular, these services provide individual aid in introducing dealers, making available business funds, assisting in the acquisition of factory sites and smoothing out contractor/sub-contractor relations. In addition, they sponsor many seminars and training courses to provide information and instruction on improving management practices.

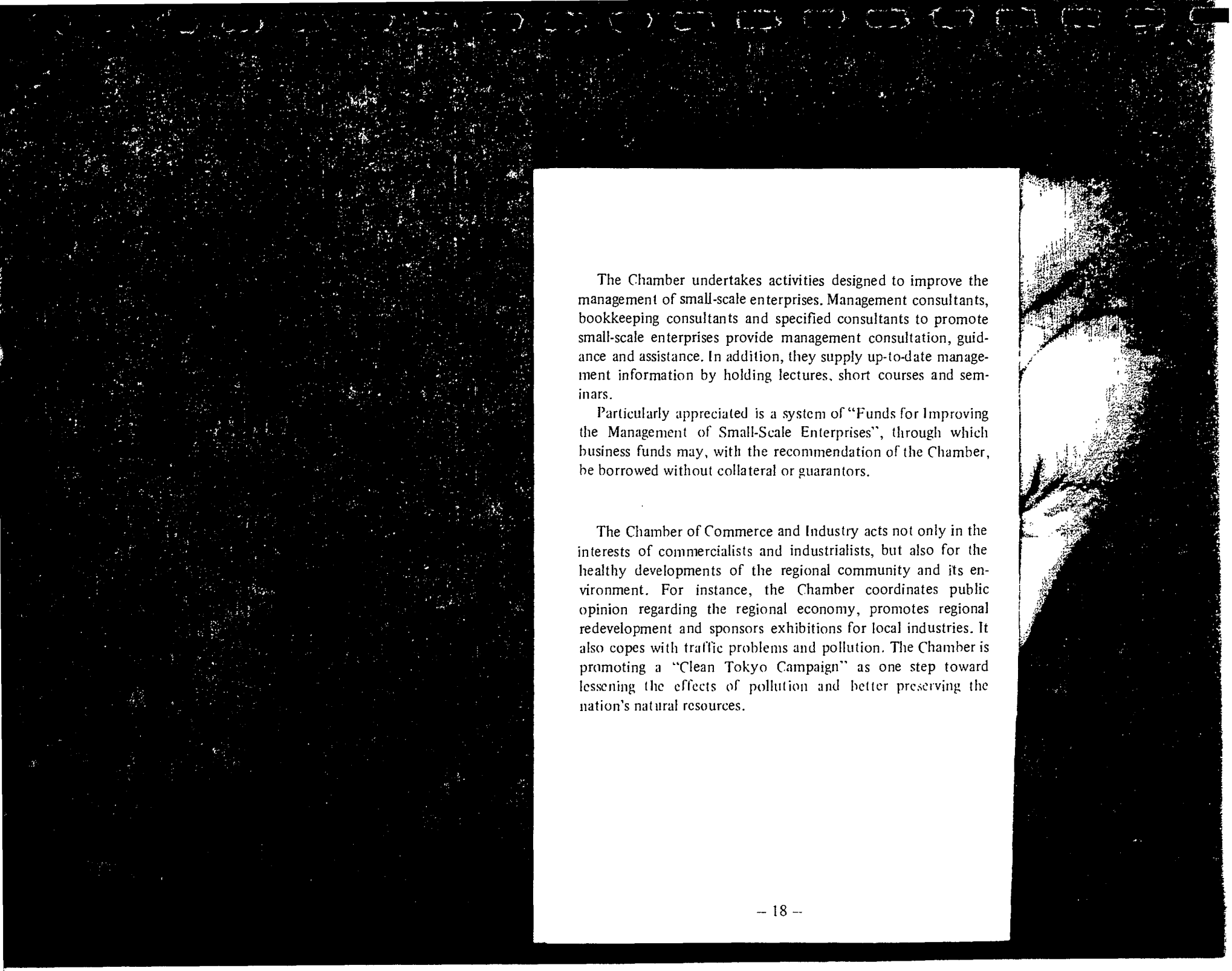
INTERNATIONAL ACTIVITIES

The Chamber of Commerce and Industry is playing an ever-more important role in international economic affairs through activities in the private sector. It is continuing to expand into a wide range of activities, including sponsoring international conferences, dispatching and receiving economic, trade and goodwill missions, promoting technological exchanges with other countries, serving as an intermediary in commercial transactions, issuing certificates necessary for foreign trade, arbitrating commercial disputes, providing training in international business and issuing introductory letters for overseas chambers.

COORDINATING THE HEALTHY DEVELOPMENT OF REGIONAL ECONOMIES

The Chamber of Commerce and Industry, as a regional organization, is characterized by its public character. The coordinating activities undertaken by the Chamber are designed to meet such expectations.

In particular, the "Council for Coordinating Commercial Activities" has for many years endeavored to coordinate retail businesses for the sake of balanced and healthy development. "The Council for Sub-Contracting Relations" is striving for the fair and appropriate settlement of problems on the basis of the principles of co-existence and co-prosperity of parent enterprises and their sub-contractors. The Chamber also endeavors, from its impartial standpoint, to help resolve disputes between small and medium scale firms and large enterprises regarding their respective spheres of activity.



The Chamber undertakes activities designed to improve the management of small-scale enterprises. Management consultants, bookkeeping consultants and specified consultants to promote small-scale enterprises provide management consultation, guidance and assistance. In addition, they supply up-to-date management information by holding lectures, short courses and seminars.

Particularly appreciated is a system of "Funds for Improving the Management of Small-Scale Enterprises", through which business funds may, with the recommendation of the Chamber, be borrowed without collateral or guarantors.

The Chamber of Commerce and Industry acts not only in the interests of commercialists and industrialists, but also for the healthy developments of the regional community and its environment. For instance, the Chamber coordinates public opinion regarding the regional economy, promotes regional redevelopment and sponsors exhibitions for local industries. It also copes with traffic problems and pollution. The Chamber is promoting a "Clean Tokyo Campaign" as one step toward lessening the effects of pollution and better preserving the nation's natural resources.

NOTE 16.

Company: Fuji Bank

Date: September 11, 1985

Attended:
- Yasuhiko Nishiyama, Assistant General Manager
  Head of International Business Consulting Office
- Shoji Kawaguchi, Assistant General Manager
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

Services

The International Business Consulting Division ("IBCD") of the Fuji Bank is responsible for providing the Fuji Bank's domestic customer with timely in-depth information and advisory services to facilitate their international business activities.

The IBCD provides a consultative and research service to their clients which are primarily medium sized business. For investment decisions, the bank is usually consulted by the client at the pre-feasibility stage when general information is being collected. The client will also visit JETRO or their association at this time for information. Larger companies generally have their own in-house research capacity. The bank charges no fee for this service. They do, however, through a "consulting" subsidiary, provide chargeable investment related services. The Fuji Bank in Canada works most directly and most often with the Bank of Montreal.

Info Needs

The Fuji Bank collects most of the information through its Canadian subsidiary and through information provided by the Embassy and Provinces. Although their intelligence network is fairly sophisticated, they feel there is a significant gap in accessible information on Canada, especially information available in Japanese.

They specifically mentioned information on (i) specific companies in Canada (corporate analysis); (ii) sector by sector analysis eg. fishing, natural resources, autoparts (these three were mentioned as examples); (iii) types of investments being made in Canada; (iv) case by case analysis of Japanese investments in Canada; (v) and as suggested by most of the people we met with, a comprehensive comparative analysis of Canada and the U.S. (by region) concerning: all the costs of production eg. labour costs, energy, raw

materials etc.; reliability factors eg. labour, energy security, access to raw materials; the market size; market access (tarifs; NTB's); economic factors (indicators); diffusion rates; access to technology; R&D resources and capacity; taxation; incentives (this was, unexpectedly, a higher priority than we thought); land costs etc.

They felt that if this type of information was provided (preferably in Japanese) this would be useful in developing more interest in Canada as an investment destination. They felt that the awareness level of Canada among their customers is very low ... "it is just beginning". Access to good, reliable and current information would be very instrumental in heightening awareness and interest.

They recommended also that information be made available and a contact be established with their subsidiary office, a Schedule B Bank, Fuji Bank Canada, in Toronto. Fuji Bank Canada could provide such information to their Japanese clients residing in Canada.

Investment Experience

Fuji Bank indicated that their clients are "market driven" and that the focus of attention has been the United States as an investment destination. To convince Japanese companies that Canada is a preferred location, they indicated that we must demonstrate comparable market access combined with an economic advantage.

Fuji Bank does not have any arrangements to represent countries, states or provinces at this time and were not overly enthusiastic about the concept. They do however have some agreements for information exchange. The Fuji Bank does not currently have an international mergers and acquisitions capability. They have an informal introduction service and provide investment opportunities information on a circular which is distributed throughout their branches, but no formal process. They indicated that they would like to develop a system to identify investment opportunities for Japanese businesses and would be interested in introducing Canadian opportunities to their Japanese clients. They cautioned, however, that the deals must be of impeccable quality and highly "do-able" or their credibility would be damaged. Therefore, the need for qualified "screening" is critically important.

Other

The Fuji Bank had many specific questions concerning the Investment Canada Act and what it really means. The lack of clarity in the guidelines and the acquisition criteria were not clear. We explained that Investment Canada's role is now to facilitate investment and that where there are any questions or interpretations needed, we are eager to advise. A regulatory package was sent to them as they expressed a high level of interest in understanging the "mechanics" of the review process.

Action Plan

1. Make available information produced by Investment Canada (translated where possible).

2. Continue corporate liaison work in Japan to ensure information and interest levels remain high.

3. Commence corporate liaison work in Canada. Establish relationship, provide and anticipate their requirements.

4. Evaluate how their desire to participate in increased M & A activity can be facilitated.

5. Discuss information exchange agreement and send data base when available.

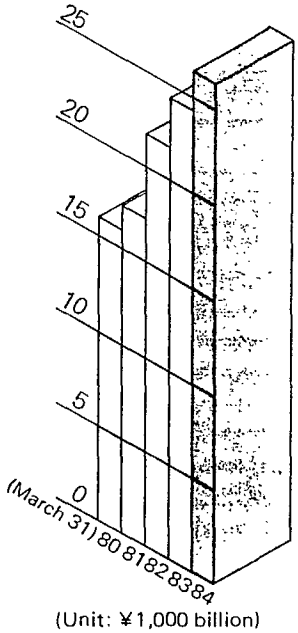
Financial Highlights

(Unit: 1 million)

	Fiscal 1983*		Fiscal 1982*	
	Yen	U.S. dollars**	Yen	U.S. Dollars**
For the Fiscal Year				
Income before Tax	**152,464**	**682**	136,839	612
Net Income	**73,020**	**327**	56,520	253
At the Year End				
Total Assets	**26,385,028**	**118,027**	24,106,291	107,834
Deposits	**19,511,375**	**87,280**	17,663,461	79,013
Loans and Bills Discounted	**12,934,387**	**57,859**	11,615,196	51,958
Securities	**2,761,432**	**12,353**	2,574,658	11,517
Stockholders' Equity	**557,505**	**2,494**	498,069	2,228

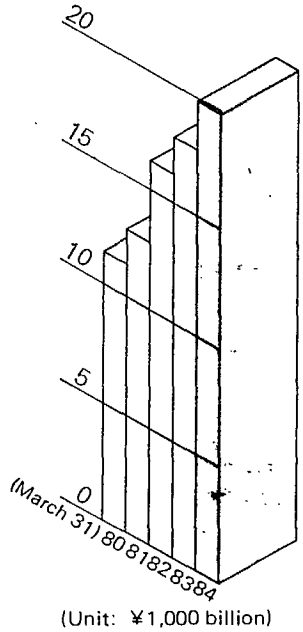
Note: * Each fiscal year runs from April 1 to March 31 of the next year.
** U.S. dollar amounts are converted for convenience only, at ¥223.55 per dollar, prevailing rate on March 31, 1984.

Total Assets



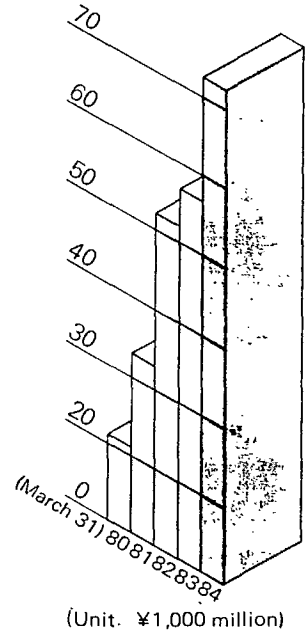
(Unit: ¥1,000 billion)

Deposits



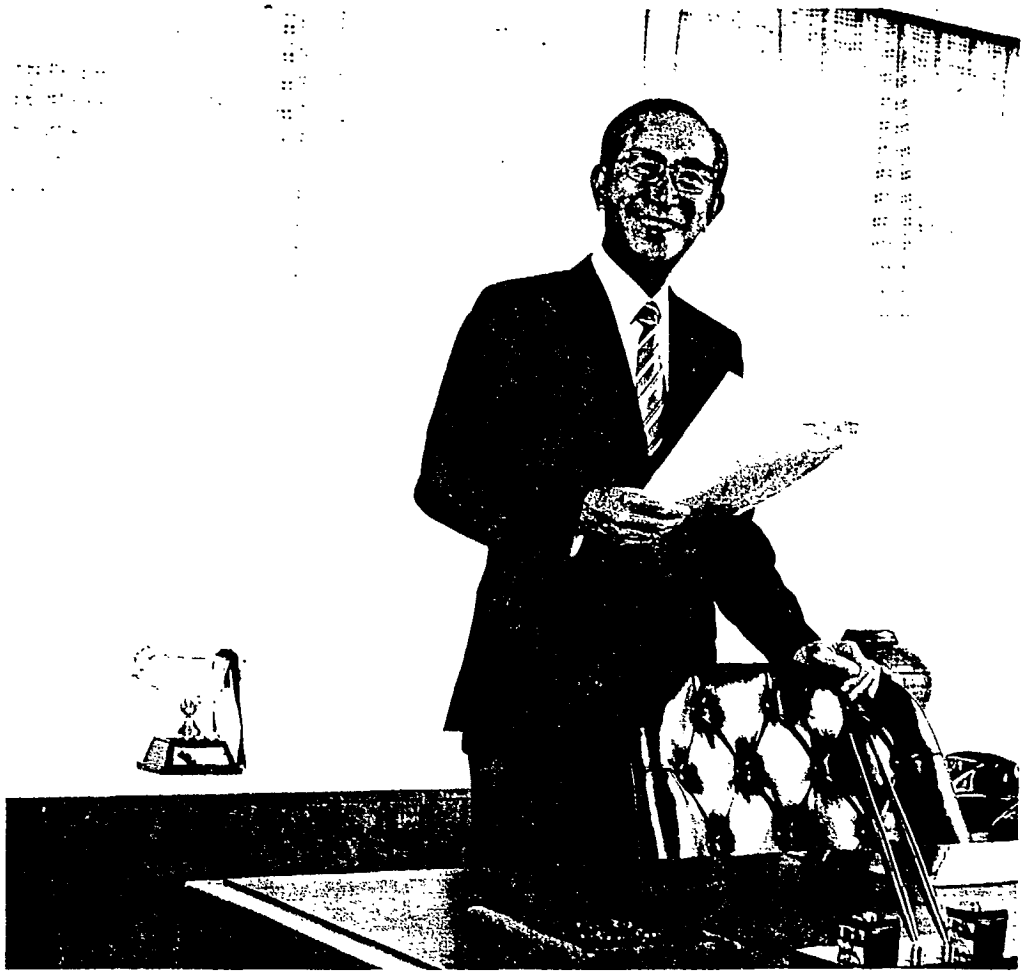
(Unit: ¥1,000 billion)

Net Income



(Unit. ¥1,000 million)

Message from the President



The Financial and Economic Environment

In fiscal 1983 the world economy began to show signs of recovery as the recession brought on by the second oil shock gradually weakened. The United States economy in particular played a leading role in the global economic recovery, through vigorous expansion which exceeded expectations and continued throughout the year amid the easing of domestic inflation.

The developing countries experiencing accumulated foreign debts, however, continued to suffer from stagnant economies characterized by severely restricted fiscal and financial policies. The pace of the worldwide economic recovery was thus uneven.

Japan's economy bottomed out in February 1983, and began to turn upward gradually. Exports grew, supported by the expansion of the U.S. economy, and consequently fueled Japan's economic recovery. Expansion in domestic demand was limited, due in part to a stagnancy in personal consumption and housing starts. There was a gradual resurgence of private equipment investments, however, mainly among medium- and small-sized firms. Also, the drop in crude oil prices helped to stabilize both wholesale and retail prices.

On the financial side, an eased monetary situation was maintained through such measures as a 0.5 percent reduction in the official discount rate in October 1983. The balance of payments improved notably, largely attributable to rising exports and reduced payments for crude oil. The result was that the balance of current accounts recorded its highest-ever surplus. Toward the end of fiscal 1983, the yen's strong uprise against the dollar mirrored the increased surplus in the balance of payments.

Business Developments

Under these circumstances, Fuji Bank continued to expand and strengthen efforts to fulfill its role and responsibilities for providing better services to customers at home and abroad.

In a major step in this direction, a strategic reorganization in the head office and branches was carried out in July 1983 to enable the Bank to respond to diversifying customer needs more accurately.

Domestically, the "Fuji Personal Computer Banking Service" was inaugurated in October 1983, followed by the introduction of various other electronic banking services during the year. Among the Bank's new products was the "Fuji Government Bond-based Time Deposit" (combination of government bonds and time deposits in certain fixed portions) which was first offered in September 1983 in response to the needs of retail customers. In April 1983, the Bank started over-the-counter retail sales of long-term government bonds, government-guaranteed bonds, and municipal bonds. The Bank also received government approval to sell medium-term government bonds and government discount bonds in October.

During fiscal 1983, transactions with individuals and medium- and small-sized companies increased. Overall activities with corporate customers also expanded to coincide with their diversified financial requirements. At the same time, the Bank continued to improve our efforts to provide funds to the government and local municipalities.

On the overseas front, Fuji Bank made solid progress in expanding international banking and financial services amid the rapid internationalization of Japan's economy and the increasingly active international movements of capital in the major markets.

As the raising and investment of funds by corporate customers became more internationalized, Fuji Bank played a significant role in providing them with better financial services. It acted as the lead manager of numerous syndicate loans and project financing transactions. Its overseas subsidiaries also managed a number of bonds and notes issues by our customers.

In April 1983, Fuji Bank issued bonds through its Hong Kong subsidiary, Fuji International Finance (HK) Limited. The Bank thereby became the first among city banks in Japan to procure funds in this manner under the new guidelines of the Ministry of Finance. Fuji Bank's initiation of this long-term international funding was prominently heralded as a significant step forward in the sound development of the international banking business.

Overseas network expansion continued in fiscal 1983 with the upgrading of the Paris representative office to branch office status and the establishment of new representative offices in the cities of Atlanta and Shanghai. Fuji Bank also participated in a capital tieup with P.T. Jaya Fuji Leasing Pratama in Indonesia.

In January 1984, the Bank completed the acquisition of Walter E. Heller & Company, a major U.S. commercial finance company, and Walter E. Heller Overseas Corporation. The acquisition of the two companies marks the inauguration of a wide spectrum of new financial services for the Bank's customers in the United States and around the world.

Fiscal 1983 Business Results of the Bank

Fuji Bank achieved noteworthy business results during fiscal 1983. Net income increased by 29.1 percent over the preceding year to ¥73,020 million ($326.6 million) while net income per share rose ¥7.4 to ¥32.78. Total assets grew by 9.4 percent over the preceding year to ¥26,385.0 billion ($118,027 million).

Despite the slacking demand for borrowing, loans increased to ¥12,934.3 billion ($57,859 million), an 11.3 percent increase over fiscal 1982, as a result of our active approach to corporate clients, both domestic and abroad. Deposits also rose by 10.4 percent to register ¥19,511.3 billion ($87,280 million).

Future Objectives for the Bank

In May 1984, the Japanese Ministry of Finance announced its guidelines for Japan's future course in financial and capital liberalization and the internationalization of the yen. The government's announcement indicates these policies will be carried out at an increasingly faster pace. Accordingly, Japanese financial institutions will be confronted with stiffer competition and a generally harsher business environment in fiscal 1984.

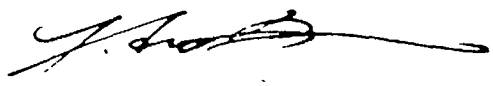
Fuji Bank nevertheless believes liberalization and internationalization will provide opportunities to expand business further. Domestically, the Bank is placing greater emphasis on increasing its securities-related business, including the dealing of various public bonds.

Overseas, the acquisition of the Heller companies marks the beginning of the Bank's new strategy for expanded financing activities in the U.S. market and will strengthen our ability to respond to the increasingly sophisticated needs of our domestic and foreign customers.

At the same time, Fuji Bank will continue to emphasize the principles of sound banking in international lending by further improving its recognized expertise in risk control in response to the persistent problem of accumulated debts among developing countries.

The field of telecommunications has also been targeted by the Bank for the many growth opportunities it presents. Fuji Bank therefore intends to play a pivotal role in the emerging information-oriented society. The Bank has been instrumental in the development of electronic banking and already offers a wide range of information services and new products. Furthermore, Fuji Bank is expanding the next generation of its on-line system to enable customers to cope with their increasingly sophisticated needs in the growing information-oriented society.

Fuji Bank is thus doing its utmost to meet the new challenges of the ever-changing business environment. As we work toward fully achieving the Bank's goals in fiscal 1984, we will appreciate the continued support of our shareholders and customers.



Yoshiro Araki
President

International Banking

Development of International Operations

Throughout the world, national economies have in recent years become more interdependent, and at the same time, Japan's status in the world economy has risen. As a result, the Japanese economy has rapidly become internationalized.

In line with these trends, the level of overseas direct investment by Japanese corporations has been growing. The volume in fiscal 1983 totaled US$8,145 million, a 5.7 percent rise over the previous year. This brought the cumulative total since 1951 to over US$60 billion.

In addition, the fund raising and investment practices of Japanese corporations have become increasingly internationalized, which has prompted financial management to become more sophisticated and diversified. For example, the role of capital market financing, including the issuance of bonds and notes, has become more important. In Japan, relatively low interest rates persisted in 1983, and the Tokyo capital market has gained an increasingly favourable reputation among overseas clients. Thus, fund raising by non-residents in the capital market has increased.

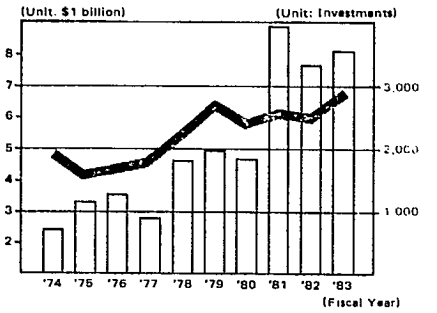
All these factors have brought about an ongoing surge in international capital movements. In response to these circumstances, Japanese financial institutions are continuing to expand their international activities.

In a related development, Japan's Ministry of Finance announced the framework for liberalization of financial and capital markets, and the internationalization of the yen at the end of May 1984. The pace of deregulation and internationalization of the Japanese financial and capital markets is expected to become more rapid in the years to come.

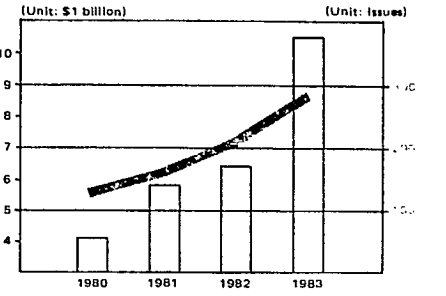
Fuji Bank is vigorously meeting the challenges of the new era. Taking full advantage of its highly talented and experienced staff and its sophisticated computer systems, Fuji Bank intends to serve customers' needs with its customary creativity and expertise.

New York Agency

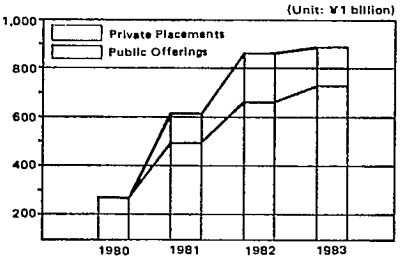
Japanese Overseas Direct Investment



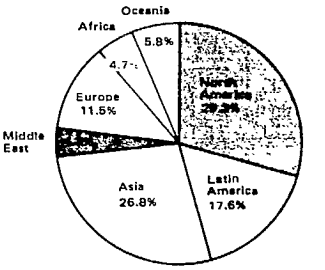
Foreign Bond Issues by Japanese Corporations



Yen-denominated Foreign Bond Issues



Japanese-Overseas Direct Investment by Region (Cumulative Total at Fiscal 1983 Year-end)



Organization of International Banking Group

In order to better respond to the requirements of its customers, Fuji Bank carried out a major reorganization in July 1983. The International Banking Group in the Tokyo Head Office is now composed of eight divisions.

International Division has a comprehensive range of functions. It is responsible for planning basic strategy, supervising earnings performance, and controlling overseas offices, subsidiaries and affiliates. The section called *"Americas,"* which is responsible for business promotion in the Americas, belongs to this division.

International Administration Division is in charge of the basic policies for international lending. Its responsibilities also include screening and supervision of loans to non-residents, country risk research and overseeing the administrative procedures of domestic branches with regard to their international business.

International Systems Development Division is responsible for planning related to the streamlining and computerization of the Bank's international operations, and for its implementation.

International Business Division is in charge of promoting the international business of the domestic branches. The section called *"International Business Consulting,"* which belongs to this division, provides our customers with timely, in-depth information and advisory services to facilitate their international business activities.

International Corporate Finance Division handles the overseas fund raising and investment activities of corporate customers. It is also responsible for promoting business with overseas corporations and foreign-affiliated enterprises in Japan, and for direct overseas investments, acquisitions and mergers.

International Project Finance Division is in charge of international project financing activities, both for customers and for the Bank itself.

The division called *International Treasury*, has overall control of international securities-related business. Within this division the *"International Money*

Desk" takes charge of foreign currency dealing in the Tokyo foreign exchange market and in the Tokyo dollar call market. Other responsibilities include international funding transactions, and supervision of the funding and foreign exchange positions of the Bank's overseas branches.

International Marketing & Business Promotion Division is responsible for planning and carrying out the Bank's medium- and long-term lending to overseas entities, and for arranging syndicated loans. Its other responsibilities include correspondent banking, promotion of yen-denominated foreign bond issuance, and proxy-custodian services for overseas investors.

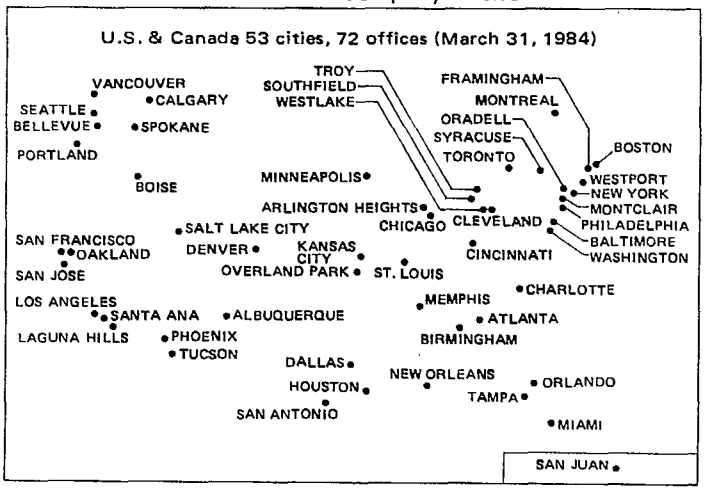
Within this division, *"Asia & Oceania,"* including *"China Desk,"* and *"Europe, Africa & Middle East"* sections are engaged in correspondent banking, research and business promotion of the markets in thier respective areas.

New Developments During Fiscal 1983

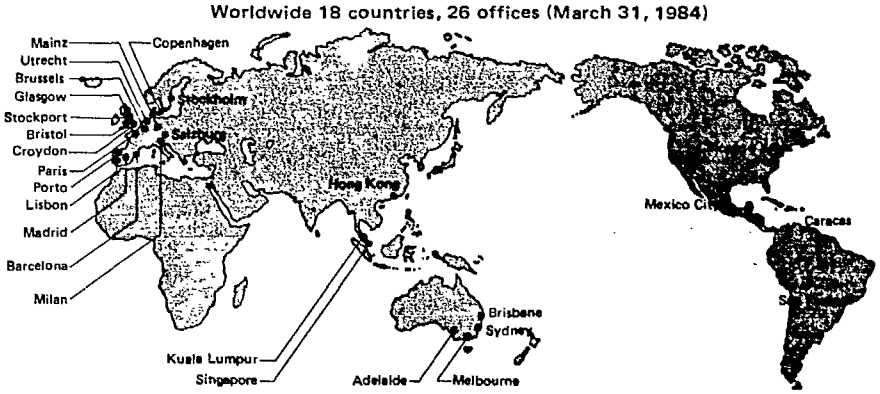
Acquisition of the Heller Companies – New Progress in U.S. Strategy

On January 26, 1984, Fuji Bank concluded its acquisition of the two subsidiaries of the Chicago-based Walter E. Heller International Corporation by completing the purchase of the entire stock of both companies for US$425 million. Walter E. Heller & Company is a commercial finance company operating in the U.S. and Canada. Walter E. Heller Overseas Corporation operates in overseas markets. Both have become subsidiaries of Fuji Bank's new wholly owned holding company, Heller International Corporation.

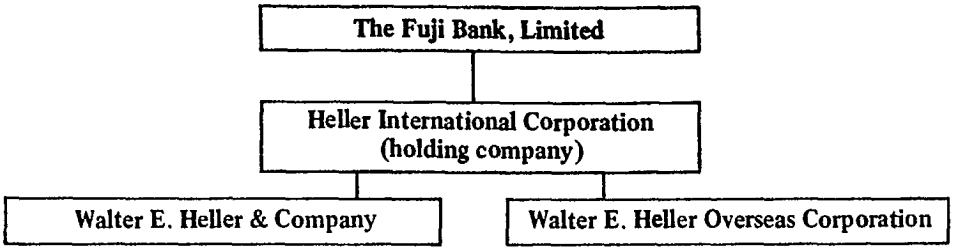
Walter E. Heller & Company Network



Walter E. Heller Overseas Corporation Network



Organizational Chart for Heller Companies



This acquisition is highly significant to the Bank's overall international strategy for several reasons. First, the Bank has gained a powerful foothold in the wide, substantial middle market of the U.S. This new field for us, which had in the past proved difficult to enter, is now considered to be one of our most promising markets. Second, the Bank will be able to take advantage of the Heller companies' financial products and services. By utilizing Heller's expertise in such areas as leasing and factoring, the Bank will enhance its capabilities to meet the diversified needs of customers. Third, Fuji Bank has dramatically expanded its worldwide network by adding Walter E. Heller & Company's 72 offices covering 53 cities in North America, and Walter E. Heller Overseas Corporation's 26 overseas offices in 18 countries. Fourth, the Bank has gained 3,000 highly qualified personnel as co-workers.

Regarding Heller's management, Fuji Bank's policy is to respect its basic autonomy in day-to-day affairs. In line with this policy, the Bank welcomed Mr. Norman P. Blake, Jr., formerly Executive Vice President of General Electric Credit Corp. (GECC), to manage Heller as Chief Executive Officer. At the same time, the Bank will participate in its management at the policy level. Mr. Ko Uemura, Senior Managing Director, stationed in New York, is in overall charge of Heller's affairs.

To provide support for Fuji Bank's new strategy for the U.S. market, in January 1984 the Bank set up the *"Regional Headquarters for the Americas"* in New York. This is the first time that a Japanese city bank has established an office outside Japan that functions as a headquarters. Under the direction of Mr. Ko Uemura, the responsibilities of the new regional headquarters include planning marketing strategies for the Americas, coordinating the Bank's financial service activities, conducting surveys on North American industries and corporations and overseeing the activities of Heller international Corporation and its subsidiaries.

In today's international climate of political unrest and faltering economic growth, the potential of the U.S. market is receiving renewed attention. Under these circumstances, Japanese enterprises in increasing numbers are establishing business operations in the United States, and spreading into all parts of the country.

By establishing this new regional headquarters and by taking advantage of the Heller companies' wide networks, the Bank has demonstrated its commitment to the U.S. market.

Expansion in International Operations

Syndicated Loans

The uncertainty of the world financial situation and the cumulative debt problems of developing countries persisted in 1983.

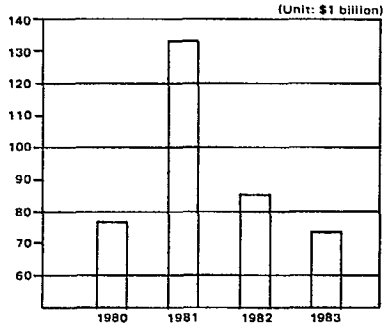
In spite of this incertitude, Fuji Bank, in its role as a leading world commercial bank, continued to assist borrowers by participating in syndicated loans throughout the world. At the same time, the Bank increased its capability to control

international banking risks.

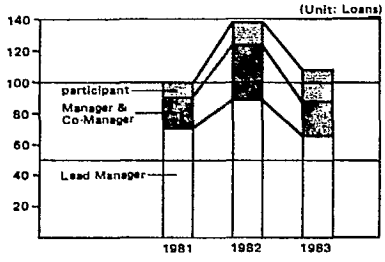
As a result, during fiscal 1983, the Bank participated in a total of 108 syndicated loans, 66 of these as lead-manager. Loans to the Kingdom of Sweden and to the Government of Indonesia are good examples of the Bank's leadership in this field. The Bank also participated in the syndicated loans raised to finance Standard Oil of California's (SOCAL) acquisition of Gulf Oil.

Fuji Bank stepped up its efforts in the field of yen-denominated loans in accordance with the internationalization and the liberalization of the Yen market, and has achieved remarkable results. The Bank acted as lead-manager in 21 major yen-denominated syndicated loans during fiscal 1983, such as a ¥10 billion loan to Hellenic Telecommunications Organization S.A. and a ¥16.1 billion loan co-financed with the World Bank to the National Bank of Hungary.

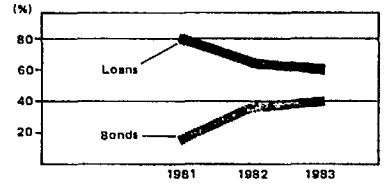
Loan Agreements Executed in the Eurocredit Market (Based on New Contracts)



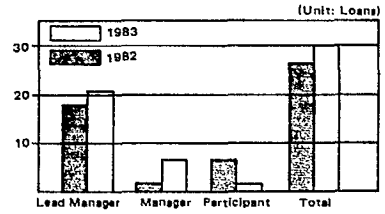
Fuji Bank's Participation in Syndicated Loans



Ratio of Bond Issues and Loans to Total Euromarket Fund Raisings (Based on New Contracts)



Fuji Bank's Participation in Yen-denominated Syndicated Loans

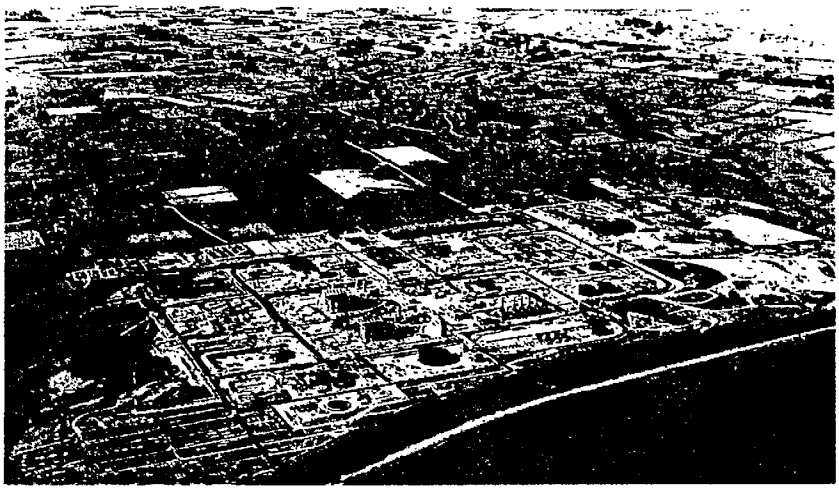


Project Finance

The general economic recession has caused new investment projects to slow down, particularly in the fields of natural resources development. Nevertheless, we have continued to expand ploddingly our activities in the international project finance. Along with a world-wide trend, the wider application of the project finance scheme, our commitments in project loans are not only increasing in volume, but also diversifying in sector and finance scheme-wise. The loan signings of CRA Argyle Diamond Project for US$20 million and Utah Acquisition Finance for US$22 million, both in Australia took place in March 1984 in Singapore. In addition, industrial development projects are the new challenging and prospective areas for expansion of the project finance. Several new project loans in this sector are presently in progress toward our final commitments, respectively Pechiney Aluminium Smelter Project in Quebec, Canada and Yanbu Oil Refinery Project, the first project finance in Saudi Arabia.

Most of the projects to which the Bank has extended loans over the part years, are in good implementation progress toward final completion as in the New

New Zealand Synthetic Fuels Plant Site Location



Zealand Synthetic Fuels Project and Egypt El Dikheila Steel Mill Project. Some of them, such as Gregg River, Quintette, and bullmoose Coal Development projects, have been completed and the first shipment of the produced coal reached Japanese ports in January 1984.

Among our merchant banking business, the project finance is composing the Bank's vital sales product line, from view points of both our assets and profit volumes. In view of the clients' continuing project needs and requirements for risk disperse, we believe this financing area will further develop.

Securities-Related Business

In recent years, the financial strategies of Japanese corporations have diversified. In their financial management, capital market financing by way of issuing bonds and notes as well as securities investment is becoming increasingly important. In the Euromarkets, for example, while the proportion of loans has leveled off, the proportion of bond issues has continued to rise. In response to these trends, banks have been placing increasing emphasis on developing their capabilities and services in this area. In Japan, however, securities-related business by banks is subject to legal restrictions, so Japanese banks have been conducting this business in overseas markets through their overseas subsidiaries.

Fuji Bank is actively developing its securities-related business through such overseas subsidiaries as Fuji International Finance Limited ('FIF') in London, covering the Euromarket; Fuji Bank (Schweiz) AG, responsible for the Swiss capital market; and in the Asian market, Fuji International Finance (HK) Limited ('FIF (HK)').

FIF's major achievements during the year included the management of bond issues from the public sector and its advance into managing the issuance of ECU-denominated bonds.

Significant sovereign or local government bond issues handled by FIF were the US$500 million FRN issue by the Kingdom of Denmark, the first ever US$200 million FRN issue by Hydro Quebec and the US$75 million straight bond issue by Österreichische Postsparkasse guaranteed by the Republic of Austria. ECU-denominated bond issuances included the ECU 50 million straight bond issues by Nordic Investment Bank and by Westdeutsche Landesbank as well as ECU 75 million *titres participatifs* by Compagnie Saint Gobain. In April 1984, FIF joined the management group of the World Bank's Euroyen bond issue.

Fuji Bank (Schweiz) AG is very firmly established in Switzerland, providing universal banking services. It has gained recognition by being the first overseas subsidiary of a Japanese commercial bank to issue bonds. To date, it has

made three such issues. The third issue was by public offering in April 1983 in the amount of SwFr20 million. Its underwriting activities have also been brisk, and it has acted as arranger or co-manager for a large number of Swiss franc placements of bonds and notes for both foreign institutions and Japanese corporations. Also, as a member of the Nordfinanz-Kredietbank group which is one of the major underwriting syndicates of Swiss franc public bonds for foreign borrowers, it participated in issuances such as those of the City of Vienna, GMAC Overseas, and Heron International Finance.

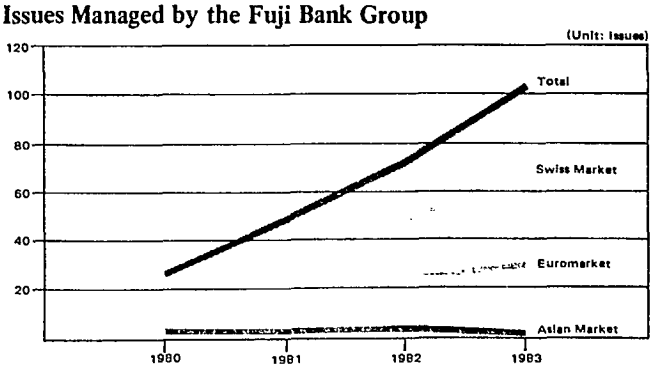
FIF (HK) recorded another year of strong progress in expanding its business in the Asian capital market during fiscal 1983. Among its major achievements was its participation as a manager in the FRCD issue by Wardley Limited, a leading Hongkong-based merchant bank, together with other managers such as Barclays Asian Finance Ltd., Citicorp Capital Markets Group and Wardley Finance Ltd.

FIF (HK) also engaged in its own bond offering activities. Its US$100 million straight bond issue in May 1983 aroused considerable attention among Japanese financial circles. This was the first case in which the proceeds of an issue had been allowed to be used for overseas lending by a parent bank. This step represents a breakthrough in securing stable, long-term foreign currency funds. The second issue, US$200 million was made in December 1983.

The Fuji Bank and Trust Company is the Bank's New York-based subsidiary, chartered under the laws of the State of New York. In addition to general commercial banking activities, it has made impressive strides in the development of corporate trust services. These include bond trusteeship of Euro Bonds and I.R. Bonds and acting as issuing agent for commercial papers.

Fuji Bank has also been active in the Samurai bond market. For example, the Bank has been appointed as one of commissioned banks for the Kingdom of Thailand's 4th issue as well as for Malaysia's 5th issue.

Foreign Bond Issues Managed by the Fuji Bank Group



Proxy-Custodian Services for Overseas Investors

For more than twenty years Fuji Bank has been providing proxy-custodian services for overseas institutions investing in Japanese securities, and it now occupies the leading position among Japanese custodian banks.

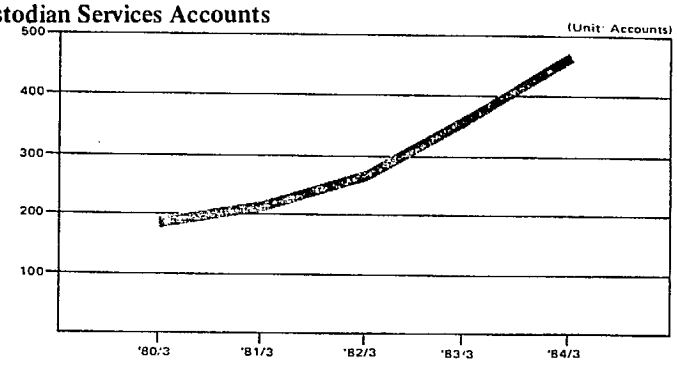
Expert attention and minute care are devoted to the administration of securities to satisfy the diverse, sophisticated requirements of each individual customer.

The Bank offers highly computerized facilities, and is firmly committed to employing the most advanced technology in electronic communications systems

and to offering cash management services.

The Bank's Kabutocho Branch, strategically located in the heart of Tokyo's financial and securities-trading district, handles day-to-day proxy-custodian transactions.

Number of Custodian Services Accounts



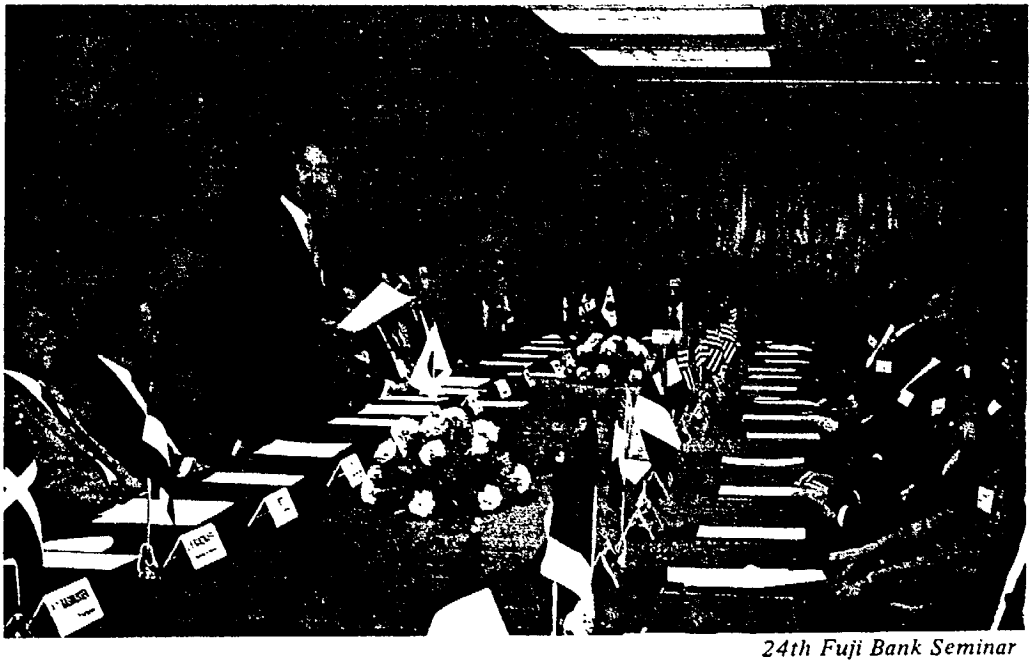
Fuji Bank Seminar

Since 1967 Fuji Bank has been conducting semi-annual seminars to which it invites senior banking officers from around the world. The 24th Fuji Bank Seminar was held in May 1984. Like its predecessors, it received warm praise from the participants for the insights it offered into financial and economic subjects affecting Japan and the world.

In addition, 'Industrial Tours' i.e. tours of factories, etc. are arranged for the senior officers of overseas banking and investment institutions operating in Japan. These activities provide the participants with opportunities to gain first-hand knowledge of Japanese technology and management.

The Bank also welcomes trainees from overseas banks with which it enjoys close correspondent relationships.

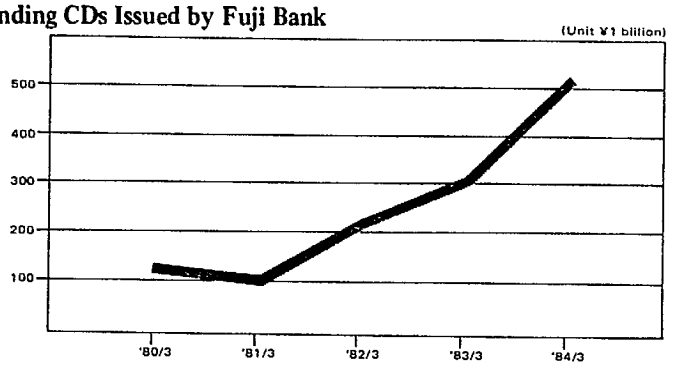
Through these kinds of activities, Fuji Bank is continuing to expand and enhance its network of banking relationships throughout the world.



24th Fuji Bank Seminar

particular note is the Bank's ability to sell the great majority of its CDs directly to investors, rather than through brokers. In the secondary market for CDs, the Bank has been well ahead of its competitors in developing new clientele both domestically and overseas. In fiscal 1983 it handled 4 percent of the total secondary trading volume, which was, again, the largest market share.

Value of Outstanding CDs Issued by Fuji Bank

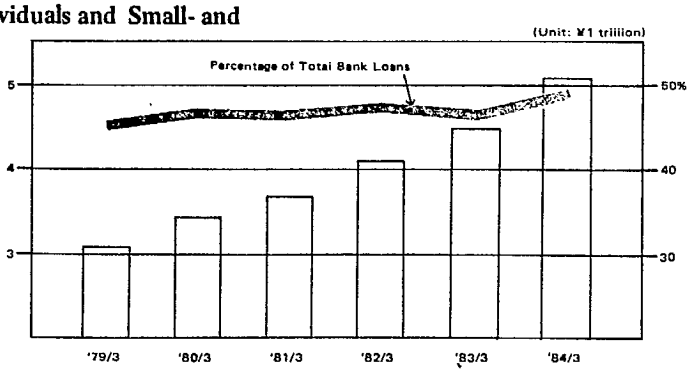


Small- and Medium-sized Enterprises

The Bank has traditionally stressed business with small- and medium-sized enterprises. The proportion of its lending to individuals and small- and medium-sized enterprises has been increasing year by year, and at the end of March 1984, had reached ¥587.9 billion (US$2,630 million, representing 49.1 percent of total lending.

In July 1983, the Bank established the *Fuji Investment Company, Ltd.*, thereby entering into the field of venture capital. By seeking out promising young enterprises and by supplying funds, the Bank is helping to maintain the vitality of the Japanese economy.

Fuji Bank's Loans to Individuals and Small- and Medium-sized Enterprises



Development of Personal Banking

As lifestyles change, the banking requirements of individuals are diversifying. To respond to these changes, the Bank is devoting considerable attention to the development of a wide variety of new financial products.

New Financial Products

Among the major new financial products, the *Fuji Government Bond-based Time Deposit*, launched in September 1983, is a combination of government bonds and time deposits in certain fixed portions. This product is designed to

NOTE 17

Company: Richardson Greenshields of Canada Limited

Date: September 11, 1985

Attended:
- Robert A. Fairweather, Vice President and Representative
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

Bob Fairweather has been resident in Japan for many years and was at one time with the Canadian consulate. He is very aware of the Japanese scene and made a number of useful suggestions.

Richardsons are primarily interested in the bond market. They deal with the large Japanese companies and banks and Canadian borrowers. They have limited interest in M & A work or direct investments.

Key Investment Factors

The first job of the Canadian government is to clarify the attitude change and the new receptive welcome extended to Japanese companies. The Japanese, according to Bob, had trouble in the past dealing with FIRA and felt very nervous about being "refused" by FIRA (some loss of face was inferred).

The seal of approval is very important to Japanese companies. An investment by a company such as Toyota carries clout and will influence other investment decision makers.

A third factor is education. The Japanese value education highly and the lack of Japanese accredited schools poses a significant problem in attracting Japanese management. Bob suggested we look into what we could do to provide an accredited school for Japanese students in Canada (particularly for the higher grades).

Investment Promotion

The investment development effort needs a greater focus in Japn. The post should be provided with the tools (suggested - brochures and AV tailored and specific to Japanese market place) and the time commitment to successfully penetrate the market. Larry Duffield's work with the automotive sector was signaled out as the type of commitment that is required.

Bob suggested that the best results would probably be from Japanese companies already existing in Canada. He sugessted we use the associations* both in Canada and Japan to help get our message across.

In terms of industrial co-operation, e.g. technology transfer, he suggested we focus on seeing the Canadian counterpart first and then develop the Japanese contact. He felt the regional seminars are a waste of time and that those put on by the banks are generally the most effective.

The Canada-Japan Business Society is a useful vehicle for business development.

He suggested that co-operative provincial/federal relations is also very important as there is much confusion among the Japanese as to how these two co-exist.

Investment Counsellor

The key is to have credibility with the Japanese. His only concern was that if the individual cannot speak Japanese, he will be too dependent on the Embassy and may lose focus.

SME

SME in Japan are basically feeders into the large companies with few exceptions. Bob suggested that in Japan, our impact will probably be most effective with the large companies in working through specialized associations. In terms of reaching entrepreneurs, he suggested a highly targetted approach based on identifying actual individuals and companies.

Action Plan

1. Continue to keep good relations with Bob Fairweather in Tokyo.

NOTE 18

Company: The Canadian Embassy

Date: September 11, 1985

Attended:
- Armand Brum, Embassy
  Bob Merner, Embassy
  Willy Wakely, Embassy
  Bob Main, Embassy
- David Dix, Embassy
- Deborah Moores, Investment Canada

Summary

The Embassy is excited by the new empahsis and commitment to investment development, although they have been involved for many years. They feel in order to be successful, they must have the "tools" to reach their market. They agree that "one on ones" is the most effective mechanism and they anxiously await their new investment counsellor. They are also particularly keen on receiving promotional material in Japanese.

Embassy/INC Relations

The Embassy looks forward to working with Ottawa in developing the investment development plan. They emphasized that they would like it to be a two-way flow with easy communications to ensure an investment program which satisfies both groups.

Investment Development

The Embassy stressed that particualarly in Japan, investment follows exports. That, Investment Canada should work with External Affairs and DRIE to develop profiles of key prospects that the Embassy should pursue.

Ministerial Missions

Although very time consuming, ministerial missions are very important (specifically key economic ministers). The Embassy recommended that Minister Stevens should return to Japan within a year to reinforce his message. Also the planned extended visit by the Prime Minister is highly encouraging.

Promotional Material

The following promotional materials were recommended:

(i) Glossy version of Profitable Option (in Japanese) as an informed giveaway.

(ii) Fact Books - more technical information e.g. sectoral information, labour relations, tax regime, etc.

(iii) Newsletter - Investment Trends
- New Business in Canada
- Sectoral Opportunities etc.

(iv) U.S./Canada Comparative Statistics

They empahsized that the information must be hard hitting and supported by relevant and reliable statistics.

Advertising

They stressed that advertising in Japan will not have the desired results and that money would be spent much more productively using other vehicles.

They recommended that editorial coverage, feature articles in newspapers such as Nihon Kiezei carry significant weight. They suggested we look into sponsoring a Japanese press mission to Canada.

Video/Slide Show

They stressed that a video/slide show would be very helpful in showing the Japanese what industrial and business Canada is all about.

Summary

The Embassy agreed with most of the other people we met in Japan, that there are too many seminars and that future embassy involvement in seminars should be much more selective.

TV

The Japanese are great TV fans and it was suggested we look into working out an arrangement with CBC and the Japanese networks to do a "cultural exchange".

Business Development

We discussed using parallel corporate liaison programs in Canada and Japan. It was stressed that communications will be critical in this exercise.

Action Plan

1. Provide promotional materials.

2. Develop Post plan for feedback.

3. Keep Post informed of activities.

4. Develop Parallel Corporation Liaison Programs.

5. Look into "Education" option with John Trelevyn.

CANADIAN EMBASY: 408 - 2101

GENERAL LINES

Canadian Trade Centre 987-2794
Canteen 228
Communications 238
Conference Room 202
Customs inquiries 400-7137/8
Dispatcher (Mr. Nakajima) 212
Garage 285
Japanese Lessons Room 228/201
Library (Mr. Komatsu) 257
Mail Room (Mr. M.Saito, Mr. M. Muto)... 268
Maintenance 269
Registry 244
" (Commercial) 268
Science and Technology 479-5855/5754
Security Workshop 222
Reception (Miss Utsumi) 0
(Emergency only) 230
Telephone trouble report 262
Tourism inquiries 479-5851/4
Visa & Immigration inquiries 403-9176
Word Processor (Miss Kasahara) 218
Yokohama Language School 045-622-6514

Ambassador

B. Steers (Barry) 237
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" (Downstairs) 224
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F.Misawa(Francine)(Mrs.) Social Sec.(as of 1 Oct) 291

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H. Okada 268

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Y. Suzuki (Miss) 281

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S. Tanaka
H. Suzuki (Miss)

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K. Tasho 214
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E. Yamada 274
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- Consular / Personnel

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Word Processor
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Security 222

Registry 244

Communications 238

Technician 262

Transport
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Drivers - K. Komaki 285
S. Doi "
K. Honma "
T. Kaneko "
A. Noguchi "
S. Watanabe "

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M. Muto 268

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Sgt. L. MacDonald (Lawrence) 280

AECL 403-9176
E. Hinchley (Ed.)
M. Norisugi (Miss)

VISA SECTION 403-9176
A. Tomick-Polman(Audrey)(Mrs.)
I. Nagano
M. Mamiya (Mrs.)
S. Iida (Miss)
M. Stanley (Mrs.)

LIAISON SECTION 403-9176

- Consumer Products

G. Milot (Gerald) 229/213
H. Ohyama 284
K. Yamamoto (Miss) 213

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S. Matsuura 272
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J. Waisvisz (Jacques)
T. Suzuki
O. Yokoyama
J. Saito
I. Nukita (Mrs.)
J. Nakata (Miss)
S. Fukasawa (Miss)

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H. Nakamoto 227
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S. Urakami (Miss) 287

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S. Goddard (Steve) 259
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I. Saito 219

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H. Nishikiori 269
H. Yamashita 269
S. Araki (Carpenter) 249
F. Nishino (Gardener) 249
Y. Katakame (") 249
R. Mima (Janitor) 269

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M. Shimoyama 292
T. Kefuji 290
M. Hirose 290
M. Shibuya (Miss) 296

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T. Harada 254
M. Hirodo 271
H. Nagahama (Miss) 245

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Y. Utsumi (Miss) 230

LIAISON SECTION 403-9176

T. Steen (Tim)
N. Yoneyama (Miss)

CUSTOMS & EXCISE SECTION 400-7137/8

G. Barrow (Gordon)
K.J. Humphries (Karen)(Mrs)
G. Shoenhoefer (George)
D.M. Chatterson (Dave)
M. Arai
Y. Hakoda
M. Nakai
T. Uenoyama
K. Abiko (Mrs.)
H. Hasegawa (Miss)
K. Stanworth (Mrs.)

RESIDENCE

Senior Servant-M. Yuasa(Tony-san) 22
Janitor - K. Katagame "
F. Aoki (Miss) "
H. Hakko "
Y. Ishii "
S. Shiga (Miss) "
N. Suyama "

LANGUAGE STUDENTS - YOKOHAMA 045-622-6514

D. Horton (Deanna)(Ms)
J.R. Lovett (Jim)
D.J. McLellan (David)
P. Drabble (Peter)

LANGUAGE TRAINING TEACHERS 228 or 2

H. Aikawa T. Fujisaki (Mrs.)
K. Kohno (Mrs.) R. Ueda (Mrs.)
H. Shibahata (Mrs.)

NOTE 19

Company: Quebec Government Office

Date: September 12, 1985

Attended:
- Luc Carignon, Quebec Government
- David Dix, Embassy
- Deborah Moores, INC

Summary

Although Quebec admitted to be somewhat unsystematic in their investment efforts, Quebec has a clear idea about the type of investment they are seeking and the optimum way to make contact. They stressed the importance of the "one on ones" and developing personal relationships.

They recommended that we try to arrange further ministerial missions. As a result of the Stevens mission they had established three new solid leads.

However, as with the other government officials we met, they are limited by their human resources.

Investment Priorities

These sectors were identified as key to Quebec:

(i) Petrochemicals;

(ii) Alumimum;

(iii) Biotechnology;

(iv) Computer Peripherals; and

(v) Computer Software.

Quebec is preparing profiles on these sectors and determining such things as: (i) economic production run sizes; (ii) market support size; (iii) comparative costs of production, etc. They feel that with this information they will make a very convincing sales message.

Quebec is endeavouring to showcase its advantags around major events such as the Montreal International Software Market. They also hope to copyright a code at this time used by Japanese and Canadian companies and name it the Montreal Code.

Quebec's preference is for industries with technology value added as they feel this is important for their future competiveness. They are focussing on the large technology companies in Japan such as NEC, Fujitsu, Hitatchi, Sanyo, who have world markets. Quebec is not targeting the smaller companies in Japan as it is their impression that most of the research is concentrated in the larger firms.

Quebec conducted an international energy promotion covering all major large users of electricity. It apparently was a disaster. They learned that in sectoral promotions, they are more successful when it is developed as a "project" and restricted to a select few companies.

Quebec Approach

The Quebec approach is a gradual process. They do not believe in the "one shot deal". They feel it is important to orchestrate a series of events in order to be successful and gain recognition. Press coverage is very important in Japan and it has been their experience that you get the best results when you have enough interrelated events to make it newsworthy e.g. ministerial missions, trade visits, seminars, etc.

Quebec is a strong promoter of culture.

Quebec indicated that they felt there were too many seminars.

Quebec distributes a newsletter in Japanese on Quebec to approximateley 2000 people, four times a year. They include economic statistics and commercial news of interest to potential investors. Currently, they have no promotional monies and are concentrating on personal calls.

Key Message

Canadian companies and government have to show that they are more than interested, they must make a consistent and persistent effort.

Action

1. Maintain strong links with Quebec.

2. Develop venues for provincial/federal activities to reinforce co-operative climate.

NOTE 20

Company: SRI - Asia

Date: September 12, 1985

Attended:
- M. Toshio Mori, Senior Management Consultant Program Manager, Service Industries Consulting Program
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

SRI is a problem solving organization that provides research and consulting for business and government clients throughout the world. SRI is an independent and non-profit corporation. SRI is organized into four areas: management and economics; the physical; life and social sciences; engineering research and the global business environment.

In Japan, SRI provide consulting to Japanese companies for the Japanese market (80%), Japanese companies for the export market (10%) and foreign companies for the Japanese market (10%).

SRI is fully staffed by Japanese professionals and is considered a Japanese consulting company despite their ties to Menlo Park.

Much of their work is in providing a research service. They have done work for Japanese companies in site selection, however these are exceptional.

Canada is little known to the average Japanese investor. The Japanese generally limit their choice to five locations, a short list. The short list is often developed on the basis of how much information they have. The Canadian image, also does not help - snow and ice. He stressed the importance of a constant consistent flow of information Capital decisions are generally made every ten years.

Reach

The press is very important in Japan and Mr. Mori stressed that editorial coverage is key. Success stories are important and if we can link in with the major banks, that adds additional credibility and influence. He suggested that paid advertising does not work in Japan.

Finding Partners

The trading companies and banks are the best source of information for finding good partners.

Recommended Key Selling Points

(i) Provide detailed and comprehensive information;

(ii) Build the image of Canada as a place to invest and the linkages with the U.S. market;

(iii) Be cognizant of the Domino theory - "Japanese companies cluster";

(iv) Educational facilities are key; and

(v) Living conditions are very important.

Action Plan

1. Develop ongoing relationships with Mr. Mori.

2. Provide him with information as it becomes available.

NOTE 21

Government: Ministry of International Trade and Industry (MITI), Japanese Government

Date: September 12, 1985

Attended:
- M. Takao Oh'hashi, Director, International Affairs Office, Guidance Department, Small-Medium Enterprise Agency
- Toshimichi Yanashima, The Americans - Oceania Division, International Trade Bureau
- Mr. Masato Inuyama, International Affairs Office, Guidance Department, Small-Medium Enterprise Agency
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

MITI discussed with us their new program SME Investment abroad and current MITI policies for promoting SME.

They talked about the shift away from the pursuit of cheap labour and securing of raw materials towards an empahasis on securing markets and strengthening of local distribution. Also they emphasized the importance of technology transfer.

The key determinants for investment decisions include: 1) government stability; 2) expanding economy; 3) a free trade policy; and 4) easy access to a large market.

MITI recently completed a study on the international effort of small business (a summary follows). The major problems they encountered included:

(i) lack of information, specifically about government policies and market size;

(ii) difficulty in securing experienced personnel; and

(iii) sound financial backing.

MITI acts to support small enterprises internationally by encouraging technology transfer and providing cultural and management exchanges.

MITI develop policy for Japanese business on a consensus basis.

On Canada

MITI do not actively encourage investment to developed companies. They indicated that these decisions are made by the companies from a business and security risk perspective. However, they were very keen to have information on the Canadian government, policy and views on small business.

Action Plan

1. Continue liaison work with MITI for sector specific investment matters.

2. Send MITI Canadian small Business background materials - OK.

3. Provide for information exchange.

NOTE 22

Association: Japan Foreign Trade Council Inc. ("JFTC")

Date: September 13, 1985

Attended:
- Hitoshi Sugiura, General Manager, International Affairs Department
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

The JFTC is a private non-profit organization concerned with promoting foreign trade. Its basic aim is to help create a better environment for international trade through research into how Japan's trade policy impacts on Japanese companies. JFTC members include the Sogo Shosha, other companies trade organizations and individuals, for a total of 424.

The JFTC has eight standing committees on export and import, trade finance, economic co-operation, external economic relations, overseas markets, planning, liaison, and the Sogo Shosha Committee. Also, they have a think tank for conducting international trade research, the Trade Institute.

Activities

The JFTC are involved in making policy recommendations.

They are also very involved in various conferences and meetings and hold regular luncheon meetings and seminars twice a month to discuss trade, the economy and problems.

JFTC are also active researchers, and publish a number of statistics. They have a monthly bulletin, a quarterly review of trade trends, "JFTC News", and an annual report of Japan's International Trade.

Internatonal Trends

Mr. Sugiura indicated that the protectionist issue is of major concern to the member companies of the JFTC and that increased investment is inevitable if trade activities remain active.

He felt that the Japanese are still expending a lot of time and effort in Asia, specifically China where there are a number of new "cautious" investment opportunities.

When asked about the protectionist issue, he indicated that the Sogo Shosha had not expected such a strong movement and that their current investment efforts were primarily defensive.

He indicated that Japanese companies are still, because of low margins, very volume conscious.

He reinforced the need for information and the importance of JETRO as a venue to reach the SME.

Doing Business in Japan

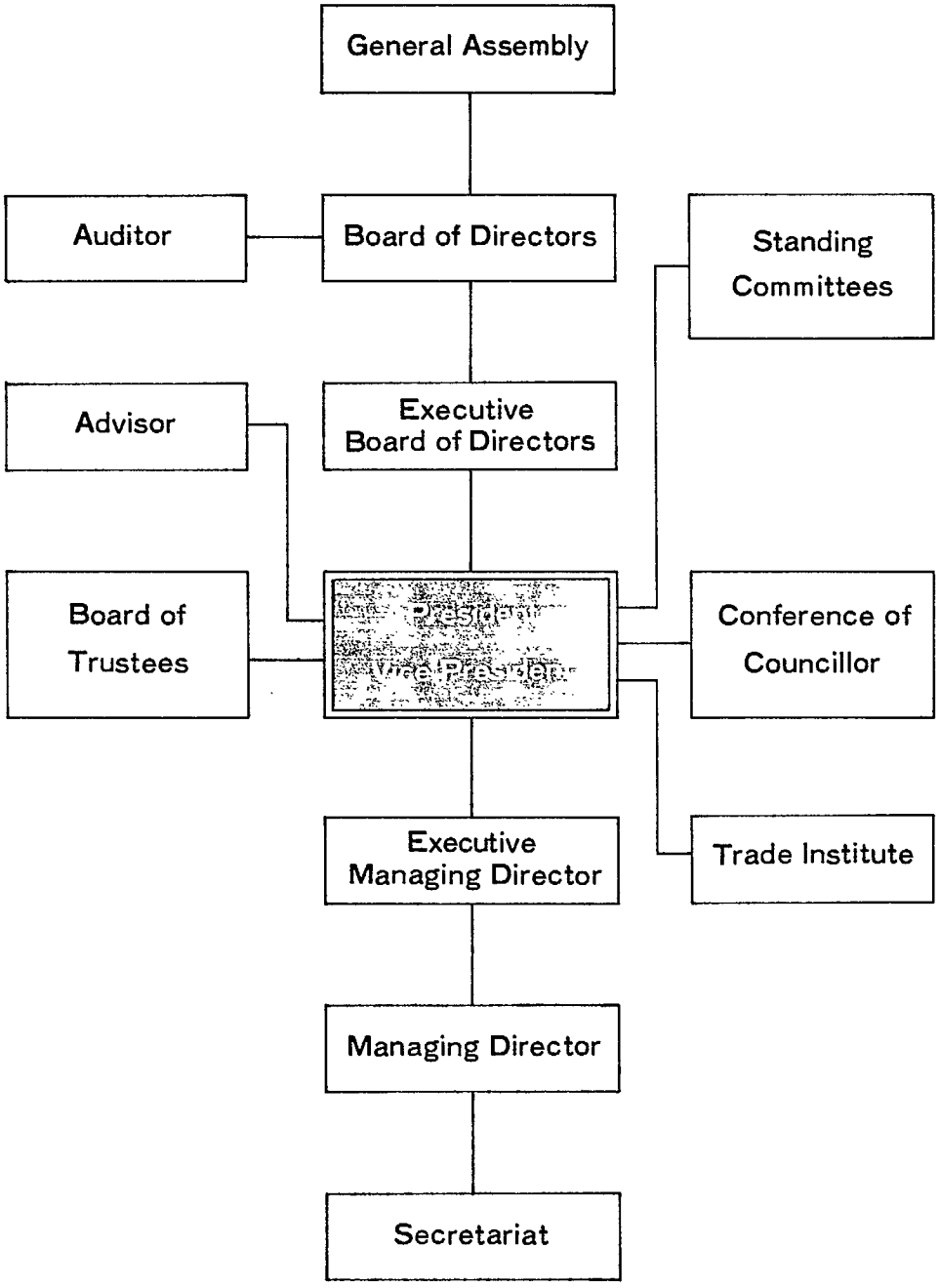
He suggested that it is important for Canadians to start exporting to Japan. He indicated there are three keys to success: price, performance and persistency. A longer term perspective is critical and he reinforced the fact that Canadians must tailor their approach to the Japanese market, i.e. don't quote FOB Montreal but CIF Tokyo. Most problems are cultural, language or lack of staying power.

Action Plan

1. Provide research and promotional Materials.

2. Keep abreast of their publications and mantain personal contact.

Organization Chart



Standing Committees

- **Committee on Export and Import**
  - Subcommittee on Trade Trends
  - Subcommittee on Transportation, Ports and Harbors
- **Committee on Trade Finance**
  - Subcommittee on Export Insurance and Guarantees
- **Committee on Economic Cooperation**
  - Subcommittee on Overseas Investment and Plant
- **Committee on Overseas Market Policy**
  - Subcommittee on Asia
  - Subcommittee on Mid-East
  - Subcommittee on China
  - Subcommittee on Africa
- **Committee on External Economic Relations**
- **Committee on Planning**
  - Working group for planning
- **Committee on Liaison**
- **Sogo Shosha Committee**
  - Subcommittee on Coordination
  - Subcommittee on PR and Information
  - Subcommittee on Finance
- **Traders Committee for Import Promotion**
  - Working group for Import Promotion
- **Talkfest on International Economy**
- **Talkfest on Trade Concern**

Secretariat

Tokyo Head Office

General Affairs Department
Accounting Department
Planning Department
Research Department
PR and Information Department
Liaison Department

Osaka Branch Office

General Affairs Department
Accounting Department
Research Department

Activities

Policy

As Japan's only integrated trade organization, the JFTC strives to harmonize domestic and foreign economic policies and facilitate the healthy development of international trade.

The JFTC works to assemble information supplied by members and, through various conferences, find a consensus of opinion among members.

Activities

Members of the JFTC participate in various conferences and meetings, and cooperate in the council's activities by sharing in the work. The member companies of the Sogo Shosha Committee play a central role in the council's administration and funding.

Proposals and Recommendations

In matters related to foreign trade, the JFTC submits its opinion—the concensus of the trading community—to the concerned goverment authorities in the form of proposals for maintaining or strengthening the free trade system. The JFTC may also make recommendations to the government on matters related to the economy in general.

Since being established, the JFTC has sent close to 500 petitions, recommendations and proposals to the Japanese government. These have included proposals presented to the Summit Meeting of Seven Western Industrialized Nations, and recommendations regarding economic cooperation, improving Japan's import customs clearance system, amending Japan's Export Insurance Act, liberalizing Japan's foreign exchange control law, increasing Japan's import of manufactured products, and so forth.

The JFTC aspires to promote free trade and an open economic system, and strives to create a stimulating environment for private enterprise.

Meetings

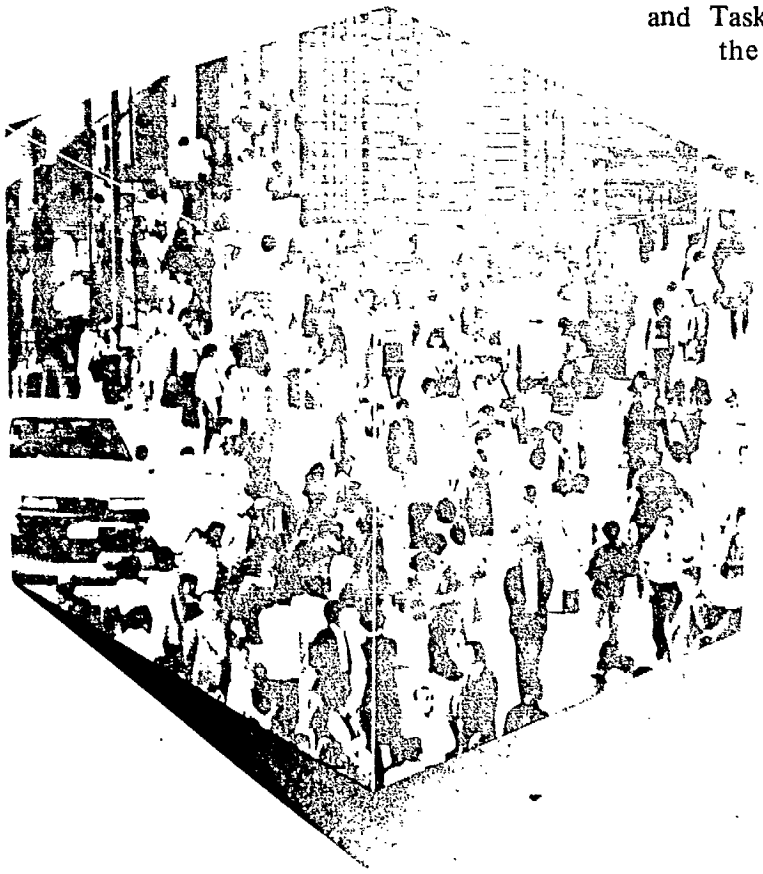
To facilitate the exchange of information between members, the JFTC sponsors regular luncheon meetings and seminars, and invites prominent persons to speak on such topics as trade, the economy and politics. More than 1000 such meetings have been held to date.

Research

The JFTC keeps in close contact with the Japanese government, the Japan External Trade Organization (JETRO), the Japan Federation of

Economic Organizations (Keidanren), the Japan Chamber of Commerce and Industry and other organizations, from which it collects and analyzes a wide variety of informations. The results of JFTC studies are published the JFTC Monthly Bulletin.

In addition, each month the JFTC compiles and announces statistics on trade contracts concluded by the 13 largest sogo shosha. It also issues, in the Japanese language, an "Annual Report on Japan's International Trade." The council also publishes the "JFTC News," a quarterly review of trade trends.



Ad Hoc Research

On occasion, the JFTC establishes ad hoc research committees to deal with important subjects relevant to Japan's foreign trade policy, but not within the scope of the standing committees of their subcommittees. Ad hoc research committees are often composed of businessmen as well as people from the academic community. The results of such special research is made known to the public from time to time in the form of a report. The latest reports completed are as follows: "Trade and Industrial Adjustment," "Enquiry into Comprehensive Trade Fundamentals," "Perspectives and Tasks of Energy Trade for the 1980's," "International Trade and Technology," "Tasks and Countermeasures of Japan's International Balance of Payments," "A Review of Japan's Third Country Trade," "A Survery of World Grain Trade and Japan," and "New Development in Industrial/Technological Cooperation."

NOTE 23

Organization Government of Ontario

Date: September 13, 1985

Attended:
- Brian Glynn, Senior Representative
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

Brian Glynn has been senior representative for over one year in Tokyo and he has a well defined program of investment development. He was formerly with Trident, the automotive parts manufacturer and he is very knowledgeable of Canada and Ontario opportunities.

Promotion

Brian explained that promotion in Japan must be market driven. He indicated that the biggest problem in promoting Canada is that they are very short of resources, human and promotional..."the tools are missing".

He suggested that all materials be in Japanese. He indicated that although many of the senior people read English, that decisions are made and voted by junior or middle managers and they take things more seriously when they can read it in their own language. He suggested we translate an interpretation of the Act in Japanese and an update of Profitable Option.

He indicated that Ontario is no longer sponsoring large scale seminars as they are not effective business development vehicles in Japan.

Information Needs

Information is the key. He indicated that most importantly we have to provide current information, i.e. 1984/85 statistics, otherwise they are meaningless and we lose credibility. DRIE have to provide more comprehensive and up to date sectoral analysis. Comparative statistics with key U.S. competitive states are critical to present a convincing argument. Also leading indicators, industry trends and specific company information is important. There is an increasing need for "technical" information in addition to "experts" to help gather and disseminate this information.

Japanese companies what to know about our industrial infrastructure, our labour unions, our capacity figures, and more specifically Canadian capabilities.

The Japanese tend to access most of this information from the banks, associations and research houses.

Ontario's Activities

Ontario is focusing primarily on corporate liaison work. Their advertising budgets have been held back and they are not staging any seminars this year. Ontario has four sectoral targets and thier efforts are concentrated.

Summary

(i) Include Ontario in all Embassy functions.

(ii) Provide information and assistance.

NOTE 24

Company: Tokyo Aoyama Law Office (associated with Baker and Mckenzie)

Date: September 13, 1985

Attended:
- Hideo Ohta, Attorney at Law
- David Dix, Canadian Embassy
- Deborah Moores, Investment Canada

Summary

Tokyo Aoyama is associated with Baker and Mckenzie and they act for many multinational Japanese based enterprises, including the Honda group. He indicated that Japanese law firms do not play a major role in consulting on investment development, but react very much to their clients' needs.

Mr. Ohta was very familiar with Canada as he received his Masters in Law from Queen's University. His thesis was on FIRA "Special Problems and Aspects of Canada's FIRA" - 1982 and he was very interested in the new Investment Canada Act and environment for business.

Promotion

Mr. Ohta suggested that Canada must do a better promotional job if we are to attract investment away from the United States. "The Japanese need to be sold on Canada's comparative advantages". He also stressed the need for more information in Japanese and the importance of demonstrating to Japanese companies that they too can be successful in Canada (through testimonials of Japanese companies and case studies). He discussed the importance of reaching the middle ranking persons in the corporation if we are to successfully influence investment decision making.

Information Needs

Information needs are very important. From the legal perspective, he felt, there was not enough "Canadian government information" available. Specifically, he indicated, that the following are the key things that concern his clients:

(i) rules and regulations;

(ii) Visa - landed immigrant status;

(iii) legal restrictions specifically property, restrictions; and

(iv) federal/provincial roles - who is responsible for what?

Summary

He has several clients interested in Canada and the Embassy should ensure that Mr. Ohta has all the information he requires.

Action

1. Supply information as it becomes available.

2. Continue corporate liason efforts.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In krones)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Matsushita Electric Trading	100	National Panasonic Vik A.S.	Sept. '80	7 mil.		Sales of Matsushita's electric appliances		—	e i		Oslo
Mitsubishi Chemical Industries	50	MCI-MEGON A.S.	Purchased in Apr. '79	16 mil.	18	Extra-pure yttrium oxide	Kr.16 mil.	A.S. Megon & Co. (50%)	h j		Kjeller
Nippon Gakki	19	Narud Yamaha Center A.S.	Nov. '69	1.6 mil.	27	Imports & sales of musical instruments		Local capital(81%)	e		Osteras
Yoshida Kogyo	100	Yoshida Norge A.S.	May '79	1.5 mil.	3	Sales of fasteners	¥100 mil.	—	e i	No dividend	Skarer

CANADA

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Akai Electric	49	Akai Audio Video Canada Inc.	July '79	495,000	52	Sales of Akai's products		H. Snipstead (51%)	e f i	Breaking even	Vancouver B.C.
Asahi Chemical Industry	100	Asahi Chemical Industry Canada, Ltd.	Sept. '77	100,000	5	Sales of ion exchange diaphragm-process chlorine & caustic soda manufacturing technology		—			Toronto, Ont.
Asahi Optical	100	Pentax Canada Inc.	Sept. '78	6 mil.	66	Trading & sales of cameras, exchange lenses, etc.		—			Vancouver B.C.
Bank of Tokyo Mitsui & Co. Mitsubishi Corp.	1.86	Ventures West Capital Ltd.	Jan. '73	4.96 mil.		Investments in venture businesses		Mitsui & Co. (Canada) (1.12%), Mitsubishi Canada Ltd. (1.12%), others (95.9%)			Vancouver B.C.
Bank of Tokyo Mitsubishi Corp.	1.7 1.7	Innocan Investments Ltd.	May '73	32.3 mil.		Investments in venture businesses		Canadian Development Corp. Ventures (24.7%), CNR Pension (10.1%), others (61.8%)			Montreal, Que.
Bank of Tokyo	100	Bank of Tokyo Canada Ltd.	July '81	20 mil.	63	Banking		—			Scarborou Ont.
Bridgestone Tire	100	Bridgestone (Canada) Inc.	Sept. '72	1.5 mil.	49	Sales of auto tires & tubes		—	e i	Faring well	Richmond, B.C.
Brother Industries *Brother International*	50 50	Brother International Corp. (Canada) Ltd.	Dec. '59	600,000	47	Imports & wholesaling of sewing machines, office machines, knitting machines	C$13.91 mil.	—	e i	No dividend	Montreal, Que.
Canon Inc.		Canon Canada Inc.	Sept. '72	500,000		Sales of Canon's products		Canon U.S.A. (100%)			Ont.

Japanese companies in Canada

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
C. Itoh & Co.	100	C. Itoh & Co. (Canada) Ltd.	Jan. '70	8.6 mil.	42	Trading		—			Montreal, Que.
C. Itoh & Co.	100	CIPA Industries Ltd.	Jan. '70	13 mil.	314	Lumbering		—	a		Vancouve B.C.
C. Itoh & Co.		Consolidated Footwear Co.	July '75	100,000	15	Sales of footwears		C. Itoh & Co. (Canada) (99%), Robert Piche (1%)	e		Montreal Que.
Chori Co.	100	Chori Canada Ltd.	May '65	100,000	7	Imports & sales of textiles, chemicals		—	e f		Montreal, Que.
Dai-Ichi Kangyo Bank	100	Dai-Ichi Kangyo Bank (Canada)	Feb. '82	15 mil.	18	Banking, securities	Total assets, C$150 mil.	—			Toronto, Ont.
Dainippon Ink & Chemicals		Polychrome Corp. (Canada) Ltd.		10,000		Sales of printing materials		Polychrome Corp. (100%)			Toronto, Ont.
Dainippon Ink & Chemicals		Kohl & Madden Printing Ink Co. of Canada Ltd.		1,000		Sales of printing ink		Kohl & Madden Printing Ink Corp. (100%)			Toronto, Ont.
Daishowa Paper Mfg.	90.2	Daishowa Canada Co.	Nov. '78	16.3 mil.	7	Lumber, pulp	C$76 mil.	Daishowa (H.K.) (9.8%)	a b d h j		Vancouv B.C.
Daishowa Paper Mfg. Marubeni Corp.	50 50	Daishowa-Marubeni International Ltd.	Nov. '78	12 mil.	11	Sales of pulp	C$65 mil.	—	a b f h j	Breaking even	Vancouv B.C.
Daiwa Seiko	96.2	Daiwa (Canada) Ltd.	July '68	730,000	61	Fishing tackles, sporting goods	C$10.2 mil.	H. Rolf Paterson (1.9%), other (1.9%)	e i	Deficit	Burnaby, B.C.
Dowa Mining Mitsubishi Corp. Kinsho-Mataichi	66.7 30 3.3	Domik Exploration Ltd.	Dec. '73	285,000		Prospecting for new metal ore deposits		—	a b f	Deficit	Toronto, Ont.
Fuji Bank	100	Fuji Bank Canada	Feb. '82	10 mil.	15	Banking		—			Toronto, Ont.
Fuji Photo Film	98.5	Fuji Photo Film Canada Inc.	July '79	1.98 mil.	50	Sales of photosensitive materials, optical instruments	C$10.35 mil. ('80)	Local capital (1.5%)			Dorval, P.Q.
Fujitsu, Ltd.	24	Consolidated Computer Inc.	Capital participation in July '76	23 mil.	350	Production of computer peripheral equipment		Local capital (76%)	d i		Don Mill Ont.
Hitachi, Ltd.	19	A.R.V. Hall Crepaco Inc.	Capital participation in Nov. '76	730,000		Sales of elevators		Hall-Thermotank (81%)			Montrea Que.
Hitachi Credit Corp.	60	Hitachi Credit Canada Inc.	June '81	1 mil.	12	Loans, leasing	C$1.97 mil.	H. Galler, Hitachi Sales Corp. of Canada (40%)	e f i	Paying dividend	Pointe Claire, C
Hitachi Electronics	100	Hitachi Denshi (Canada) Ltd.	Nov. '74	70,000	10	Sales of Hitachi Electronics' products		—	e		Pickerin Ont.
Hitachi Sales Corp.	100	Hitachi (HSC) Canada Inc.	Oct. '68	1.2 mil.	236	Wholesaling of Hitachi's home electric appliances		—	e j		Pointe Claire, C
Hoko Fishing	49	Sea Pride Enterprises Ltd.		10,000		Investment firms		Local capital (51%)			Vancouv B.C.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Honda Motor	100	Honda Canada Inc.	Mar. '69	10 mil.	240	Imports & sales of Honda cars		—	e		Agincou Ont.
Honda Motor		Planned for '86				Production of small passenger cars, "Accord" or "Civic"	50,000-100,000 cars/year				Ont.
Honshu Paper Mitsubishi Corp.	27 27	Crestbrook Forest Industries Ltd.	Capital participation in Feb. '67	30.67 mil.	1,000	Pulp, lumbering, plywoods	C$94 mil.	Candou Corp. (40%), other (6%)	h i j	Paying dividend	Cranbroo B.C.
Industrial Bank of Japan	100	Industrial Bank of Japan (Canada)	Feb. '82	20 mil.		Banking		—			Toronto, Ont.
Itoman & Co.	100	Itoman (Canada) Inc.	June '78	200,000	6	Trading	¥1,130 mil. ('81)	—	a e f h i		Montreal Que.
Janome Sewing Machine	49	Janome Sewing Machine Co. (Canada) Ltd.	Apr. '78	100,000	15	Imports & sales of sewing machines	C$2.95 mil.	V.R.E. Perry (51%)	e i	Breaking even	Mississau Ont.
Jujo Paper	8	Finlay Forest Industries Ltd.	May '69	50.6 mil.	550	Lumbering, pulp	C$48 mil.	British Columbia Forest Products, other (92%)	a b h i	Deficit	Mckenzie B.C.
Kanematsu-Gosho	100	Naden Harbour Timber Ltd.		10 mil.	9	Timber	$11.35 mil. ('81)	—	a b i		Vancouve B.C.
Kanematsu-Gosho	100	Kanematsu-Gosho (Canada) Inc.	Aug. '72	2.61 mil.	40	Trading		—			Toronto, Ont.
Kawai Musical Instruments Mfg.		M.K.B. Music Ltd.	Mar. '75	50,000	11	Wholesaling of pianos, electronic organs	C$7.61 mil.	Kawai America Corp. (100%)	e i	Faring well	Winnipeg Manitoba
Kawasaki Heavy Industries	100	Canadian Kawasaki Motors Ltd.	Dec. '82	2 mil.	40	Imports & sales of motorcycles, parts		—	e i		Don Mills Ont.
Kawasaki Steel Corp.	100	Kawatetsu Development B.C.	Oct. '82	2.7 mil.		Wholly-owed subsidiary for Quintette project		—	a h		Vancouve B.C.
Kawasaki Steel Corp.	100	Kawasaki Steel (Canada) Ltd.	June '81	4.26 mil.		Wholly-owed subsidiary for Gregg Rivet coal development project		—	a h		Calgary, Alta.
Kawasho Corp.	100	Kawasho International Canada Ltd.	Jan. '74	100,000		Trading		—	e f	Breaking even	Vancouve B.C.
Kikkoman Corp. *Pacific Trading*	20 20	Japan Food Corp. (Canada) Ltd.	July '73	100,000	20	Imports & sales of oriental foods		Local capital (60%)	e i		Mississaug Ont.
Kobe Steel	100	Kobe Steel B.C. North Ltd.	Jan. '84	1.79 mil.	3	Investment firm in Quintette coaking coal project		—	a h		Vancouve B.C.
Kobe Steel	100	Kobe Steel Canada Ltd.	July '83	2.51 mil.		Sales of coal		—	a b g		Calgary, Alta.
Komori Printing Machinery	100	Komori Canada Inc.	Jan. '83	20,000		Sales of printing machines		—	e f i		Mississaug Ont.
Koyo Seiko	100	Koyo Canada, Inc.	May '66	2.2 mil.	32	Sales of Koyo Seiko's products	C$10.37 mil. ('80)	—	e i	Deficit	Burlington, Ont.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Kubota, Ltd. Marubeni Corp.	60 20	Kubota Tractor Canada Ltd.	Mar. '75	1.5 mil.	44	Sales of tractors & engines		Marubeni Canada Ltd. (20%)	e i	No dividend	Markham, Ont.
Kyocera Corp.	99	Kyocera Canada Inc.	June '76	1.02 mil.	17	Imports & sales of optical instruments		Local capital (1%)	e i	Deficit	Mississaug Ont.
Makita Electric Works	100	Makita Power Tools Canada Ltd.	July '74	5.5 mil.	72	Exports, imports & sales of Makita's electric tools	C$18.99 mil.	—	e i	Breaking even	Whitby, Ont.
Marubeni Corp.	100	Marubeni Canada Ltd.	Mar. '60	10 mil.	77	Trading		—			Toronto, Ont.
Marubeni Corp.	49.8	Cassiar Packing Co., Ltd.	July '62	2.26 mil.	20	Processing & sales of marine products, incl. canned salmon, trout		Macmillan Enterprise Co. (50.2%)	a		Richmond, B.C.
Marubeni Corp.	20	Tonquin Enterprises Ltd.	July '73	9 mil.		Canned salmon, trout; exports of herring-roes to Japan		Cassiar Packing (30%), others (50%)			Vancouver, B.C.
Marubeni Corp.	7.3	Tree Island Steel Co.	May '65	1.58 mil.	170	Production of secondary wire rod products	40,000 tons/ year	A.J. Block (36.4%), A.J. Sacks (28%), Marubeni Canada Ltd. (12%), other (16.3%)	a		Richmond, B.C.
Marubeni Corp.	0.4	Norcen Energy Resources Ltd.	Capital participation in Sept. '73	277 mil.		Gas, petroleum development		Labrador Mining & Exploration (36.1%), others (63.5%)	a		Toronto, Ont.
Marubeni Corp.	0.5	Brascan Ltd.	Capital participation in Oct. '73	520 mil.		Development of natural resources in Canada & Brazil		Local capital (99.5%)	a		Toronto, Ont.
Marubeni Corp.	95	Earle Brothers Fisheries Ltd.	Capital participation in Mar. '79	410,000		Processing & sales of marine products		Earle Freighting Service (5%)			Carbonean New foundland
Marubeni Corp.	100	Columbia Grain, Inc.	July '78	$3.1 mil.	69	Exports, sales, collection & storage of grains		—	a f		Portland, Oreg.
Marubeni Corp. Hitachi Construction Machinery	70.1 19.9	Marubeni Construction Machinery Canada Ltd.	Apr. '81	1 mil.	12	Sales of construction machines		Marubeni Canada Ltd. (10%)	e		Bramptom Ont.
Matsushita Electric Industrial	100	Matsushita Electric of Canada	Dec. '66	8.6 mil.		Sales of Matsushita's products		—	e		Mississaug Ont.
Matsushita Electric Industrial	100	Matsushita Industries Canada Ltd.	May '72	720,000		Color TVs		—	e		Toronto, Ont.
Matsushita Seiko Sumitomo Corp.	72.9 14.3	Torcan-KDK International Co.	Mar. '81	140,000		Sales of desktop fans, heaters		Sumitomo Canada Ltd. (12.8%)	e		Toronto, Ont.
Mazda Corp. G. Itoh & Co.	60 40	Mazda Canada Inc.	Sept. '68	13 mil.	92	Sales of automobiles	C$200 mil.	—	e		S. Pickerin Ont.
Minolta Camera	49	Minolta Canada Ind.	July '77	900,000	60	Wholesaling of Minolta's products, mainly cameras		Marjanison Ltd. (51%)	e i		Mississaug Ont.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Minolta Camera		Minolta Business Equipment (Canada) Ltd.	Sept. '75	250,000	20	Wholesaling of office equipment		Minolta Corp. (U.S.A.) (100%)	e i		Scarborou Ont.
Misawa Homes	100	Misawa Homes of Canada Ltd.	May '73	4.05 mil.	3	Development of lumber, building materials		—	a b d e i		Vancouver B.C.
Mitsubishi Corp.	40	Mayo Forest Products, Ltd.	Sept. '78	8 mil.	100	Lumbering	C$30.28 mil.	Pacific Forest Products Ltd. (60%)			Nanaimo, B.C.
Mitsubishi Corp.		Lakeside Farm Industries Ltd.	Capital participation in Nov. '73	460,000	185	Production & exports of livestocks, meats		Mitsubishi Canada Ltd. (20%), other (80%)			Brooks, Alta.
Mitsubishi Corp.	100	Mitsubishi Canada Ltd.	Oct. '60	10.14 mil.	140	Trading	¥263.1 bil. ('80)	—			Vancouver B.C.
Mitsubishi Corp. Nisshin Oil Mills	35 15	United Oilseed Products Ltd.	Dec. '75	3.55 mil.	74	Rape-seed oil	C$58.9 mil.	United Grain Growers (50%)	b f		Lloydminst Alta.
Mitsubishi Corp. Toyo Tire & Rubber	60 40	MC Tire Sales (Canada) Ltd.	Apr. '83	200,000	10	Imports & sales of large auto tires	C$8.17 mil.	—			Vancouver B.C.
Mitsubishi Bank	100	Mitsubishi Bank of Canada	May '82	15 mil.	23	Merchant banking		—	g r		Vancouver, B.C.
Mitsubishi Electric	100	Mitsubishi Electronics Industries Canada Inc.	Oct. '83	5 mil.		Color TV Braun tubes		—	d e		Midland, Ont.
Mitsubishi Electric	100	Mitsubishi Electric Canada Inc.	Apr. '80	1 mil.	5	Sales of home electric appliances		—	e f		Markham, Ont.
Mitsuboshi Belting *Mitsuboshi Boeki*	60 40	MBL Sales Ltd.	Capital participation in Mar. '74	100,000	17	Sales of Mitsuboshi's products	C$2.63 mil.	—	e f h	Breaking even	Calagay, Alta.
Mitsui & Co.	100	Mitsui & Co. (Canada) Ltd.	July '56	22.75 mil.	129	Trading		—	a e f h		Toronto, Ont.
Mitsui & Co.	100	Fraser Wharves Ltd.	Apr. '71	1.21 mil.	96	Loading & transport of automobiles		—			Richmond, B.C.
Mitsui & Co.	9.3	Weld-Loc Systems of Canada Ltd.	May '72	67,500	45	Production of polypropylene strapping bands		Weld-Loc Systmes, Inc. (81.5%), other (9.2%)			Cobourg, Ont.
Mitsui & Co.	13.5	Saxon Coal Ltd.	Dec. '71	258,000		Development & sales of coal		Denison Mines Ltd. (86.5%)	e		Vancouver, B.C.
Mitsui & Co.	100	Hidden Creek Mines Ltd.	Feb. '81	950,000		Prospecting for development of mineral resources		—			Vancouver, B.C.
Mitsui & Co.	80	Mitsui Coal Development (Canada) Ltd.	Mar. '81	3.91 mil.	2	Development & sales of Gregg River coal		Mitsui & Co., (Canada) Ltd. (20%)			Calgary, Alta.
Mitsui & Co. Kobe Steel Shinko Wire	23.7 28.9 3.8	Titan Steel & Wire Co.	Sept. '66	2.6 mil.	106	Steel rod products	29,000 tons; C$31.66 mil.	Mitsui & Co. (Canada) Ltd. (14.9%), Morris Holding Co., others (28.7%)	d e i		N. Surrey, B.C.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Mitsui & Co. Toyota Motor	50 50	Toyota Canada Inc.	Capital participation in Jan. '72	10 mil.	267	Exports & sales of complete cars	C$570 mil.	—	e i	Faring well	N. Scarborough, O
Mitsui Bank	100	Mitsui Bank of Canada	Feb. '82	15 mil.	16	Banking		—	g		Toronto, Ont.
Mitsui Mining Mitsubishi Corp.	20 5	Kaiser Coal Canada Ltd.	'81	5.55 mil.	3	Mining	1.3 mil. tons	Kaiser Resources (70%), third-country (5%)	a h i		Vancouver, B.C.
Mitsui Mining *Tokyo Boeki* Nippon Steel Corp. Sumitomo Corp.	12.5 10.5 10 5	Quintette Coal Ltd.	Capital participation in Jan. '83	114 mil.	522	Coal		Denison Mines Ltd. (62%)	a		Vancouver, B.C.
Mitsui Mining & Smelting Marubeni Corp.	2.6 0.6	Nuspar Resources Ltd.	Apr. '67	2.18 mil.		Prospecting for nonferrous metals		Local capital (96.8%)	a		Vancouver, B.C.
Murata Manufacturing		Murata Erie North America, Ltd.	Purchased in Mar. '81	$4.01 mil.		EMI filter, power units power units		Local capital (100%)			Mississauga Ont.
Nachi-Fujikoshi		Nachi Canada Ltd.	Apr. '75	50,000	5	Sales of bearings, cutting tools		Nachi America Inc. (100%)	e i		Weston, Ont.
NGK Insulators Mitsubishi Corp.	70 30	NGK Insulators of Canada Ltd.	Apr. '68	30,000	3	Sales of insulators	C$16.11 mil.	—	e f i	Paying dividend	Toronto, Ont.
Nichimen Corp.	100	Nichimen Canada Ltd.	Jan. '74	1.04 mil.	10	Trading		—	e f h i j		Montreal, Que.
Nichimo Co.	100	Nichimo Trading Co.	Capital participation in Nov. '66	100,000	3	Exports, imports & sales of fishing nets, marine products	C$4.31 mil. ('80)	—	a e h i j	Breaking even	Richmond, B.C.
Nippon Gakki	100	Yamaha Canada Music Ltd.	Mar. '70	1.5 mil.	194	Imports & sales of musical instruments		—	e		Scarborough Ont.
Nippon Kogaku	49	Nikon Canada Inc.	May '79	2 mil.	69	Imports & sales of optical instruments		J.N. Grieve (51%)	e f i	Breaking even	Montreal, Que.
Nippon Kokan	100	NKK Resources Canada Ltd.	July '83	4.61 mil.		Development & production of Gregg River coal	C$3.15 mil.	—	a h r		Calgary, Alta.
Nippon Kokan	100	NKK North East Coal Development Ltd.	Jan. '83	2.91 mil.		Investment firm in coal development		—	a r		Vancouver, B.C.
Nippon Light Metal	25	Southeast Asia Bauxites Ltd.	Capital participation in Sept. '60	120,000	4	Development & sales of bauxite		Alcan Aluminium (75%)	a h	Paying dividend	Montreal, Que.
Nippon Light Metal	50	Alpac Aluminum Ltd.	Jan. '76	41.5 mil.		Sales of aluminum on consignment basis		Alminium Co. of Canada Ltd. (50%)	b c h	No dividend	Montreal, Que.
Nippon Mining	100	Nippon Mining of Canada Ltd.	Apr. '70	37,000		Mining		—	g		Vancouver, B.C.
Nippon Mining	8.1	Brenda Mines Ltd.	Capital participation in June '66	8.22 mil.	439	Mining	C$50.4 mil. ('81)	Local capital (91.9%)	a	Paying dividend	Peachland, B.C.

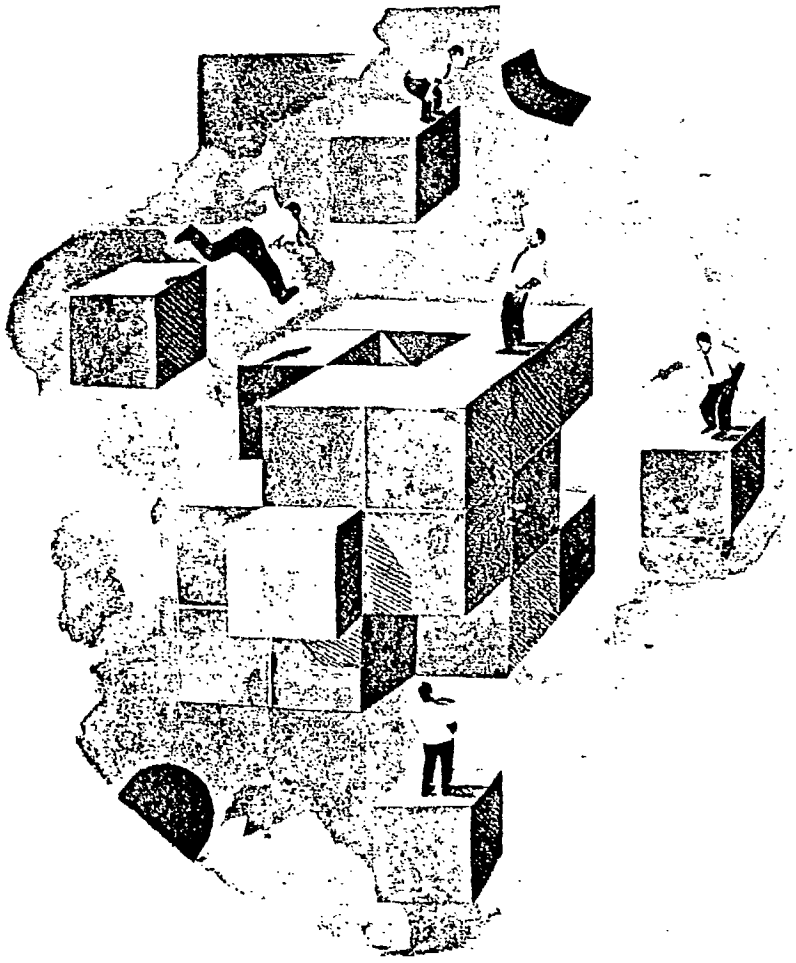
Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Nippon Seiko	100	NSK Bearing Canada Ltd.	Feb. '74	1.3 mil.		Sales of bearings		—	e i		Mississauga, Ont.
Nippon Sheet Glass Sumitomo Corp.	50 50	Sumiglass Products Ltd.	July '72	30,000	3	Sales of sheet glass		—	e		Vancouver, B.C.
Nippon Steel Corp.	100	Nippon Steel B.C. Ltd.	Planned for '84	17 mil.		Investment in coal production & sales firms		—	a		Vancouver, B.C.
Nippon Steel Corp.	100	Nippon Steel Development Canada Ltd.	Apr. '83	11 mil.		Prospecting & sales of coal		—	a h		Calgary, Alta.
Nippon Steel Corp., Kawasaki Steel Corp., Mitsubishi Chemical Industries, Nippon Kokan, Sumitomo Metal Industries, Nisshin Steel, Godo Steel, Toho Gas, Kobe Steel, Mitsubishi Corp.	33.4	Wester Mining Ltd.	Aug. '73	18.25 mil.	1,900	Mining; sales of coals	C$430 mil.	BCRIC Enterprises Ltd. (66.6%)	a h	Paying dividend	Vancouver, B.C.
Nippon Steel Corp. Nippon Kokan Kawasaki Steel Corp. Sumitomo Metal Industries Mitsui & Co. Kobe Steel Nisshin Steel	35 14.7 13.6 13.6 12.5 8 2.6	Japan Gregg River Coal Ltd.	July '83			Investment firm for Gregg River coal project		—	a		Calgary, Alta.
Nippon Steel Corp. Nippon Kokan Kawasaki Steel Corp. Sumitomo Metal Industries Mitsui & Co. Kobe Steel Nisshin Steel	34.95 14.74 13.6 13.55 12.5 8.03 2.63	Japan Firanco Enterprises Ltd.	June '82	1 mil.	5	Development, production & sales of coking coal		—	a h		Calgary, Alta.
Nippon Suisan	100	Nippon Suisan (Canada) Ltd.	Apr. '81	200,000	5	Exports & sales of marine products	C$15.91 mil.	—	a f h		Vancouver, B.C.
Nippondenso Co.	100	Nippondenso Canada Ltd.	Jan. '73	100,000		Sales of automobile parts, airconditionings	C$3.81 mil.	—	e i	Breaking even	Agincourt, Ont.
Nissan Motor	100	Nissan Automobile Co. Ltd.	Jan. '65	1.8 mil.	200	Distribution & sales of passenger cars, trucks		—	e i		New Westminster, B.C.
Nissei Sangyo		Nissei Sangyo Canada Inc.	Apr. '80	50,000	6	Sales of Nissei's products		Nissei Sangyo America (100%)	e		Rexdale, Ont.
Nisshin Steel	100	Nisshin Steel (Canada) Ltd.	Apr. '81	820,000		Development, production & sales of coking coal		—	a h		Calgary, Alta.
Nissho Iwai Corp.	100	Nissho Iwai Coal Development (Canada) Ltd.	'84	5.07 mil.		Development & Imports of coal		—	a h		Vancouver, B.C.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Nissho Iwai Corp.	100	NIC Resources Inc.	Dec. '81	1.15 mil.		LNG development		—	a h		Calgary, Alta.
Nissho Iwai Corp.	100	Nissho Iwai Canada Ltd.	Nov. '59	2.34 mil.	36	Trading		—			Vancouver, B.C.
Noritake Co.	90	Noritake Canada Ltd.	Sept. '68	200,000	31	Imports & sales of ceramic dinnerware, related products		Noritake Co., Inc. (10%)	e	Paying dividend	Agincourt, Ont.
NTN Toyo Bearing	100	NTN Bearing Corp. of Canada	Sept. '68	3.8 mil.	44	Imports & sales of bearings	C$22.7 mil.	—	c d		Rexdale, Ont.
Oji Paper Mitsui & Co.	25 8	New Brunswick International Paper Co.	Capital participation in July '80	50.5 mil.	1,224	Papers		Canadian International Paper Co. (67%)	b c		Dalhousie, New Brunsw
Okura & Co.	100	Okura & Co. Canada Ltd.	June '58	1 mil.	13	Trading	$27.88 mil.	—	e f i	Breaking even	Vancouver, B.C.
Omron Tateisi Electronics		OMRON Canada Inc.		400,000		Sales of controlling equipment		OMRON Electronics, Inc. (100%)			Scarborough Ont.
Ricoh Co.		Rapifax of Canada Ltd.	Apr. '76	10,000		Sales of transmission equipment		Ricoh (Europe) S.A. (100%)	e		Ont.
Sanyo Electric	50	Sanyo Industries Canada Inc.	Jan. '72	590,000	156	Production of color TVs		Magnasonic Canada (50%)	e	Paying dividend	Montreal, Que.
Sanyo Electric	100	Sanyo E.T. Canada Inc. Inc.	Mar. '83	2.6 mil.		Sales of electric appliances		—			Troronto, Ont.
Sanyo Electric		Sanyo Canada Inc.	Jan. '83	5 mil.	300	Sales of electric appliances		Sanyo E.T. Canada (50%), Magnasonic Canada Inc. (50%)			Toronto, Ont.
Sharp Corp.	100	Sharp Electronics of Canada Ltd.	'74	5.6 mil.	127	Imports & sales of electric appliances		—	e i	Paying dividend	Rexdale, Ont.
Shinko Sangyo Trading	100	Shinko Canada Ltd.	Mar. '74	50,000	6	Trading	$5.48 mil. ('81)	—	e	No dividend	Montreal, Que.
Sony Corp.	49	Sony Electronics Ltd.	Oct. '69	10.26 mil.		Sales of Sony's products		Local capital (51%)	e		Winnipeg, Manitoba
Sumitomo Corp.	76.2	Komatsu Canada, Ltd.	Nov. '74	2.1 mil.	28	Sales of Komatsu's tractors, parts		Sumitomo Canada Ltd. (23.8%)	e		Toronto, Ont.
Sumitomo Corp.	100	Sumitomo Canada Ltd.	July '61	3.45 mil.	56	Trading		—			Vancouver, B.C.
Sumitomo Corp., Mitsui & Co., Mitsubishi Corp.	0.6 (each)	Lornex Mining Corp.	Dec. '64	8.27 mil.	762	Copper		Rio Algom Mines Ltd., other (98.2%)	a		Vancouver, B.C.
Sumitomo Metal Industries	100	Sumitomo Metal Canada Ltd.	Mar. '81	4.24 mil.		Development & sales of Gregg River coal		—	a h	Breaking even	Calgary, Alta.

Japanese Investors	Capital Ratio (%)	Names of Companies	Date of Operation Start	Capital (In C. dollars)	No. of Employees	Major Business Lines	Annual Sales or Production ('82)	Partner Firms	Investment Objectives	Business Results	Location
Sumitomo Metal Industries	100	Sumikin Canada Development, Ltd.	Jan. '83	2.68 mil.		Investment firm		—	a h		Vancouver B.C.
Sumitomo Metal Mining	100	Sumitomo Metal Mining Canada Ltd.	Apr. '70	670,000	6	Prospecting for non-ferrous metals		—	a f	No dividend	Vancouver B.C.
Suzuki Motor	100	Suzuki Canada Ltd.	June '73	6.5 mil.	83	Imports & sales of motorcycles, cars		—	e i		Downsview Ont.
Taiyo Fishery	100	Taiyo Canada Ltd.	Dec. '66	200,000		Fishing	C$3 mil.	—	a		St. Johns, Newfoundl.
Tokyo Electric	100	Tokyo Electric Canada Ltd.	June '74	540,000	13	Exports, imports, sales & repair of electric machinery, parts		—	e i	Faring well	Rexdale, Ont.
Toshiba Corp.	100	Toshiba of Canada, Ltd.	Aug. '69	300,000	159	Sales of home electric appliances		—	e		Willowdale Ont.
Toyo Menka Kaisha	50	Toyomenka (Canada) Ltd.	May '74	2 mil.	30	Trading		Toyomenka America (50%)	f		Vancouver, B.C.
Toyobo Co.	23.5	Consoltex Canada Inc.	Capital participation in Feb. '79	16.45 mil.	1,430	Dyeing & processing of woven fabrics, knit goods	C$107.6 mil.	Carrington Viyelle Group (49.7%), other (26.8%)	e i	Paying dividend	Montreal, Que.
Toyota Motor	100	Canadian Autoparts Toyota Inc.	Planned for '85	2.3 mil.		Aluminum wheel caps for motor vehicles		—	b d		Richmond, B.C.
Tsubakimoto Chain	100	Alspeed Products Ltd.	Purchased in Jan. '79	1.5 mil.	50	Sales of Tsubakimoto's products, incl. chains		—	e i		Mississauga Ont.
Victor Co. of Japan	100	JVC Canada Inc.	Sept. '75	600,00		Sales of Victor's products		—	e f i		Scarborough Ont.
Yamaha Motor	100	Yamaha Motor Canada Ltd.	May '73	10 mil.	171	Imports & sales of motorcycles, outboards	C$119.4 mil.	—	e i	Faring well	Ont.
Yamaichi Securities	100	Yamaichi International (Canada) Ltd.	Dec. '72	300,000	4	Securities		—			Motreal, Que.
Yamashina Seiko-sho		Yama-Fas. Inc. (Canada)				Screws					Vancouver, B.C.
Yoshida Kogyo	100	YKK Canada Inc.	Feb. '68	2.05 mil.	218	Sales of fasteners	¥3,970 mil.	—	e	No dividend	Laurent, Que.

The International Efforts of Japanese Small Businesses

By Kengo Ishii



Kengo Ishii joined the Ministry of International Trade and Industry in 1955. Capping a distinguished career, he served as director-general of the Small and Medium Enterprise Agency for one year from June 1984 to June 1985.

Introduction

The existence of numerous small businesses, which are a major source of the economy's vitality, is one of the salient features of the Japanese economy. In view of the great importance of small and medium enterprises to the nation's economy, the government takes various measures designed to promote their growth and development and to improve the economic and social standing of their employees. These measures are based on the Small and Medium Enterprise Basic Law, which defines small and medium enterprises as (1) companies and individuals with capital of ¥100 million (about $400,000) or less and a workforce not exceeding 300 engaged in industries other than commerce and service (e.g. manufacturing, mining); (2) companies and individuals with capital of ¥30 million (about $120,000) or less and a workforce not exceeding 100 engaged in wholesale business; (3) companies and individuals with capital of ¥10 million (about $40,000) or less and a workforce not exceeding 50 engaged in retail business and services. In 1981, there were 6,230,000 small-business offices and factories meeting these conditions throughout the country, accounting for 99.4% of all business offices and factories. In the same year, 37,210,000 persons were engaged in the activities of small and medium enterprises, representing 81.4% of Japan's total private-sector workforce.

The small business sector is equally important on the production side. In 1983, goods shipped by small and medium manufacturing enterprises were worth ¥122,008 billion ($488 billion), or 51.8% of the aggregate value of manufacturing-industry shipments. The value added by small and medium manufacturers totaled ¥44,378 billion ($177.5 billion), accounting for 56.1% of aggregate value-added for manufacturing as a whole. As for distribution, annual sales by small and medium wholesalers reached ¥223,416 billion ($894 billion) in 1982, a 58.6% share of wholesale industry annual sales. Annual sales by small and medium retailers stood at ¥93,971 billion ($376 billion), representing 79.9% of the retail industry's entire sales for the same year.

. Obviously small and medium enterprises occupy a crucial place in the Japanese economy. But more detailed breakdown reveals that these enterprises are concentrated in certain sectors. In manufacturing, for example, they are particularly conspicuous in light-industry as well as intermediate goods produced by processing and assembly industries. Small and medium manufacturers operate predominantly in sectors marked by small and diversified demand. In the case of retail business, most small and medium enterprises enjoy the distinct advantage of being located near consumers, and can thus maintain good customer relations. Wholesale enterprises, meanwhile, are most active in the final stages of distribution where well-thought-out wholesale activities are a must. And small and medium businesses in the service industry exist in large numbers in fields geared to local demand, such as personal services.

Japan's changing economy and small businesses

In recent years the business environment surrounding small and medium enterprises has changed markedly on both the supply and demand sides. Consumer demand has gained in diversity and sophistication in line with the rapid development of the nation's economy. On the supply side, small and medium enterprises have encountered a wave of technological innovation and information revolution. Such changes may offer new business opportunities to enterprises already active in fields where demand is diverse and small in scale. But the shifting business environment demands hard adjustments of the small entrepreneur to respond effectively to the new needs of consumers and users. In order to profit from such transformations in the business landscape and ensure their own sustained growth, small and medium enterprises will find it increasingly important to make better use of their technological, informational and human resources. These can best be described as "intellectual management resources," as technology, information and talent constitute the intellectual aspect of business administration.

1. Strengthening technological foundations

Technology has a vital role to play in a period of stable, non-inflationary growth for the Japanese economy. Thus far, however, technological innovation in small business has remained at a low ebb compared with that of big business, because small and medium enterprises have concentrated almost exclusively on applying and improving existing technologies (Fig. 1). The utilization of existing technologies has, in fact, been a convenient and effective way to strengthen the technological foundations of small and medium enterprises lacking in financial, human or informational resources. Recently, however, small businessmen increasingly recognize the need for technological development in light of the growing trend toward product diversification, technological fragmentation and reintegration. From this point of view, linkups with outside research organizations by venture-capital businesses, and autonomous technological development programs using external resources, such as exchanges between enterprises in different industries, offer useful examples of positive business strategies for small and medium enterprises.

In the meantime, there exists in Japan a large number of small subcontractors, who produce and supply parts and other products to order for particular enterprises. There are about 465,000 of these subcontractors accounting for some two-thirds of all smaller enterprises in manufacturing. They form the broad base of the division-of-labor structure of Japan's industrial society, supporting its efficiency.

Subcontractors have traditionally devoted much of their energy to maintaining and improving production processes that are compartmentalized under the division-of-labor system. The technological level of each subcontractor has been raised through assistance, most notably technical guidance, from its parent company. However, orders from parent companies have been undergoing qualitative change under the impact of technological innovation, and to meet such changes subcontractors are stepping up independent efforts to improve their in-house technologies. The growing need for subcontracting enterprises to make improvements on their own—through technological development activities—has already prompted some to come out with their own products. And their success at product development has in turn triggered further changes in relations with their parent companies.

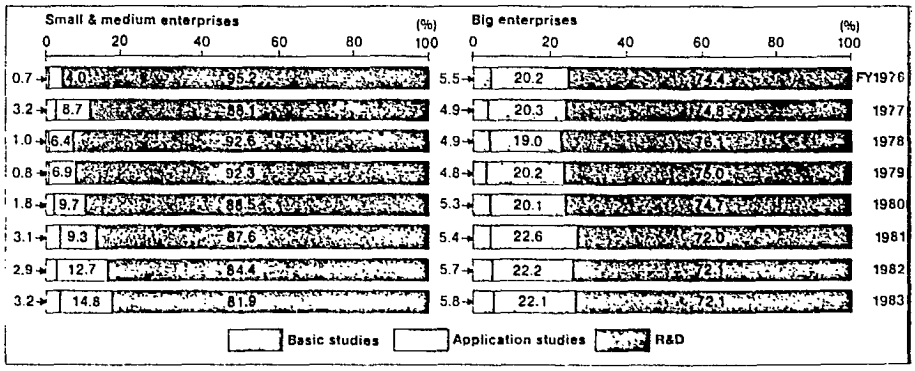
There is a wide disparity in the managerial resources of small and big enterprises, from talent to information and capital. Autonomous technological development of course requires positive efforts by small and medium enterprises themselves. At the same time, however, it is necessary to improve and better utilize measures designed to help them cultivate their capacity for technological development.

2. Information revolution and small business

At a time when rapid change is sweeping the business environment and corporate activities are becoming more sophisticated and complicated than ever before, it is essential to effectively organize and utilize diverse production factors. In this, information plays an important and fundamental role. Advanced business management depends crucially on the collection, sorting and application of information. Advertising is assuming an ever more important role. And once again, small and medium enterprises must adapt themselves to this changing environment.

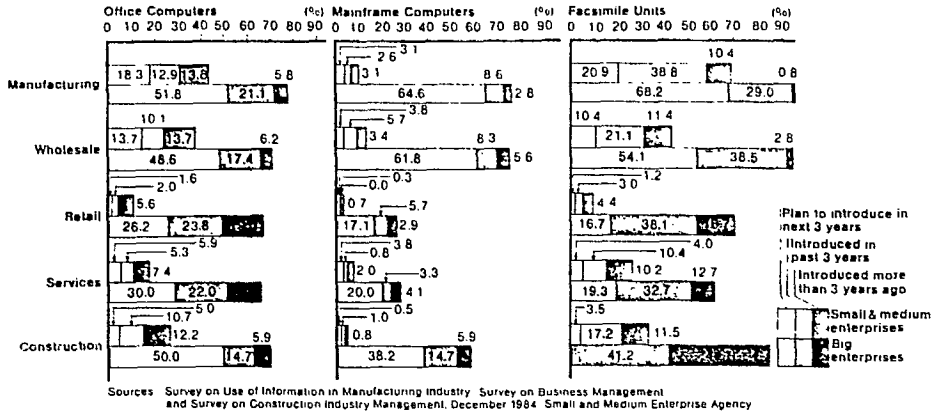
Many information-related technological innovations are already being made, particularly in electronics. Small and medium enterprises are introducing information devices in their various departments, and progress is expected not only in rationalization and labor saving but in the formulation of advanced business

Fig. 1 R&D Spending by Purpose



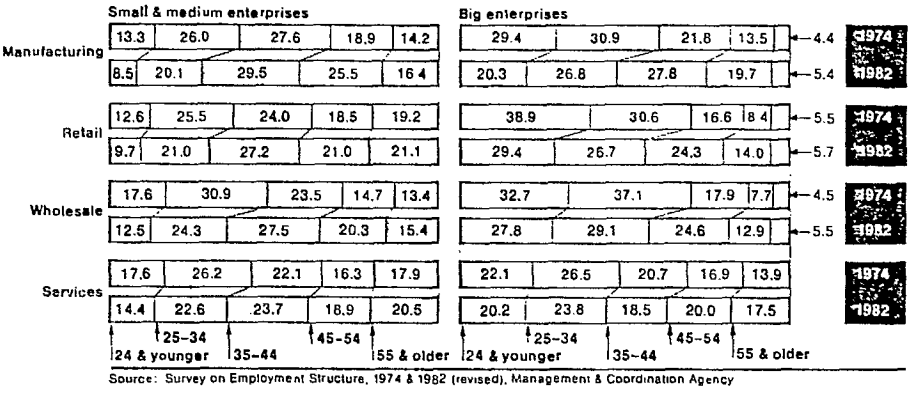
Note: Total of percentage figures in each bar graph does not necessarily equal 100 due to rounding up.
Source: Survey on Scientific & Technological Studies, Management & Coordination Agency

Fig. 2 Electronics Equipment Used by Businesses



Sources: Survey on Use of Information in Manufacturing Industry, Survey on Business Management and Survey on Construction Industry Management, December 1984, Small and Medium Enterprise Agency

Fig. 3 Change in Age Composition of Employees



Source: Survey on Employment Structure, 1974 & 1982 (revised), Management & Coordination Agency

strategies (Fig. 2). However, the introduction of information devices presents new problems in equipment maintenance and software development. Small businesses must make adequate preparations, taking into full account the type of industry to which they belong, if they are to ensure the effective introduction and utilization of this new equipment.

Meanwhile, the fusion of information processing and communications technologies is expanding the range of computer-based information distribution from intra-company systems to inter-company networks. Inter-business on-line networks are already being formed, particularly among large enterprises. These computer networks are designed to rationalize and save labor in administration, speed up data transmission among enterprises and improve accuracy in transmission. So far, most companies using these networks seem well satisfied with what they have achieved. But such developments are likely to affect inter-business relations in many ways, and it will be necessary for small and medium enterprises to respond effectively, taking into account a combination of factors such as the type of industry and business they are engaged in, their size, and where their customers are located. Enterprises lacking in managerial resources also face problems with respect to know-how about network operation, software development, manpower and capital. For this reason, small businesses are expected to have greater difficulty than large enterprises in introducing on-line systems. One effective way to overcome these handicaps would be to set up inter-business on-line networks on a joint, integrated basis.

The information revolution and rapid progress in data processing and communications technologies has accelerated the development of a variety of information-related equipment. At the same time, numerous information-related services have sprung into being. In these fields, too, small and medium enterprises capable of executing well-thought-out responses to user needs have great and growing opportunities for business expansion. Equally promising for resourceful small and medium enterprises has been the notable development in recent years of so-called "new media" providing entirely new types of service.

3. The manpower factor in small businesses

The importance of human resources to successful business activity is recognized more keenly today than ever before as the business environment is transformed by diversifying demand, technological innovation and information revolution. Small and medium enterprises are no exception. They now urgently need to secure talented people.

The supply and demand structure of Japan's labor force has changed significantly. On the supply side, the number of middle-aged and older persons has increased (Fig. 3), as has the number of working women. These shifts have been paralleled by changes in worker consciousness, as shown by the rising number of people willing and eager to change jobs. On the demand side, meanwhile, the need for knowledge intensive labor is growing as never before.

These changes have profoundly affected supply and demand in labor markets categorized by sex, age and educational background, for example. They could soon have a significant impact on employment and wage practices, such as the seniority-based wage system.

In general, supply has begun outstripping demand in the labor market, and the quantitative labor shortage facing small and medium enterprises is fading. But at the same time it is becoming more difficult than before to secure sufficient numbers of technicians, engineers, researchers and university graduates. In other words, small business is now facing a qualitative labor shortage. Companies must improve their recruiting and create more attractive working environments. At the same time, in order to make up for their intrinsic disadvantages in recruitment, they should expand and strengthen hiring activities both through better organization of their ongoing efforts and by using third-party organizations.

For the development of human resources it is essential that methods best suited to individual enterprises be adopted, including better on-the-job training (OJT), the use of national and regional public training institutes, and utilization of training programs sponsored by business associations and cooperatives and other bodies. Of course, small-business employers themselves have a large role to play in recruitment. It is important that they, too, make multifaceted efforts for self-improvement.

Upgrading managerial abilities is also essential if "smaller enterprises"* are to survive and prosper in this new business environment. Smaller entrepreneurs are, in fact, already trying to improve themselves through participation in study sessions and other training programs. About 60% of such small business owners are said to want their children or relatives to

succeed them at the helm of the company. Their successors will need to be skilled at external negotiations and many other managerial techniques, and growing weight is being attached to developing such skills through outside training. OJT is still the main method of training the employees of smaller enterprises, but in future it will be necessary to expand the scope of human resources development to include outside training and education.

The internationalization of small businesses

The interdependence between the Japanese economy and the world economy is growing through international exchange in trade and capital and a wide range of other fields. There is a growing need for Japanese small and medium enterprises to respond to such changes in the international economic environment.

1. Small businesses and trade trends

Exports of "small and medium enterprise products" increased in 1984 over the year before, although the rate of growth remained lower than that of "large enterprise products."** Most growth centered on manufactured exports by heavy industry.

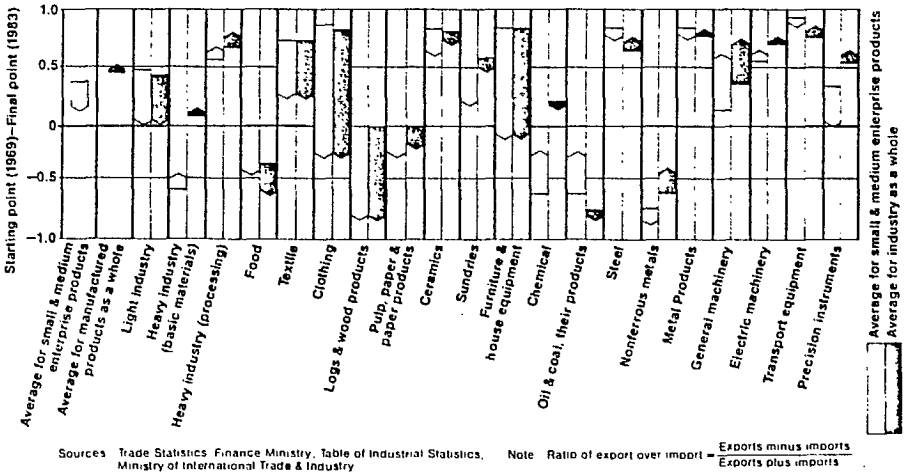
Export trends affect the production activities of small and medium enterprises, through domestic transactions and other business relations, not only when their products are exported directly but also when parts they produce are used in export goods. The latter case presents indirect effects of export on the production, while the former does direct effects. For small and medium enterprises, the indirect effects are greater because of the large number of subcontractors among them whereas the direct effects outweigh the indirect in case of large enterprises. In addition, exports of small and medium enterprise products are largely centered in light industry, though those in heavy industry are nonetheless greatly affected by export trends.

2. Changing trade structure and small businesses

A review of shifts in the sectoral composition of the exports of small and medium enterprise products after 1973 shows that the share of the processing and assembly sectors continued to expand until around 1978, and has since remained almost unchanged. The share of fibers and textiles shrank until around 1980 before leveling off in subsequent years. As for imports, the weight of heavy-industry products has expanded, while that of light-industry products, and particularly fibers and textiles, has declined.

The ratio of export over import ([exports—imports] / [exports+imports]) for small and medium enterprise products changed noticeably between 1969–83 (Fig. 4). In the case of light-industry products, the ratio dropped markedly for fibers, apparel, and other textile products in 1969–73. Thereafter it rose moderately, but overall during the 1969 to 1983 period fell, dragging down with it the ratio for light industrial products as a whole. In the case of the materials sectors of the heavy industry, the ratio increased slightly, but remained lower than the industry's average. In heavy-industry processing sectors, exports exceeded imports by a wide margin, with the result that the already high ratio rose even further. The overall ratio for small and medium enterprise products dropped markedly in 1969–73 and climbed moderately thereafter. By 1983, however, it still remained at a lower level than that of industrial products as a whole.

Fig. 4 **Ratio of Export over Import by Industry**



Sources: Trade Statistics, Finance Ministry; Table of Industrial Statistics, Ministry of International Trade & Industry. Note: Ratio of export over import = $\frac{\text{Exports minus imports}}{\text{Exports plus imports}}$

3. Overseas investment by small businesses

Overseas investment by Japanese small and medium enterprises leveled off after 1980, reflecting economic stagnation at home and abroad. However, investments began to pick up again after 1983 under the impetus of the economic recovery. A sectoral breakdown of manufacturing investments shows that machinery continues to hold the major share, but a declining one in recent years. By region, the proportion of investments in North America and developed countries increased, while the percentage of investments in Asia, including the newly industrializing countries (NICs), sagged.

The primary objective of initial overseas investments by Japanese small businesses is to sell the products of the parent company, according to a recent survey by the Small and Medium Enterprise Agency. Another important objective is to import locally produced goods to Japan. The survey also found that 30% of small businesses with overseas operations are considering additional investment, while 63% plan to maintain their current levels. As these findings clearly show, overseas expansion is an integral part of the steady business development of Japan's small and medium enterprises.

4. Technology trade by small businesses

In recent years, technology exports by small and medium enterprises have expanded rapidly in number, while imports have remained more or less unchanged. A regional breakdown shows that Southeast Asia accounts for the highest proportion of exports from Japan, while North America and Europe dominate imports. On an industry basis, the large export share of technology related to general machinery has expanded even further in recent years while in import, the proportion of textile-related technology has been steadily rising. ●

*"Smaller enterprises" are defined as those with employees not more than 20 in manufacturing and mining, and 5 in commerce and service by Small and Medium Enterprise Basic Law.

**"Small and medium enterprise (large enterprises) products" are those products in which small and medium enterprises (large enterprises) contribute over 70% of the total shipment value at the fiscal 1981 level in Japan Standard Industry Classification.

Offsetting the Handicaps of The Small Enterprise Overseas

By Toyohiko Ohashi

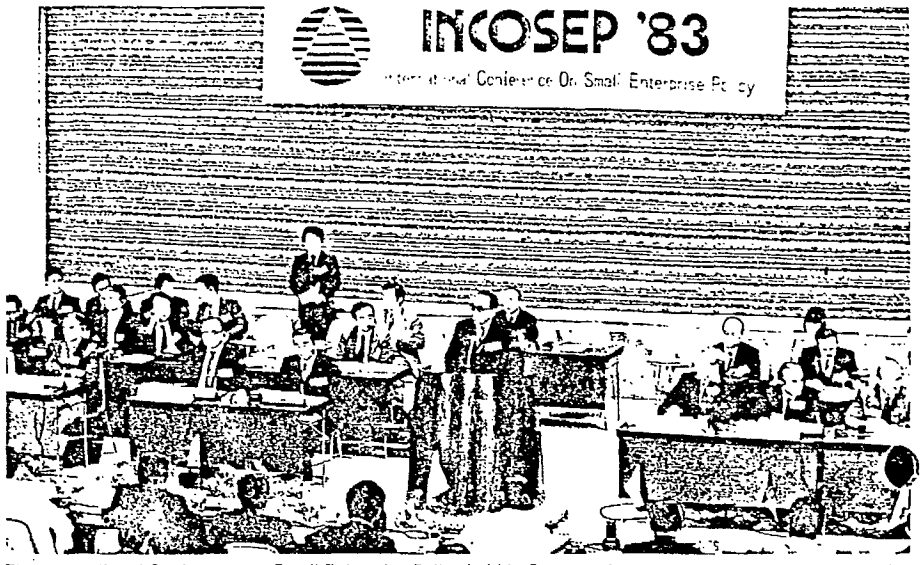
The internationalization of Japan's small and medium enterprises has progressed rapidly in recent years. The boundary between their domestic and overseas business activities is gradually disappearing, and their activities are being integrated into the fabric of international society. Of Japan's total overseas investment, small and medium enterprises account for more than 10% on a value basis and nearly 40% of all cases. Moreover, it is estimated small businesses manufacture 40% of Japan's total exports of industrial products, including direct and indirect exports.

When investing overseas, however, small and medium enterprises often encounter unexpected problems due to insufficient advance research. Such companies rarely have enough competent personnel to fill overseas posts, and above all lack experience in doing business abroad. Eventually, many are compelled to abandon their foreign ventures as numerous routine problems, such as raising funds, communicating with local business partners and dealing with employees prove intractable because of the unfamiliar environment. Quite often it happens that the delayed settlement of these problems has disastrous consequences. In the case of a small business, failure in an overseas project does not end simply in withdrawal. It can prove a fatal blow resulting in the parent company's bankruptcy.

In recent years the export environment has become even more demanding for small and medium enterprises due to intensifying competition from NICs (newly industrializing countries) and rising protectionism in importing countries.

Small firms have had to step up their efforts to anticipate the needs of importer countries, diversify their export markets, and raise the value-added of their products. At the same time, small and medium trading firms are under pressure to play a greater role in importing manufactured goods, and especially in handling small lots of a great variety of products to meet diversifying consumer needs.

It must also be borne in mind that small and medium enterprises are assuming a more important role in technological exchange and industrial cooperation.



The International Conference on Small Enterprise Policy held in Osaka in January 1983 drew some 170 people from 28 countries.

In recognition of these recent trends, the Ministry of International Trade and Industry (MITI) has drawn up the following policy measures to facilitate the internationalization of small and medium enterprises, on the precondition that they continue to make efforts on their own behalf.

Roadblocks to overseas investment

1. Investment overseas by small and medium enterprises not only expands business opportunities for small businesses in Japan as a whole but has the further effect of promoting economic and industrial cooperation with host countries through technology transfer, creation of employment opportunities, and upgrading of their industrial structure. Moreover, it contributes to deepening mutual understanding between Japan and host countries through personnel and cultural exchanges. For these reasons, overseas investment by small and medium enterprises is of great significance. In making overseas investment, however, these enterprises are faced with difficulties in the following areas.

1) Information

Collection and analysis of information are a prerequisite for successful overseas investment. However, many small and medium enterprises have great difficulty in gathering and analyzing information. According to the "Survey on Overseas Investment by Small and Medium Enterprises" conducted by the Small and Medium Enterprise Agency (SMEA) in December 1983, many smaller companies find information concerning market trends, the legal system and the taxation system of the host country very difficult to obtain. The credit standing of the overseas business partner is also a greater concern for small and medium enterprises than for big enterprises. In the survey, this concern was expressed particularly by small and medium enterprises operating in developing countries (Fig. 1).

2) Human resources

The success or failure of corporate business activities overseas depends largely on the quality and competence of the staff assigned abroad. Small and medium enterprises inevitably lack competent staff because of their small scale. It takes time and money to train personnel. The survey revealed that in order to train staff for stationing overseas, many small

Toyohiko Ohashi is director of the International Affairs Office at the Guidance Department of the Ministry of International Trade and Industry's Small and Medium Enterprise Agency. He joined the Administrative Management Agency in 1964 and was named to his current post in 1983.

companies send their personnel repeatedly on overseas business trips to acquire experience before they are actually assigned to full-time overseas posts. Only a few enterprises have special training programs for personnel posted abroad.

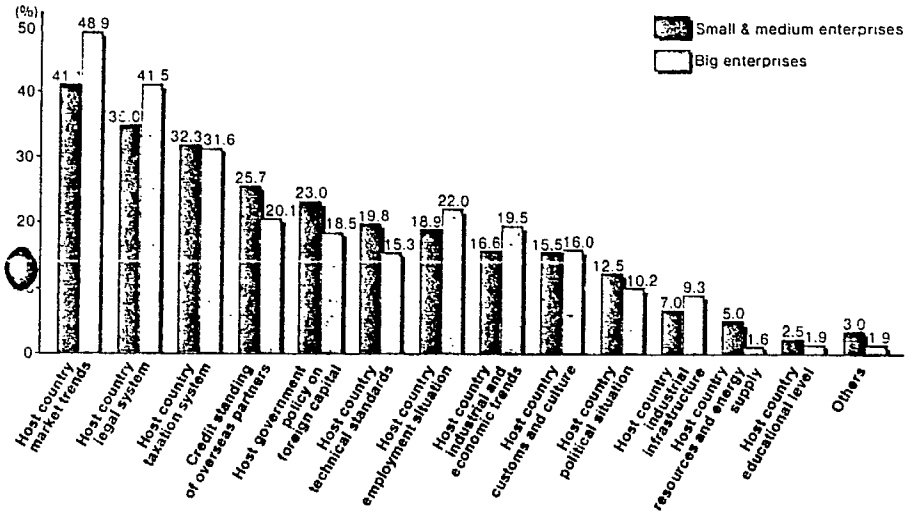
3) Financing

Enterprises planning overseas investments have to draw up an easily implementable long-range financing plan. In drawing up such plans, they must take into account not only the amount of capital needed for the initial investment but also ways and means of raising operating funds after their advance overseas, and the time lag before their overseas business becomes profitable.

The survey disclosed that approximately 70% of the enterprises questioned financed their overseas investment with their own capital. This percentage is small compared with that of big enterprises, whose corresponding figure is about 80%. When asked about raising funds in host countries, many small enterprises cited as serious impediments high money rates and the difficulty of using their overseas assets as collateral.

2. Because of the disadvantages small enterprises face in access to information, human resources and financing, they are believed to have a lower success rate overseas than large companies. The "Survey on Internationalization of Small and Medium Enterprises," conducted by SMEA in December 1984, found that the proportion of small and medium enterprises which said that their subsidiaries were operating in the black was small as

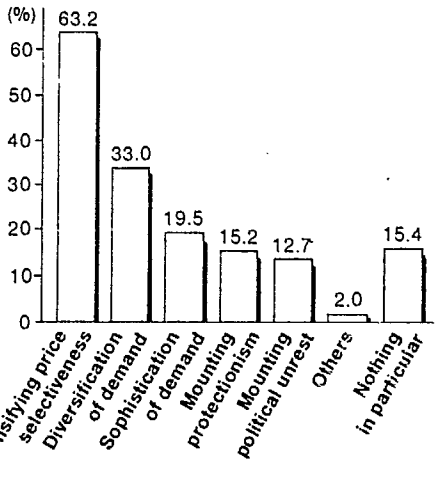
Fig. 1 Difficult to Obtain Information



Notes: The survey covered 3,500 companies selected at random from SMEA's list of small & medium enterprises broken down by industry. The response rate was 34.5%. Aggregate exceeds 100% because of multiple answers.

Source: "Survey on Overseas Investment by Small and Medium Enterprises," SMEA, December 1983

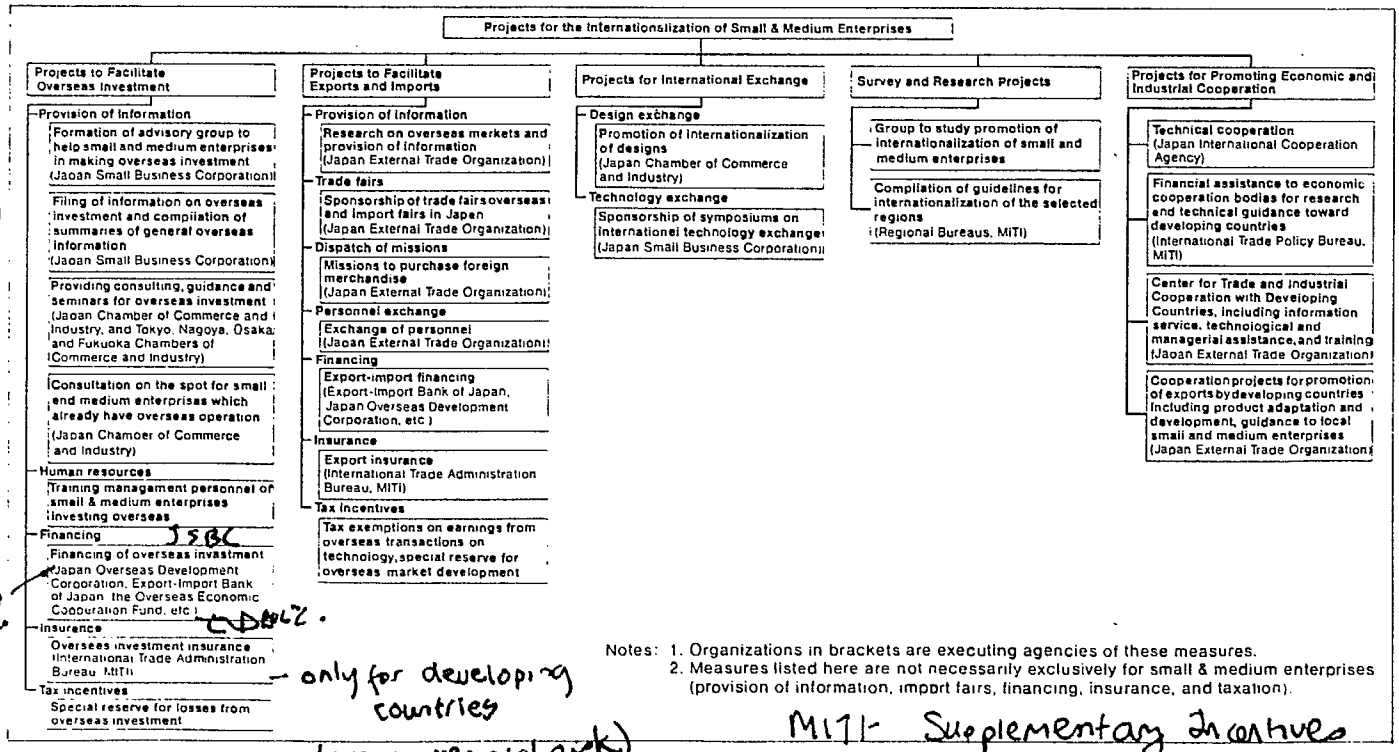
Fig. 2 Changes in the Export Environment



Note: Aggregate exceeds 100% because of multiple answers.

Source: "Survey on Export-Oriented Small and Medium Enterprises," SMEA December 1983

Policy Measures for the Internationalization of Small and Medium Enterprises (Fiscal 1985)



Notes: 1. Organizations in brackets are executing agencies of these measures.
2. Measures listed here are not necessarily exclusively for small & medium enterprises (provision of information, import fairs, financing, insurance, and taxation).

compared with those of big enterprises. Even the number of small businesses currently in the red overseas but expecting to go into black in the future was smaller than among large firms.

3. Needless to say, the decision on whether or not to invest overseas must be made by the small and medium enterprises themselves at their own discretion. However, in light of their inferior ability to gather and analyze information, train manpower and raise funds, and considering the importance of avoiding unnecessary friction with host countries, the Japanese government is now taking policy measures designed to facilitate their overseas investments by supplementing their weaker areas.

Coping with a tougher trade environment

Small and medium enterprises play a vital role in Japan's foreign trade. They not only export their own finished products but contribute greatly to the export of products manufactured by the big enterprises for which they subcontract. Similarly, the role of small and medium trading companies and distributors in handling small lots of a great variety of imported finished goods is assuming ever-increasing importance as foreign countries demand that Japan import more of their products and Japanese consumers' needs themselves become more diverse.

Yet there is no denying that the trade environment for small and medium enterprises has become far more difficult than before. The "Survey on Export-Oriented Small and Medium Enterprises," conducted by SMEA in December 1983, brought to light numerous changes in the major export markets of small and medium enterprises. The most frequently cited change was increasing price selectiveness, followed by diversification of demand and sophistication of demand. The tendency toward increased protection of domestic products was also a major concern. According to the same survey, about 90% of companies polled said that competition in major export markets has intensified. This represents an increase of 14% from the corresponding survey conducted in 1982 (Fig. 2).

To cope positively with such changes in the export environment, small and medium enterprises must work to diversify and upgrade their products as well as to open up new export markets. In order to avert competition and friction with local industries in overseas markets, they must strive to grasp more accurately than before the changing situation in the marketplace and merchandise trends, and to give the utmost consideration to pricing and export volume.

In support of the efforts being made by small businesses to cope with changes in the export environment, the Japanese government is providing assistance to supplement what they may lack, such as adequate information gathering capabilities. The government is furnishing them with data on foreign trade and overseas economies, as well as helping them develop new markets by assisting their trade fairs abroad. It is also helping small and medium enterprises exchange personnel with their overseas counterparts in order to further mutual understanding.

In order to sustain and develop harmonious trade relations in the international economic community, it is very important that Japan take measures to promote imports. From this standpoint, the government is providing small trading firms with information and opportunities to discover attractive import goods and promote personnel exchanges.

International exchange programs

Small and medium enterprises throughout the world have come under reappraisal in recent years as constituting the "vital majority" of their respective economies. Other countries are showing keen interest in Japan's small business sector, which has contributed significantly to the nation's economic growth. The number of people visiting Japan, from both developed and developing countries alike, to study its small and medium enterprises or to persuade them to set up operations in their own nations has increased sharply.

The world's first "International Conference on Small Enterprise Policy" (SMEs Summit) was held in Osaka in January 1983. About 170 representatives from 28 countries participated in this conference, a fact which speaks of the keen interests shown by various countries in the Japanese government's policy measures for small and medium enterprises.

This interest is expected to grow in the future, both at the governmental and private level. In order to respond positively to this increasing interest overseas and to learn from the experiences of foreign countries, the Japanese government undertakes international exchange projects to promote mutual understanding with the small and medium businesses of other nations.

Data on various aspects of small and medium enterprises in the world and government policies are still inadequate for meaningful international comparison. Japan believes it can contribute significantly to the international society by conducting surveys and compiling data in this field.

Research to make internationalization work

The internationalization of small and medium enterprises, beginning with overseas investment, is surging ahead, and policy measures are being implemented to facilitate their investment and trade activities abroad.

Particularly at this time, when the international environment surrounding these enterprises is changing rapidly and dramatically, it is increasingly important to conduct surveys and research and analyze information concerning their internationalization from medium- and long-term perspectives, both to identify problems and to make suggestions.

For this, a group to study the internationalization of small and medium enterprises has been organized with the participation of scholars and representatives of organs concerned with the overseas investment activities of such businesses. This group has been studying various problems involved in internationalization. It is also making suggestions for promoting the internationalization of small and medium enterprises in parts of Japan where internationalization is lagging.

Technology that can work for developing nations

Foreign interest in Japan's small and medium enterprises has been growing by the year. The causes of this interest are the vitality of Japanese small and medium enterprises and their technical level, which closely matches the level of economic development in some developing countries. Numerous countries hope to find in the management style and technology of Japanese small and medium enterprises and in governmental promotion measures lessons that will prove helpful in fostering their own small enterprises.

The Japanese government is undertaking projects to promote economic and industrial cooperation at the small and medium enterprise level, including the dispatch of experts to foreign countries and the hosting of study missions from foreign countries, in order to increase Japan's contribution to the international economic community. •

Case Studies
Hosokawa Micron Corporation

By Takabumi Suzuoki

Hosokawa Micron Corporation
Established: April 1916
Headquarters:
1-9,Shodai-Tajika,Hirakata City,Osaka Pref.
Telephone: 0720-55-2221
President and Chairman of the Board:
Masuo Hosokawa
Capital: ¥49.5 million
Employees:
475 (including those of six subsidiaries)
Overseas affiliates: 22

"Hosokawa Micron Purchases Engineering Division of Ashland Oil of the U.S."

To many readers, this headline in the economic news section of Japanese newspapers dated February 1, 1985 may have merited no more than a passing glance. But among those in the know, it created a sensation. Masuo Hosokawa had struck again.

Hosokawa Micron Corporation may not seem like a glamour industry. An integrated powder processing machine and equipment manufacturer, it and its group of affiliates have annual sales of approximately ¥20 billion ($80 million).

In contrast, Ashland Oil's Engineering Division, also a major powder processing machinery maker, has 14 subsidiaries in six countries, with combined annual sales amounting to ¥27 billion ($108 million).

But Hosokawa Micron's purchase was more than just a case of the little fish swallowing the bigger. It was the latest in a string of foreign acquisitions carefully planned to make Hosokawa Micron the leader in its industry. In 1982, the company acquired a controlling interest in Nautamix B.V. of Holland, a powder processing machinery manufacturer headquartered in Haarlem and capitalized at one million guilders. With its purchase of Ashland's Engineering Division, Hosokawa Micron has now emerged as the world's biggest powder processing machinery group with bases in Japan, the United States and Europe.

Having read this far, one might assume that Masuo Hosokawa, president of Hosokawa Micron and leader of the Hosokawa Micron Group, is a forceful and aggressive chief executive. In reality, however, Hosokawa is a mild-mannered, cool-headed 60-year-old gentleman with streaks of gray in his hair. He is an engineer-turned management executive and is devoted, body and soul, to the development of technology. And, like its president, Hosokawa Micron is a sound and steady company which grapples wholeheartedly with the development of new technologies.

Masuo Hosokawa, president of Hosokawa Micron Corp.

The two wheels of Hosokawa Micron

The history of Hosokawa Micron is a history of technical development and internationalization. They are as closely interrelated as two wheels on an axle.

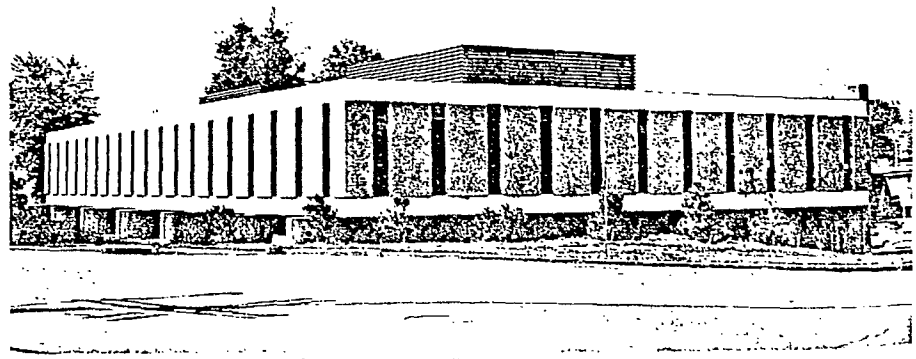
Hosokawa Micron was established in 1914 by Eiichi Hosokawa, the current president's father, to manufacture water mills and pumps. The senior Hosokawa developed a pulverizer in 1929 that laid the foundation for the company to become Japan's leading powder processing machinery maker.

However, it was not until after World War II that the company really began to step out.

By then Masuo Hosokawa had graduated from the Engineering Department of Kyoto University in 1946. After a stint of training at a pharmaceutical company, he joined his father's business in 1951. In 1954, he was made senior managing director and in 1959 went on his first business trip to Europe.

In those days, Japanese corporations were rushing to import technology from the United States and Europe, and Hosokawa went to Europe with similar ideas. He visited a powder processing machinery maker in Switzerland, where he saw superb advanced technology. Nonetheless, he did not buy it, though he knew very well it would make him money if he brought it back to Japan. It wasn't that the technology was too expensive—the price was only 200 pounds in the sterling of those days—but a question of principle.

"I thought that no matter how inexpensive it might be, we should not pay money for a technology which we would be able to develop ourselves if we made the extra effort," Hosokawa reminisces. He had pride as an engineer. And above all, he feared that if his company got into



MikroPul, one of Hosokawa Micron Corp.'s new acquisitions

Takabumi Suzuoki is a staff writer of the Nihon Keizai Shimbun in Osaka who covers small businesses.

the habit of taking the easy way out by importing foreign technology, it would never gain the ability to develop new technology on its own.

Hosokawa is no narrow-minded nationalist. In later years he never skimped in buying whatever technology he thought was absolutely necessary. He purchased pulverizer and dust collector technologies from MikroPul Corporation of America in 1961, and in 1963 concluded a cross-licensing agreement with Nautamix, selling them his company's separator technology in exchange for their mixer technology. From 1963 to 1981, Hosokawa Micron exported and/or imported 17 technologies to and from 15 European and American companies.

But significantly, in nine of those cases Hosokawa was the buyer. Pulverizing technology belongs to a relatively young genre. Immediately after World War II, techniques for crushing and pulverizing matter were regarded as "high technology" in Japan. As pulverized matter came into wider and wider use in various industries, however, all kinds of technologies became necessary for mixing, separating, transporting, granulating, and measuring the size of fine particles.

One good example is the PPC (plain paper copier), now after 10 years a fixture in our daily lives. There have been, of course, technical innovations in the machine itself, but the most dramatic improvements in copy quality are attributable mostly to the development of pulverizing technology for making fine black lead particles of even size for the toner, the "ink" of the copier.

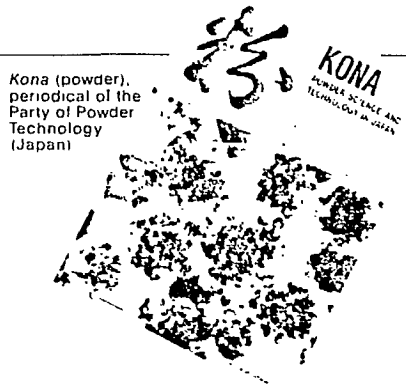
Powder processing machines have evolved from single-unit machines into multi-unit engineering systems. Hosokawa Micron has kept pace by filling the chinks in its own technologies with selective foreign imports.

Technological tie-ups paved the way

In 1982, Hosokawa Micron purchased its first foreign company, Nautamix. The following year, it picked up Machinefabriek Vrieco Zelhem B.V., rival of Nautamix and capitalized at $140,000, and Isem B.V., capitalized at $10,000, both Dutch companies.

In February 1985, Hosokawa Micron purchased the 14 companies comprising the engineering division of Kentucky-based Ashland Oil in one fell swoop for ¥6.5 billion ($26 million). The nucleus of these 14 companies is MikroPul.

Nautamix and Ashland were also the first two companies with which Hosokawa Micron established technical tie-up after World War II. And although chance played a major role in the purchases, Hosokawa explains that long-standing friendly relations contributed greatly to the smooth conclusion of the negotiations.



Kona (powder), periodical of the Party of Powder Technology (Japan)

The owner of financially strained Nautamix was looking for someone who would take over his company. Neither he nor his employees had any objection to selling out to Hosokawa Micron, which they knew very well after 18 years of cross-licensing relations.

Ashland Oil had taken over the 14 companies and brought them under its control four years earlier. When Ashland decided recently to concentrate on its oil business, it began looking for a buyer for its engineering division. And though several American companies studied the advisability of taking over the division, it was Hosokawa Micron which won the day on the strength of its technical tie-up with MikroPul, the core company of the group.

International efforts from stage one

What does Hosokawa Micron hope to gain from its purchase of these companies? The sales networks which Nautamix and MikroPul had in Europe and in America respectively were naturally an attraction. But more than that, President Hosokawa wanted to fuse Japanese, American and European techniques to create more sophisticated technologies.

Through its cross licensing agreements, Hosokawa Micron has had some measure of technical exchange with Nautamix and with MikroPul for more than 20 years. A technical tie-up, however, is limited to exchanging designs for specific machines; it does not involve exchange of the thinking and concepts behind those designs.

Hosokawa has always believed that wonderful machines can be developed if only Japanese, American and European experts in powder processing technology can be brought together to exchange opinions frankly and sincerely on the basis of an objective recognition of each other's strengths and weaknesses.

Making the results of R&D known

It was Hosokawa Micron's technical development skills which enabled the company to stand on an equal footing with European and American manufacturers for 20 years and to establish its own global network. In 1958, the company established Hosokawa Micromeritics Laboratory at a time when most Japanese companies were lagging in basic research. Hosokawa Micron was an exception; it has been conducting basic research ever since it was a little outfit with less than 100 employees, and it is just as aggressive today. Whereas many big corporations set a ceiling on their annual research appropriations, Hosokawa Micron makes it a policy to spend as much money as needed for R&D.

Hosokawa Micromeritics Laboratory has close connections with Japan's academic community specializing in powdered matter. Since 1959, it has sponsored the "Powder Processing Technology Conference," which is attended by the foremost scholars in the field, and also holds small seminars four or five times a year and an international symposium once a year. The results of these symposia are published in the Laboratory's annual organ, *Funsai* (pulverization), of which 5,000 copies are printed.

In 1983, the Laboratory started publishing *Kona* (powder), an English-language academic journal of advanced research in powder processing technology. Although Japan's technical level has risen, its progress is little appreciated by scholars abroad because most academic papers on new achievements are written in Japanese. To remedy the situation, Japanese scholars of powder processing technology, including Hosokawa, joined forces to issue this unique journal. It is published once a year in October. Three thousand copies are sent by mail to 20 countries around the world, including the Communist Bloc nations.

Hosokawa summed up his philosophy best himself on February 16, when he addressed a gathering of Ashland Oil Engineering Division top managers for the first time after the takeover. "Today I want all of you to understand that I have no intention of forcing Japanese management on you," the president said. "Let us skillfully fuse Japanese, American and European approaches to create an efficient new style of management." •

Case Studies
Kanase Industries Co., Ltd.

By Shozo Hochi

Kanase Industries Co., Ltd.
Established: 1919
Headquarters: 204-1, Inari-cho, Tanabe City, Wakayama Pref.
Telephone: 0739-22-7651
President: Teruo Kanaya
Capital: ¥42 million
Employees: 240
Overseas affiliate: 1

"An international joint venture is like an international marriage. Without deep mutual trust and strong human relationships, it cannot succeed. In order for two companies with different cultures, traditions and customs to jointly undertake and develop a business, deep human relations are vital."

So says Teruo Kanaya, 55, president of Kanase Industries Co., and an entrepreneur who gives the establishment of close human relations top priority in his business philosophy.

Kanase Industries is the foremost plastic button manufacturer in Japan. Its head office is in Tanabe City, Wakayama Prefecture, in the southwestern part of the Kii Peninsula projecting out into the Pacific Ocean. Kanaya, robust and in good health, is one of a new breed of businessman whose enthusiasm about international operation is clothed in modesty.

Kanase España, S.A. (KESA) is his company's joint venture in Spain. Kanaya spent seven years on the birth of KESA, and the company is now the object of wide attention among Japanese small and medium enterprises as a model of a successful joint venture undertaken overseas by a small Japanese enterprise. Attention has focused on the circumstances leading up to its establishment, the sincere and ultimately successful negotiations conducted, despite great difficulties, and its remarkable performance since starting business.

Teruo Kanaya, president of Kanase Industries Co.

KESA was established six years ago on July 3, 1979, after many twists and turns. Located in Santa Barbara about 170 kilometers southwest of Barcelona, the bustling economic center of Spain, the company was capitalized initially at 50 million Ptas, (about $289,000 at the present rate of $1≒173 Ptas), rising to 94 million Ptas in September 1980 shortly after its inauguration. Kanase holds 49% of the equity.

KESA was established to manufacture plastic base material using Kanase Industries' technology. It further processes the material into buttons which it sells not only in Spain but throughout the European Community (EC).

KESA's Spanish partner is Toar S.A., a major button manufacturer with 170 employees. With the founding of this joint venture, Toar S.A. switched from using natural shells for its buttons to synthetic resin. Previously Toar imported shells from Southeast Asia and the Pacific islands, but it was plagued by violent price fluctuations and irregular supplies.

In order to resolve these problems, Toar turned its attention to synthetic resin. Spain, however, lagged in the technology to manufacture the synthetic resin base, and Toar had no choice but to look for a foreign company from which it could obtain the necessary know-how. In those days, the long drawn-out negotiations for Spain's entry into the EC were in full swing. In order to cope with the liberalization of trade which would result from Spain's membership, Toar felt it had to start producing high-grade buttons using man-made raw material immediately.

Leadership in synthetics technology

Kanase Industries, on the other hand, was established in 1919 by Seitaro Kanaya, 84, present chairman of the board and father of the current president. Operating under its present name since 1971, the company is capitalized at ¥42 million (about $168,000) and has 240 employees. It manufactures buttons at its head office plant, and has a second plant in Kami-Tonda Town in Wakayama Prefecture to manufacture acrylic resin sheets for use as signboards. The company's turnover comes to ¥3,000 million ($12 million) annually.

Shell button making had been a sideline business of farmers in the Pacific coast city of Tanabe since the end of the 19th century. It was Kanaya senior who industrialized the cottage industry. In 1933, the company imported ivory nuts from Equador and began mass-producing ivory nut buttons for men's jackets, switching to wood to make buttons for

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the military during the 1940–45 war years when ivory nuts were not available. To make up for a shortage of shells for making buttons after World War II, the company started to research technology for making buttons from synthetic resins. It improved its manufacturing skills remarkably with know-how imported from the United States in 1949.

Encouraged by its success, the company switched from shell buttons to plastic buttons. It even went so far as to teach other button makers in Tanabe City how to make buttons from synthetic resin sheets.

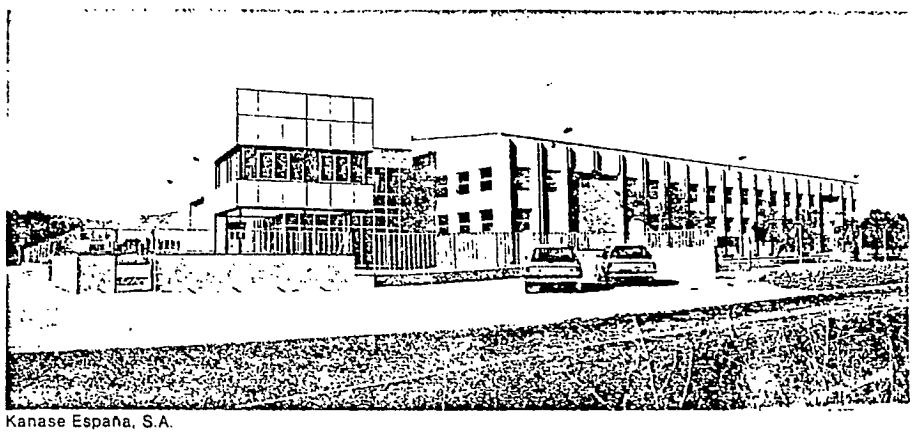
Before long most factories in the city were manufacturing plastic buttons. Thanks to improved raw materials manufacturing and processing technology, buttons were soon being made from a wide variety of synthetic resins, including urea resin, polyester resin, casein and acrylic resin. The number of establishments in Tanabe City engaged in the manufacture of buttons and related businesses today exceeds 40, employing some 800 workers. With annual production reaching about ¥5,000 million ($20 million), the button industry has developed into a pillar of the city's economy, ranking next to food processing and forestry products.

Kanase Industries towers above all button manufacturers. In Tanabe City, people say that the history of the postwar button manufacturing industry in Tanabe City is the history of Kanase itself. What brought the city's button industry to the prominence it enjoys today was the open technological guidance provided by Kanase Industries to its competitors.

Kanaya enjoys the full trust of businessmen in the city and, as vice-president of the Tanabe Chamber of Commerce and Industry, he devotes much of his scarce free time to vitalizing the community and expanding its business. Always internationally minded (in his student days, he once thought of joining the diplomatic service), he decided while still a senior managing director of the company to develop overseas markets. His first step was to open a branch in Osaka and start trading directly with foreign countries. At the time he was only 25 years old. Ever since, he has concentrated on international trade. Through his experience, he says, he has become convinced that "mutual understanding is indispensable in international exchange."

A meeting of like minds

It was 12 years ago that the subject of a tie-up with Toar came up almost by chance. At the time, Kanase Industries' business seemed at a dead end because of the depression in textile-related industries and the American recession. Exports were also slipping. To get around the company's difficulties, Kanaya was considering starting production overseas and opening an overseas sales base.



Kanase España, S.A.

In February 1973, Martinez Arago of Toar, accompanied by Sergio Canaara, an Italian button merchant, visited Kanase Industries. Canaara had business relations with both Kanase and Toar. He had deliberately brought Arago, who was planning to switch over to plastic buttons, to introduce him to Kanaya.

Upon inspecting Kanase's factory, Arago was deeply impressed by the high technical level, finding it superior even to that of Italy, the front-runner in the world fashion industry. At once, Arago and Kanaya entered into serious negotiations to arrange a joint venture. From their first meeting, Kanaya had sensed in Arago a kindred spirit. The Spanish businessman, like Kanaya himself, was meticulous about every detail. He did not put store in outward appearances, nor was he concerned only with profits; he was an earnest man who believed in sincerity in human relations.

Barriers to an international goal

Thus the top executives of the two companies were bound from the start in a relationship of deep mutual trust. Even so, it took seven years before the joint venture materialized because so many hurdles remained to be overcome. The first was the equity ratio. In the end, Kanase Industries bowed to the local situation in Spain, and agreed to Arago's proposal of a 51–49 division of equity, with the Spanish side holding the majority.

With this obstacle out of the way, it was expected that a joint venture agreement would be signed during 1974. But suddenly, Toar informed Kanase that it wished to shelve the project because of the deteriorating political situation in Spain and the economic difficulties caused by the oil shock. But though the plan had run aground, Kanaya and Arago maintained their personal contacts.

The spark of hope which the two kept burning suddenly flared up again in 1977, when word was received from Toar that it wanted to reopen negotiations. In the interval, President Franco had passed away, and a democratic moderate coalition had come into power, bringing with it increased political and economic stability.

From then on, talks proceeded smoothly and quickly. In July 1979, the joint venture company was established. The additional ¥65 million ($260,000) necessary to finance a revised facilities program was supplied by Kanase in the form of a loan, itself more than 80% of Kanase's paid-in capital in the venture.

The new company started production in January 1981, and by fiscal 1984 was showing a profit of 13,810,000 Ptas (about $80,000) on sales of 100 million Ptas.

The factory, with a floor space of 1,700 square meters, stands on a 7,250-square-meter site. Its 29 machines are operated by only 25 Spanish workers. With its special technology, the company expects eventually to obtain a 70% share of the Spanish market for high-grade buttons, and is planning to export finished products to Africa as well.

Kanaya lodges visitors from overseas in his own home, and deepens his friendship with them in a family atmosphere. He is a new type of small business executive who engages in international business with sincerity and human warmth.

Although his company is debt-free, the president's personal approach to business remains severe. "No matter how good the bottom line, a financial statement is no better than a three-day old newspaper," says Kanaya. "What is important in business management is today and tomorrow." ●

Capitalizing on Being Different

By Reiko B. Lyster

Many Americans, when looking at the growing trade deficit with Japan, may find it hard to believe that Japan is basically a country of small businesses, which account for 99% of all business establishments. It may be even more difficult to believe that there are approximately 1,000 small businesses owned and operated by independent American men and women in Japan.

The size and scale of these small American businesses vary widely. They range from one-man/woman operations to some sizable organizations with many employees, and provide a wide range of goods and services. They are importers and exporters of manufactured goods, chemicals, and agricultural products. They are management consultants, financial advisers, teachers, health care specialists, shop owners or free-lance writers whose own training, skills, qualifications or even personalities are their business's prime assets and capital. Many of them work in direct support of major American corporations in Japan. Some work closely with the foreign community in Japan, while others deal exclusively with the Japanese.

In starting their Japanese subsidiary operations, many large American corporations have been assisted by the professional services provided by these independent American business people. Executive search is a typical example of such professional assistance. The newly arrived families of these corporate personnel appreciate the Japanese version of welcome wagon services that is provided by enterprising American businesswomen.

Many new services, programs or products which originated in America also have been introduced to Japan through independent American entrepreneurs, leading the way for their Japanese counterparts to develop similar businesses. There is no denying that American small businesses are not only an integral part of the foreign business community in Japan but an inspiring force in the Japanese business world as well.

It's quite obvious that the majority of the American small business entrepreneurs in Japan have had more than their share of hardships to overcome, and have struggled, especially when starting up their operations. These difficulties range from pure marketing problems relative to each entrepreneur's products or services, to obstacles caused by the simple fact that they are small, independent, foreign-owned businesses in Japan, a highly homogeneous nation.

If one is to speak generally, though, perhaps the two biggest problems faced by American small business people in Japan involve financing and non-tariff barriers (NTBs).

Small finance is a big problem

There are presently very few alternatives available to the small American business person in Japan when it comes to obtaining sufficient financing through the Japanese or U.S. commercial banking systems. As one American businessman says, "You need pockets that are deeper than usual."

For example, Japanese commercial banks have never been known for their willingness to provide trade financing to anyone, especially to small companies. A small foreign-owned company is even less welcome, if that is imaginable. On the American side, it's equally as obvious that banks in the United States will not finance foreign businesses operating in the United States. And what about the American banks located in Japan, you might ask. There are a host of reasons, both regulatory and practical, that preclude them too as a source of financing in Japan.

This leaves, as the only viable alternative, loans and other financing available to small businesses through various Japanese governmental financial institutions. In the past, these institutions were not receptive to applications from foreign-owned small businesses. Certain restrictions applied by them to foreign-owned small businesses effectively barred many a small American businessman from obtaining financing from them. But these restrictions have begun to be removed, especially over the past 18 months. Successful applications for financing have been made in at least two instances by members of the Small Business Promotion Committee of the American Chamber of Commerce in Japan. The situation has been improving in the past two years.

Walter Spillum, president of Danco Japan Ltd. and an importer of American homes, with strong support by ACCJ finally won a small loan from one of the governmental financial institutions. He had actually been turned down three times on previous applications to the same institution.

The first refusal was said to be because his company was too young, just barely over a year old. The second turndown was due to the relocation of his office to a

A sample of the some 1,000 small businesses operated by independent American men and women in Japan

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different ward in Tokyo. A company should be in the same ward for at least one year before being eligible for a loan. The reason for the third strike was less clear. There was a rather vague reference to his company being too small and its future being somewhat doubtful.

Walter Spillum concludes that, "Although I tried not to be paranoiac about doing business as a foreigner in Japan, I couldn't help but suspect that the true cause of the three strikes was my being a foreigner, a *gaijin*—literally an outsider."

Non-tariff barriers

The second hurdle facing American small businesses in Japan is that of NTBs. This has certainly been one of the most talked about issues in the U.S.-Japan economic relationship over the past few years. While much progress has been made in removing or reducing NTBs, there are enough of them still around to prevent American small businesses, especially those engaged in trading, from fully entering and participating in the large, but tightly controlled, Japanese market.

One small businessman ruefully recalls that his mail-order business was "licked from the start" by restrictive customs procedures and inspection requirements. This man, who has been representing American companies in the import/export business in Japan for 30 years, says his biggest problem is "trying to develop new and unique products to import and export." Exports have been relatively easy for him, but imports always seem to hit a snag or two. These snags invariably have lost him market opportunities.

But not all NTBs are governmental in nature. Being foreign in Japan is somewhat of an NTB in itself. The frustrations of being a foreigner in his or her own business are experienced in so many trivial areas that no one in the comfortable environment of a large corporation can possibly imagine the experience. Renting office space or simple office equipment can be an impossible task at times.

When Bernice Cramer, a communications businesswoman, was arranging to have a copy machine leased and installed in her office, she had no idea that being a foreigner and a female was considered a major risk at a monthly cost of only ¥10,000 or $40. Her application for a lease agreement was not accepted until she obtained the signature of a Japanese male citizen.

I myself went through a similar, annoying experience in renting office space.

An American advertising copywriter putting his skills to work in Tokyo

Due to an expansion of the business a few years ago, I was in need of extra space and found a suitable spot near the main office. Everything progressed smoothly until the time to sign the lease came. When the landlord, a major Japanese construction company, learned that I was not a Japanese citizen, I was told to obtain the signature of a Japanese who is neither my employee nor a relative. This was in addition to my personal guarantor. What was so ridiculous about the whole affair was that my firm was already paying rent for three other locations of an amount in excess of five times the amount in dispute. I decided not to yield to such annoyance and told my General Affairs Manager to find another one, which he did.

Person-to-personnel problems

Another major headache for a foreign small business person is the staffing of his or her operation. Although you cannot always hope to have personnel of the highest caliber, it is a disheartening experience to suddenly wake up and realize that you are no longer in the position to attract even those whom you might have stamped "mediocre" when you were recruiting under the sheltering strength of a large corporation.

Fact of life is that a foreigner running a small business ranks very low as a prospective employer among the Japanese. It was only recently that large, multinational foreign firms became recognized as attractive employment options for those who are too ambitious to be buried in the Japanese corporate structure. It should not be difficult to imagine what small, foreign-owned businesses mean to a majority of jobseekers. They are generally at the bottom of the list of desirable employers.

Then there are the emotional and cultural differences of the Japanese business community. Terrence Soraghan, an English teacher for the Japanese staff of business firms, has eloquently described one frustrating, but very typical problem many foreign business people may encounter when dealing with the Japanese. "Everytime I deal with a Western manager," he says, "we quickly establish a successful long-term program. Everytime I deal with a Japanese personnel, administrative or training manager, either nothing happens or only a partially successful program is established. I ask, why is that?"

He goes on to say, "My relations with top managers are excellent—cooperative and with quick results. My relationships with all of my students are uniformly good—they are happy with the progress and results. But my relationships with the man in the middle—the Japanese personnel or training manager—are, to put it politely, pathetic. Even in the case of two long-term contracts the results have been inferior. I ask, why is that?"

"Enthusiasm and verve seem to get results everywhere except in the middle, where a gray uniformity is preferred. Written recommendations from satisfied current customers that attest to dynamic teaching joyfully accepted with 85-90% attendance rates cause no effect, get no action whatsoever from the administrative manager—not even a phone call to check the references."

"I've had American managers tell me, 'You know my administrative manager doesn't like you. Your presentation shocked and scared him.' Why is that?"

Finding answers to these "whys" is not easy. Indeed, one must almost be pre-

pared to shrug one's shoulders and take a philosophic view about the workings of the Japanese mind and society in this sort of situation. This is what Soraghan finally did.

Every cloud has a silver lining

But, being an American small business person in Japan isn't totally a negative experience. There are plenty of roses among the thorns. While being foreign does have its disadvantages as we have pointed out, it also has its pluses.

More than one American small business person in Japan has discovered that being foreign, and therefore different, can be a distinct advantage. As one of them has put it, "Quite often the Japanese will give a foreigner extra consideration, extra courtesies, extra leeway, and extra advantage. Things become easier once they are acquainted with you."

Richard Adler, who is in the import/export business, has discovered another advantage of being foreign. Says he, "A major advantage that I have found is the perception in Japan that as an American who is engaged in trading, I am an expert on the U.S. market and that I have many friends there."

Being "different," i.e., foreign, from others in the trading business has been overall an advantage for him. He feels that the perception of being an expert is one that is enhanced by every year he can stay in business.

Being different indeed works as both a disadvantage and an advantage. More advantages are definitely visible when dealing with the Japanese people themselves. An American business person who wants to do business with the Japanese can and should take full advantage of being a foreigner and being different.

Even in the recruiting of personnel, the weak position or poor image of foreign small businesses can be overcome by having a positive view of being foreign.

There are more and more Japanese, particularly women, who are eager to work in the environment and with the work habits of the Western world. They are pleased to be in contact with the *gaijin* boss with whom they communicate in English. They enjoy the more individual-oriented American mentality. The very environment that turns away some of the traditional Japanese can be an inspiring element to younger people who seek to establish their own identity in business.

My own recent experience in screening applicants for the position of my secretary may give you some indication of the hardships but also the pleasant surprises for the *gaijin* boss. Among the many who fell far short of the qualifications I look for, there were a few women who had the ability as well as personality to fill the needs of independent American business people. One applicant replied to my query as to why she replied to my help wanted ad with, "Because it said that the company is small and growing. I think it is more fun to work in a smaller firm where an individual can make contributions."

It was obvious from this remark that her personality was much too strong to work in a typical Japanese corporation. Although the number may still be limited, foreign employers do have a chance of finding such performance-oriented individuals. But they must be able to identify and reject those who are classified as *"eigoya-san"*—those whose only worthwhile qualification is the ability to speak English fluently.

William Nichoson, an importer and distributor of manufactured goods and also a consultant, said, "I see myself handicapped by being a foreigner. However, I turn it around to make the disadvantage work as an advantage." He went on to echo the same words commonly heard from many American business people. "After all, foreigners can get away with things that the Japanese cannot with their own people. Foreigners have easier access to executives or even presidents of large Japanese corporations. Even when their mannerisms or way of doing business do not conform to the traditional Japanese way, they are forgiven."

What businesses are best?

Although the American small business presence in Japan cuts across a wide business spectrum, it's fairly apparent that some fields are easier to enter, and perhaps easier to succeed in, than others. In such fields there is no large initial investment required, nor are there the NTB problems related to trading.

One independent management consultant frankly says that "the services area is best suited" for most foreign business people thinking about starting out on their own in Japan. He notes that American small business people in Japan already play an instrumental role in the export of U.S. goods, products and other services by providing legal advice, marketing studies, joint venture analysis, executive search and representation for overseas clients.

In fact, this American businessman recommends that American companies and the U.S. Embassy make even more and better use of the American small business presence in Japan. This would, he feels, help the United States and the small business people here meet the challenge of the Japanese market more successfully.

Sometimes an individual finds his or her business niche more by accident than design. One former military man struggled at first as a salesman in Japan, working solely on commission. Eventually, though, he began to find himself "in demand" by teaching physical education and fitness to friends. His biggest problem today is "believing his success and the fact that people are actually paying him (substantially, too) for doing what he enjoys doing most, is good at, and would do anyway."

According to Richard Adler, exports are a good field to be in. "To the Japanese, a foreigner who remains independently in business in Japan for three years assumes a mantle of expertise and is looked on as an avenue of instant access to the U.S. market, particularly by the smaller Japanese companies that really have no independent access to the U.S. market. This is very important, since the major opportunities for doing business and creating a cash flow and banking relations will come from exports initially."

Perhaps the biggest advantage and attraction to most of the American small business people in Japan are the limitless opportunities that do exist here. Once they learn to cope with and overcome the problems, and survive the difficult first years, these opportunities are perhaps greater than anywhere else in the world. As one entrepreneur puts it, "Doing business in Japan as a foreigner is frustrating, challenging and fun. You must expect the unexpected. You need good, strong financial backing for a long-term start-up and must be willing to work hard and be positive and philosophical in outlook. If you succeed, there are financial rewards and satisfaction to the soul."

Even those who take a somewhat dim view of the chances of an American small business person being successful in Japan, agree they wouldn't be here if it weren't for the prospects and the great satisfaction they derive from being independent and making their small businesses grow from small to "bigger."

And when all is said and done, the secret to success, according to all the small business people I talked to, is that the American small business person in Japan "must capitalize on the advantage of being different." ●

Study on SME in Japan

CONCLUSION

INTELLECTUAL-MANAGERIAL RESOURCES TO EXPLORE: "CREATIVE FUTURE"

[Tasks of small and medium enterprises challenging the revolutionary era—technology, information, and human resources]

(1) Small and medium enterprises have consistently sustained a high position in the Japanese economy. This is attributable to the active roles continuously played by small and medium enterprises, particularly in the fields where various types of products are produced in small quantities, reflecting the characteristics of flexibility and speed among such enterprises.

However, changes in the environment in recent years such as diversified demand, technological innovation, and information-orientation, have, on the one hand, provided the potential for small and medium enterprises to explore new demand or business fields, but, on the other hand, they may cause certain shifts in the conventional foundations of small and medium enterprises, because technology to produces a variety of products in small volume has been established in small and medium enterprises.

If small and medium enterprises do not respond by enforcing effective measures to cope with the changing environment, the result would be an expansion of the gap of value added productivity compared with larger-scale enterprises.

(2) Even more than in the past, it has been essential for small and medium enterprises to develop their "intellectural managerial resources" consisting of technologies, information, and human resources, if these enterprises wish to maintain and develop the foundations on which their current existence is based. The resourceful and positive efforts of small and medium enterprises in this area are imperative for the country, as a whole, to continuously strive for creative development as one of the industrial countries of the world.

FOCUSES IN THE FY 1985 MEASURES FOR SMALL AND MEDIUM ENTERPRISES

(1) Measures for technological innovation and information-orientation

i) Technological innovations have developed at a fast pace primarily in the fields of high technology. Demand has been diversifying and technology has accordingly shown an increased tendency of fractionalization. With these surrounding conditions, small and medium enterprises must upgrade their technological capabilities in order to play an even more active role in the Japanese economy. In this light as an attempt to facilitate the technological development of small and medium enterprises, the law on Extraordinary Measures for Promotion of Technological Development by Small and Medium Enterprises shall be enacted. At the same time, measures for technological promotion in the fields of fund procurement and the tax system will be comprehensively encouraged, including the establishment of a tax system to strengthen the technological foundation of small and medium enterprises.

ii) To cope with the development of the increasing information-orientation trend in Japan, use of computers, and so on, shall be promoted among small and medium enterprises. At the same time, the system to supply information to small and medium enterprises shall be consolidated by improving the facilities at the Small and Medium Enterprises Information Center of the Small Business Corporation and local information centers for small and medium enterprises in respective areas.

iii) Development of human resources, capable of coping with the changing economic environment around small and medium enterprises, shall be strengthened by the increased consolidation of the local schools of the Small and Medium Enterprise Institute, improvement of the training functions such as reinforcement of training programs, promotion of the training projects conducted by prefectural authorities, and introduction of projects for the promotion of human resources development at small-scale business.

(2) Stabilization of the managerial foundations of small and medium enterprises

In order to deal with the diversifying needs of small and medium enterprises regarding funds, the necessary scale of loans shall be secured at the three government-affiliated financial organizations for small and medium enterprises, and the loan system and managerial foundations shall be improved. Concerning the Central Bank of Commercial and Industrial Cooperatives, efforts must be made to make its existence a permanent one. Moreover, the Central Bank of Commercial and Industrial Cooperative Law shall be revised to facilitate fund procurement and to cope with the diversifying financial needs of small and medium enterprises.

In addition, the strengthening of the foundations of the supporting credit system shall be continuously promoted.

ii) Regarding the Small and Medium Enterprise Bankruptcy Prevention Cooperative System, monthly installments and installment reserve limits shall be expanded and necessary revisions made to the current system, including the establishment of a loan system for contractors, in order to prevent chain-reaction bankruptcies and promote the stability of small and medium enterprises management. Consequently, the Small and Medium Enterprise Bankruptcy Prevention Cooperative Law shall be revised.

Furthermore, to supplement the special consultation projects for bankruptcy prevention, a special consultation room for bankruptcy prevention will be established.

iii) The strength of the associations shall be enhanced by implementing measures to positively cope with the changing environment such as the development of technological innovation. Concurrently, the ties among small and medium enterprises will be actively encouraged through attempts to reinforce individual special forms of guidances provided by the National Federation of Small Business Associations.

(3) Promotion of measures for the small and medium commerce and service industries

The concept of community mart shall be further advanced with the objective of realizing the creation of an attractive shopping center satisfying the various consumer needs. The joint efforts by small and medium retail merchants to construct an information network regarding distribution shall be positively supported to cope with the increasing trends of information-orientation in an active manner.

Moreover, relations and organization among small and medium retail and service industries will be continuously encouraged, and measures to promote small and medium wholesales will be further implemented.

(4) Fostering of small and medium enterprises which develop with the local society

The model project for promotion of local industries will be implemented with the aim to reproduce vigorous local industries and to establish and foster new local industries. The promotion of local small and medium enterprises shall be further encouraged by supporting the designated project for design sophistication of the local industries.

The local frontier technological development projects shall be continuously promoted. Additionally, the local system technological development projects will be newly established.

(5) Consolidation of measures for small-scale businesses

In assisting the self-help efforts by small-scale businesses to strengthen their managerial foundations, management improvement extension projects shall be promoted. In line with this, consolidation of the guidance system including improvement of the conditions for instructors on management and others, will be continuously promoted. The measures for successors, and so on, will be encouraged, projects for promotion of human resources development will be introduced, and projects for promoting the vitalization of local small-scale businesses will be enhanced.

Furthermore, the loan limit of the system for providing funds for management improvement in small enterprises and others will be expanded, and the security of the necessary scale of loans will be promoted. Concurrently, the facilities loan system shall be improved to help small-scale businesses cope with various forms of high technology.

APPENDIX

Table 1. Number of Business Establishments by Industry and Scale (Private Ownership)

Industry \ Scale / Item / Year	Year	Small and medium business establishments: No. of business establishments	Small and medium business establishments: Composition ratio (%)	Large business establishments: No. of business establishments	Large business establishments: Composition ratio (%)	Total: No. of business establishments	Total: Composition ratio (%)
Mining	1972	8,305	99.1	71	0.9	8,376	100.0
	1975	7,197	99.4	42	0.6	7,239	100.0
	1978	6,782	99.5	35	0.5	6,817	100.0
	1981	6,941	99.5	28	0.5	6,969	100.0
Construction	1972	409,520	99.8	683	0.2	410,203	100.0
	1975	446,516	99.9	520	0.1	447,036	100.0
	1978	494,889	99.9	456	0.1	495,345	100.0
	1981	500,044	99.9	425	0.1	550,469	100.0
Manufacturing	1972	788,619	99.4	4,763	0.6	793,383	100.0
	1975	809,309	99.5	4,324	0.5	813,633	100.0
	1978	837,093	99.5	4,039	0.5	841,132	100.0
	1981	868,334	99.5	4,064	0.5	872,398	100.0
Wholesale and retail	1972	2,506,642	99.6	10,768	0.4	2,517,410	100.0
	1975	2,622,635	99.6	11,057	0.4	2,633,692	100.0
	1978	2,853,436	99.6	12,160	0.4	2,865,596	100.0
	1981	3,011,250	99.5	14,119	0.5	3,025,369	100.0
Finance and insurance	1972	61,468	99.4	366	0.6	61,834	100.0
	1975	65,877	99.4	383	0.6	66,260	100.0
	1978	74,861	99.4	400	0.5	75,261	100.0
	1981	83,259	99.5	379	0.5	83,638	100.0
Real estate	1972	153,953	100.0	35	0.0	153,988	100.0
	1975	176,565	100.0	23	0.0	176,588	100.0
	1978	213,310	100.0	21	0.0	213,331	100.0
	1981	237,513	100.0	27	0.0	237,540	100.0
Transportation and communication	1972	94,621	99.4	577	0.6	95,198	100.0
	1975	104,627	99.5	506	0.5	105,133	100.0
	1978	114,568	99.5	528	0.5	115,096	100.0
	1981	132,929	99.6	480	0.4	133,409	100.0
Electricity, gas, and water service	1972	6,262	98.2	116	1.8	6,378	100.0
	1975	5,570	98.0	113	2.0	5,683	100.0
	1978	4,911	97.5	124	2.5	5,035	100.0
	1081	4,593	97.3	128	2.7	4,721	100.0
Service	1972	1,053,880	98.8	13,074	1.2	1,066,954	100.0
	1975	1,119,716	98.7	14,320	1.3	1,134,036	100.0
	1978	1,215,032	98.6	16,676	1.4	1,231,708	100.0
	1981	1,334,709	98.5	19,849	1.5	1,354,558	100.0
Total of the non-primary industry	1972	5,083,270	99.4	30,453	0.6	5,113,723	100.0
	1975	5,358,012	99.4	31,288	0.6	5,389,300	100.0
	1978	5,814,882	99.4	34,439	0.6	5,849,321	100.0
	1981	6,229,572	99.4	39,499	0.6	6,269,071	100.0

Source: "Statistics on Business Establishments", Prime Minister's Office
Note: Small and medium business establishments are those with less than 300 employees (less than 100 employees wholesale, less than 50 employees for retail and service).

Table 2. Number of Employees by Industry and Scale (Private Ownership)

Industry	Year	Small and medium business establishments: No. of business establishments	Small and medium business establishments: Composition ratio (%)	Large business establishments: No. of business establishments	Large business establishments: Composition ratio (%)	Total: No. of business establishments	Total: Composition ratio (%)
Mining	1972	118,518	63.5	68,090	36.5	186,608	100.0
	1975	101,449	69.4	44,749	30.6	146,198	100.0
	1978	93,841	70.4	39,501	29.6	133,342	100.0
	1981	97,590	75.9	30,938	24.1	128,528	100.0
Construction	1972	3,594,476	90.3	386,636	9.7	3,981,112	100.0
	1975	3,865,989	92.9	294,738	7.1	3,160,727	100.0
	1978	4,349,173	94.2	267,176	5.8	4,616,349	100.0
	1981	4,714,388	95.3	234,366	4.7	4,948,754	100.0
Manufacturing	1972	9,209,146	69.2	4,088,508	30.8	13,297,654	100.0
	1975	8,929,279	70.5	3,734,632	29.5	12,663,911	100.0
	1978	9,194,642	73.5	3,314,464	26.5	12,509,106	100.0
	1981	9,551,914	74.3	3,311,003	25.7	12,862,917	100.0
Wholesale and retail	1972	10,056,035	86.0	1,634,808	14.0	11,690,843	100.0
	1975	10,703,352	86.8	1,625,283	13.2	12,328,635	100.0
	1978	11,868,673	87.6	1,686,972	12.4	13,555,645	100.0
	1981	12,978,043	87.4	1,872,195	12.6	14,850,238	100.0
Finance and insurance	1972	1,160,649	83.3	232,318	16.7	1,392,967	100.0
	1975	1,238,605	82.6	260,858	17.4	1,499,463	100.0
	1978	1,356,899	83.6	267,017	16.4	1,623,916	100.0
	1981	1,453,073	85.9	237,624	14.1	1,690,697	100.0
Real estate	1972	384,242	96.0	15,849	4.0	400,091	100.0
	1975	453,726	97.6	11,133	2.4	464,859	100.0
	1978	516,843	98.0	10,517	2.0	527,360	100.0
	1981	609,574	97.6	15,127	2.4	624,701	100.0
Transportation and communication	1972	1,716,437	83.9	329,055	16.1	2,045,492	100.0
	1975	1,750,712	85.6	293,879	14.4	2,044,591	100.0
	1978	1,877,206	86.5	293,592	13.5	2,170,798	100.0
	1981	2,083,364	88.8	263,894	11.2	2,347,258	100.0
Electricity, gas, and water service	1972	121,839	66.1	62,592	33.9	184,431	100.0
	1975	125,433	63.3	72,864	36.7	198,297	100.0
	1978	132,621	65.9	68,698	34.1	201,319	100.0
	1981	138,361	66.5	69,731	33.5	208,092	100.0
Service	1972	4,039,149	71.9	1,575,536	28.1	5,614,685	100.0
	1975	4,361,494	71.1	1,773,001	28.9	6,134,495	100.0
	1978	4,899,257	70.4	2,058,351	29.6	6,957,608	100.0
	1981	5,579,852	69.2	2,479,153	30.8	8,059,005	100.0
Total of the non-primary industry	1972	30,400,491	78.4	8,393,392	21.6	38,793,883	100.0
	1975	31,530,039	79.5	8,111,137	20.5	39,641,176	100.0
	1978	34,289,155	81.1	8,006,288	18.9	42,295,443	100.0
	1981	37,206,159	81.4	8,514,031	18.6	45,720,190	100.0

Source: "Statistics on Business Establishments", Prime Minister's Office

Note: Small and medium business establishments are those with less than 300 employees (less than 100 employees wholesale, less than 50 employees for retail and service).

Table 3. Number of Business Establishments and Employees in the Manufacturing Industry

1. Number of business establishments

Size of employees \ Year	1976	1977	1978	1979	1980	1981	1982	1983
1 9 persons	552,476	543,397	569,866	563,803	558,456	*251,777	*244,239	*262,390
10~19 persons	83,917	81,223	83,689	83,782	83,038	88,004	87,368	87,089
20~99 persons	76,639	75,595	77,058	77,933	79,104	82,430	82,204	83,046
100 299 persons	10,608	10,310	10,231	10,295	10,514	10,663	10,659	10,917
300 999 persons	3,052	2,946	2,820	2,851	2,864	2,930	2,873	2,909
more than 1,000 persons	735	706	673	640	647	659	655	650
1~299 persons	723,640	710,525	740,844	735,813	731,112	*432,874	*424,470	*433,442
more than 300 persons	3,787	3,652	3,493	3,491	3,511	3,589	3,528	3,559
Total	727,427	714,177	744,337	739,304	734,623	*436,463	*427,998	*447,001

2. Number of employees

(Unit: 1,000 persons)

Size of employees \ Year	1976	1977	1978	1979	1980	1981	1982	1983
1~9 persons	2,112	2,078	2,178	2,159	2,143	* 1,508	* 1,469	* 1,552
10~19 persons	1,159	1,120	1,152	1,153	1,145	1,209	1,201	1,196
20~99 persons	2,990	2,940	2,987	3,013	3,044	3,163	3,151	3,185
100~299 persons	1,710	1,663	1,651	1,659	1,697	1,720	1,719	1,761
300~999 persons	1,533	1,474	1,412	1,426	1,437	1,468	1,442	1,463
more than 1,000 persons	1,671	1,599	1,512	1,450	1,465	1,500	1,500	1,495
1~299 persons	7,970	7,802	7,967	7,984	8,029	* 7,600	* 7,539	* 7,694
more than 300 persons	3,204	3,073	2,923	2,876	2,902	2,968	2,942	2,957
Total	11,174	10,875	10,890	10,860	10,931	*10,568	*10,481	*10,652

Source: "Industrial Statistics", Ministry of International Trade and Industry

Notes: 1. Based on the business establishments.
2. Provisional figures for 1983.
3. * indicates the aggregate total of all business establishments with more than 4 employees.

Table 4. Shipments of the Manufacturing Industry

1. Actual value

(Unit: ¥ billion)

Size of employees \ Year	1976	1977	1978	1979	1980	1981	1982	1983
1~9 persons	9,806	10,617	11,844	12,938	14,000	* 12,067	* 12,131	* 12,919
10~19 persons	9,154	9,891	10,831	11,932	13,173	* 14,185	* 14,376	* 14,549
20~99 persons	30,969	34,099	36,941	41,631	47,155	50,061	51,343	52,726
100~299 persons	24,724	26,636	28,251	31,492	37,321	38,728	40,379	41,815
300~999 persons	32,860	35,439	35,262	40,606	49,824	51,540	52,159	53,381
more than 1,000 persons	37,847	40,235	41,682	45,608	53,227	58,130	59,545	60,120
1~299 persons	74,653	81,243	87,866	98,043	111,649	*115,042	*118,230	*122,008
more than 300 persons	70,706	75,675	76,944	86,214	103,051	109,670	111,704	113,500
Total	145,359	156,918	164,810	184,257	214,700	*224,712	*229,934	*235,509

2. Composition ratio

(Unit: %)

Size of employees \ Year	1976	1977	1978	1979	1980	1981	1982	1983
1~9 persons	6.8	6.8	7.2	7.0	6.5	* 5.4	* 5.3	* 5.5
10~19 persons	6.3	6.3	6.6	6.5	6.1	6.3	6.3	6.2
20~99 persons	21.3	21.7	22.4	22.6	22.0	22.3	22.3	22.4
100~299 persons	17.0	17.0	17.1	17.1	17.4	17.2	17.6	17.8
300~999 persons	22.6	22.6	21.4	22.0	23.2	23.0	22.7	22.7
more than 1,000 persons	26.0	25.6	25.3	24.8	24.8	25.9	25.9	22.5
1~299 persons	51.4	51.8	53.3	53.2	52.0	* 51.1	* 51.4	* 51.8
more than 300 persons	48.6	48.2	46.7	46.8	48.0	48.9	48.6	48.2
Total	100.0	100.0	100.0	100.0	100.0	*100.0	*100.0	*100.0

Source: "Industrial Statistics", Ministry of International Trade and Industry

Notes: 1. Based on the business establishments.
2. Provisional figures for 1983.
3. * indicate the aggregate total of all business establishments with more than 4 employees.

Table 5. Productivity of Added-Value in the Manufacturing Industry

(Unit: ¥ 1,000)

Size of employees \ Year	1976	1977	1978	1979	1980	1981	1982	1983
1~3 persons	2,255	2,478	2,679	2,962	3,178	—	—	—
4~9 persons						3,800	3,949	4,011
10~19 persons	3,186	3,559	3,853	4,260	4,660	4,752	4,887	4,993
20~99 persons	3,625	4,017	4,396	4,862	5,226	5,430	5,642	5,775
100~299 persons	4,723	5,256	5,916	6,506	7,190	7,264	7,654	7,829
300~999 persons	6,410	6,868	7,553	8,923	9,852	9,799	10,178	10,641
more than 1,000 persons	7,271	7,910	8,822	10,568	11,400	11,762	12,629	12,777
1~299 persons	3,434	3,805	4,163	4,603	5,029	*5,414	*5,651	*5,768
(10~299 persons)	(3,859)	(4,287)	(4,721)	(5,211)	(5,703)	(5,813)	(6,063)	(6,212)
more than 300 persons	6,730	7,410	8,209	9,752	10,634	10,701	11,428	11,721
Average of the total	4,379	4,824	5,429	5,966	6,517	*6,924	*7,272	*7,420

2. Difference (ratio taking large enterprises as 100)

(Unit: %)

Size of employees \ Year	1976	1977	1978	1979	1980	1981	1982	1983
1~3 persons	33.5	33.4	32.6	30.4	29.9	—	—	—
4~9 persons						35.5	49.4	34.2
10~19 persons	47.3	48.0	46.9	43.7	43.8	44.4	42.8	42.6
20~99 persons	53.9	54.2	53.5	49.9	49.5	50.7	49.4	49.3
100~299 persons	70.2	70.9	72.1	66.7	67.6	67.9	67.0	66.8
1~299 persons	51.0	51.3	50.7	47.2	47.3	*50.6	*49.4	*49.2
(10~299 persons)	(57.3)	(57.9)	(57.5)	(53.4)	(53.6)	(54.3)	(53.1)	(53.0)

Source: "Industrial Statistics", Ministry of International Trade and Industry

Notes: 1. Based on business establishments
2. The sizes for 1~9 persons indicate gross value added.
3. Provisional figures for 1983.
4. * indicates the aggregate total of business establishments with more than 4 employees.

Table 6. Per Capita Wage and Variation by Industry

1. Actual value (per capita cash payment of regular employee)

(Unit: ¥)

Industry \ Year / Size	1977	1978	1979	1980	1981	1982	1983	1984
Total of industries								
5~29 persons	156,571	167,088	177,464	189,843	196,706	204,815	210,149	220,634
30~99 persons	187,928	202,983	212,303	223,955	236,306	245,503	250,485	260,359
100~499 persons	212,499	227,162	240,844	257,393	274,021	283,483	295,774	310,547
more than 500 persons	246,864	263,773	285,916	307,884	327,184	341,258	355,785	372,206
Manufacturing industry								
5~29 persons	141,590	152,249	162,515	171,706	179,231	186,614	192,829	204,751
30~99 persons	158,108	171,194	181,514	193,516	205,395	210,948	218,128	225,272
100~499 persons	193,895	207,914	221,800	238,256	251,576	259,556	269,361	284,135
more than 500 persons	236,558	251,398	273,333	296,059	314,662	328,964	340,884	357,336
Wholesale and retail								
5~29 persons	153,273	162,325	171,112	182,923	187,298	193,087	197,376	208,910
30~99 persons	188,660	201,817	207,357	214,928	220,230	225,126	228,013	238,445
100~499 persons	200,263	213,267	225,214	242,911	260,807	267,909	279,315	293,334
more than 500 persons	254,670	276,642	306,258	318,069	332,589	338,404	358,125	369,244

2. Variation (ratio taking those with employees more than 500 persons as 100)

(Unit: %)

Industry \ Year / Size	1977	1978	1979	1980	1981	1982	1983	1984
Total of industries								
5~29 persons	63.4	63.3	62.1	61.7	60.1	60.0	59.1	59.3
30~99 persons	76.1	77.0	74.3	72.7	72.2	71.9	70.4	70.0
100~499 persons	86.1	86.1	84.2	83.6	83.8	83.1	83.1	83.4
Manufacturing industry								
5~29 persons	59.9	60.6	59.5	58.0	57.0	56.7	56.6	57.3
30~99 persons	66.8	68.1	66.4	65.4	65.3	64.1	64.0	63.0
100~499 persons	82.0	82.7	81.1	80.5	80.0	78.9	79.0	79.5
Wholesale and retail								
5~29 persons	60.2	58.7	55.9	57.5	56.3	57.1	55.1	56.6
30~99 persons	74.1	73.0	67.7	67.6	66.2	66.5	63.7	64.6
100~499 persons	78.6	77.1	73.5	76.4	78.4	79.2	78.0	79.4

Source: "Monthly Labor Statistics Survey", Ministry of Labor
Note: Service industry is excluded in the total of industries.

Table 7. Number of Stores, Number of Employees, and Sales Value of the Wholesale Industry

1. Number of stores number of employees

(Unit: 1,000 stores, 1,000 persons)

Number of employees \ Item / Year	Number of stores					Number of employees				
	1972	1974	1976	1979	1982	1972	1974	1976	1979	1982
1~2 persons	52.7	292.2	72.5	79.6	99.9	89.4	102.3	125.7	138.8	174.7
3~4 persons	59.4	68.9	83.6	92.1	108.1	205.9	239.1	289.9	319.0	373.7
5~9 persons	73.8	83.9	97.5	105.1	119.6	483.4	549.0	633.2	684.0	777.1
10~19 persons	41.5	45.5	50.8	54.4	60.5	553.0	606.3	672.2	721.2	802.0
20~49 persons	23.3	24.9	27.0	28.3	30.9	685.7	733.4	789.1	828.3	902.7
50~99 persons	5.8	6.4	6.5	6.6	7.0	390.0	428.2	432.8	440.0	469.9
1~99 persons	256.4	289.3	337.8	366.1	426.0	2,407.4	2,658.3	2,943.0	3,131.4	3,500.1
more than 100 persons	2.7	2.9	2.6	2.5	2.8	600.3	631.5	570.0	541 3	590.8
Total	259.2	292.2	340.4	368.6	428.9	3,007.6	3,289.8	3,513.0	3,672.6	4,090.9

2. Annual sales value and annual sales value per employee

(Unit: ¥ billion, ¥10,000)

Number of employees \ Item / Year	Annual sales value					Annual sales value per employee				
	1972	1974	1976	1979	1982	1972	1974	1976	1979	1982
1~2 persons	902	1,531	2,423	3,299	5,081	1,009	1,496	1,928	2,376	2,909
3 4 persons	3,011	5,297	7,772	10,692	16,039	1,462	2,215	2,681	3,351	4,291
5 9 persons	9,177	15,961	21,758	29,720	42,487	1,899	2,907	3,436	4,345	5,467
10~19 persons	12,413	21,002	27,841	37,503	51,297	2,245	3,464	4,142	5,200	6,396
20~49 persons	19,168	30,644	39,852	52,545	70,569	2,795	4,178	5,051	6,344	7,818
50~99 persons	13,655	22,019	27,151	35,190	47,942	3,501	5,142	6,273	7,998	10,202
1~99 persons	58,326	96,454	126,796	168,949	233,416	2,423	3,628	4,308	5,395	6,669
more than 100 persons	48,454	76,658	95,519	105,596	165,121	8,072	12,140	16,758	19,508	27,948
Total	106,780	173,112	222,315	274,545	398,536	3,550	5,262	6,328	7,475	9,742

Source: "Commercial Statistics", Ministry of International Trade and Industry
Notes: 1. Difference of annual sales value per employee indicate the ratio for the respective size when taking large enterprises as 100.
2. Okinawa Prefecture is included after the year 1974.

Table 8. Number of Stores, Number of Employees, and Sales Value in the Retail Industry

1. Number of stores and number of employees

(Unit: 1,000 stores, 1,000 persons)

Item / Number of employees \ Year	Number of stores					Number of employees				
	1972	1974	1976	1979	1982	1972	1974	1976	1979	1982
1~2 persons	927.7	967.2	999.6	1,022.1	1,036.0	1,461.1	1,520.5	1,586.6	1,630.5	1,669.0
3~4 persons	348.9	360.8	382.2	401.2	412.7	1,170.4	1,211.4	1,284.5	1,348.8	1,388.2
5~9 persons	156.9	158.2	165.7	176.0	187.9	973.8	977.3	1,021.1	1,083.0	1,161.6
10~19 persons	41.8	41.3	43.4	47.6	54.2	542.8	538.3	569.8	622.8	708.4
20~49 persons	15.9	16.2	17.9	21.1	24.3	455.2	465.4	514.2	611.4	703.1
1~49 persons	1,491.3	1,543.7	1,608.9	1,668.0	1,715.1	4,603.3	4,712.9	4,976.1	5,296.5	5,630.3
more than 500 persons	4.3	4.5	4.9	5.7	6.4	538.1	590.5	603.7	664.0	739.2
Total	1,495.5	1,548.2	1,613.8	1,673.7	1,721.5	5,141.4	5,303.4	5,579.8	5,960.4	6,369.4

2. Annual sales value and annual sales value per employee

(Unit: ¥ billion, ¥10,000)

Item / Number of employees \ Year	Annual sales value					Annual sales value per employee				
	1972	1974	1976	1979	1982	1972	1974	1976	1979	1982
1~2 persons	4,194	6,070	8,283	10,655	13,183	287	399	522	653	790
3~4 persons	5,390	7,680	10,814	13,947	17,721	460	634	842	1,034	1,277
5~9 persons	6,121	8,496	12,022	15,295	20,627	629	869	1,177	1,412	1,776
10~19 persons	3,682	5,007	6,992	9,155	11,791	678	930	1,227	1,470	1,664
20~49 persons	3,369	4,542	6,408	9,243	11,798	740	976	1,247	1,512	1,678
1~49 persons	22,756	31,795	44,519	58,296	75,121	494	674	895	1,101	1,334
more than 500 persons	5,537	8,530	11,510	15,268	18,851	1,029	1,445	1,907	2,300	2,550
Total	28,293	40,325	56,029	73,564	93,971	550	760	1,004	1,234	1,475

Source: "Commercial Statistics", Ministry of International Trade and Industry

Notes: 1. Difference of annual sales value per employee indicates the ratio for the respective size when taking large enterprises as 100.
2. Okinawa Prefecture is included after the year 1974.

By Joel Kotkin
and George Gendron

TRADING PLACES

Japanese and American entrepreneurs gather for a freewheeling discussion of the differences that divide them, and the ventures that may bring them together.

It is a weird war, the Japanese-American trade war: Its weapons are products; its legends are written in statistics. If there are people involved, they are leaders of giant corporations, heads of state, the field marshals of a great struggle. The human scale is missing somehow, a crucial dimension on both sides of the Pacific, where personal ambitions are played out, destroyed, or fulfilled, and where feelings may run as high as they did in the real war 40 years ago.

Last spring, INC. *invited four Japanese and three American executives, most of them chief executive officers of small entrepreneurial companies, to sit down together at Yamaichi Securities Co., a leading investment bank in Tokyo, to discuss this human dimension of the trade war. The Americans were all members of SoCalTEN, the Southern California Technology Executives Network (see "Networking: A Little Help from Your Friends," June); some of the Japanese belonged to the Nikkei Venture Business Center.*

The panelists' discussion ranged over the broadly cultural, as well as the narrowly economic, circumstances of their business lives. They discussed, sometimes heatedly, whether American executives were lazy—and whether the Japanese were afraid of failure. They talked about how young American engineers often prefer to work for a start-up business, whereas their Japanese peers prefer the status, and the security, of working for a huge corporation.

The encounter was revealing, often in surprising ways. Americans stereotypically pride themselves on their blunt forthrightness, the Japanese on their unflappable civility. The participants coolly upset this comfortable assumption. Few American executives, for example, are so blunt—or at the same time so courteous—as Shigenobu Nagamori, the 40-year-old president of Kyoto-based Nippon Densan Corp. (Nidec), which, with more than $100 million in sales and 1,150 workers, is one of Japan's most successful entrepreneurial companies. No less outspoken on the Japanese side was Hiroshi Kato, 55, a director of Yamaichi's $70-million venture capital fund and the author of several books and articles on Japanese entrepreneurship. Zenjiro Sano, age 47, founder of the Tokyo-based Zax Corp., is one of a new breed of Japanese venture businessmen who are determined to prove that Japanese creativity isn't a contradiction in terms—even if this means opening a research-and-development facility in Irvine, Calif., and staffing it mostly with Americans. Rounding out the Japanese panel was Masakatsu Makino, president of Creative Systems Corp., a fledgling Japanese software company in Kanagawa, an hour's drive southwest of Tokyo. With last year's sales of slightly more than $1 million, Makino, like many entrepreneurs on both sides of the Pacific, is beset by more established companies in his struggle for market share and capital resources.

The Japanese, too, may have been pleasantly surprised to discover that their American counterparts could be polite, even formal, without in the least abandoning their notorious candor. Rod Hosilyk, for example, co-founder and president of Rosscomp Corp., a $1-million Irvine manufacturer of tape drives, has been doing business in Japan for 20 years—and he freely expressed his frustrations with Japanese business practices. Equally courteous, equally forthright, was his fellow Orange County executive, Alpha Micro System's president Richard Cortese, age 42, who showed a connoisseur's appreciation of the possibilities of international commerce and cooperation. Steven Panzer, the 39-year-old co-founder and executive director of SoCalTEN, was the third and final American panelist.

The roundtable was held in Yamaichi Securities's conference room. Two stenographers and two simultaneous translators were on hand to capture the discussion, as were two Japanese journalists, Ikuo Umebayashi of the Nikkei Industry Research Institute and Kenichiro Takahashi, senior editor of Aspect *magazine. The roundtable was conducted by* INC. *editor George Gendron and Joel Kotkin,* INC.*'s West Coast editor.*

INC.: We hear a good deal about how hard it is for a small, non-Japanese company to do business in Japan. How true is this?

HOSILYK: I have been doing business in Japan now for probably 20 years, always in joint activities, true joint activities, in which we have tried to match the capabilities of a U.S. company to a Japanese company. And I must say that they've all been suc-

I FOUND THAT THE ONLY PRECAUTION WE HAD TO TAKE IN JAPAN WAS TO USE THE SAME GOOD BUSINESS JUDGMENT THAT YOU WOULD USE DOING BUSINESS ANYWHERE ELSE IN THE WORLD.—ROD HOSILYK

PHOTOS BY HIDEMI OKAZAKI

cessful, at least to the extent that they satisfied the requirements that were placed on them. Furthermore, I found that the only precaution that we had to take over here was to use the same, normal, good business judgment that you would use doing business in the United States or anywhere else in the world. Japanese companies don't have any more secret weapons than anybody else.

However, I can say that the most frustrating part of our doing business in Japan is government regulation. You have what is called the Fair Trade Commission (FTC) in Japan, which imposes very strict requirements on the agreements we attempt to negotiate. We don't have this in the United States, so agreements tend to become one-sided. In addition, the banking industry in Japan imposes its own requirements on contractual arrangements, which we also don't have in the United States. Just recently, we structured a tripartite agreement among our company and two large Japanese companies. By the time we considered all of the regulations of the FTC—which I call the UTC for "Unfair Trade Commission"—we had to remove a lot of the business points that we originally negotiated in the deal.

CORTESE: I agree. Japan is viewed as a particularly difficult place to do a joint venture that's beneficial to both parties. And the reason is the restrictions placed on it by government agencies—by what we perceive, rightly or wrongly, to be a certain protectionist attitude. This perception reduces the willingness of American companies to do joint ventures. Of course, that's why I am here: to learn. But you should know that many other Americans don't even try to learn. They see easier opportunities in other parts of the world, countries where government policies or cultural conditions make it easier to put together fair and equitable joint ventures.

I am curious to know whether you believe Japanese business should push to get less government involvement in these business deals.

NAGAMORI: These government restrictions and regulations you refer to—you shouldn't assume that they are directed only at American companies. We Japanese are also shackled. The Japanese government, I believe, is in some ways like the government of a developing country. A venture business, when it grows to a certain level, is faced with a lot of interference from the government. For example, once we have what the government calls a "sufficient capital foundation," we are required to pay whatever bills we owe to outsiders quickly. Then, too, regulations get changed by the whim of bureaucrats; they can construe the regulations in whatever way they want to. I have had a lot of quarrels with government people. I'm known as "Quarreling Nagamori." Normally, we don't want to quarrel with them, because they could put us at a disadvantage, but unless we do, the system won't improve. In contemporary Japanese society, however, all younger entrepreneurs have to face this difficulty.

Now, changing the subject a little bit—Japanese companies may be difficult to deal with, but I would say that there is no one in the world with whom it is more difficult to deal than Americans. Let me cite one example. Six years ago, we established a joint venture, a 50/50 joint venture in the United States. One Friday, we faced a fairly big problem in terms of corporate management. Now in Japan, we can work over the weekend as well; we don't care whether it is Saturday or Sunday. But that Friday afternoon our American counterpart said, "Oh, have a nice weekend," and left the negotiating table. We were told that the guy went off on a date with a girl. After this, I began thinking that we were in for some serious problems if we continued dealing with these Americans. The cultural differences were just too much. So, instead of 50/50, we purchased 100% of the company. Of course, we left management to the Americans, and we now completely trust our Americans; but we still feel very much irritated. Americans leave at five o'clock, whatever serious problems may be left hanging. I wish I could learn to do that. We cannot fall asleep at night, we can't even enjoy weekends. But Americans enjoy tennis, enjoy the weekend. Saying, "Have a nice weekend," they leave easily. I wish I could learn that for once in my life.

One other thing: We are not a really big company; we have only about 1,000 workers. But we have people who can speak all languages. I think that's something that American businessmen have been neglecting. American businessmen still tend to believe that English can be spoken everywhere.

CORTESE: Well, if you want to do business with a company that doesn't go home on Friday at five o'clock, call Alpha Micro. But seriously, I would be very concerned, if I were you, about your joint venture with someone who goes home on Friday at five o'clock. And I certainly would recommend buying them out immediately or dumping them.

As to the American's continual litany of complaints about government interference, be comforted by the fact that we also complain about our own government interference, and that our bureaucrats' languages are not that dissimilar to the ones you described. They also say things and do nothing. And they are equally as vexing.

About the language problem, it is just a fact of life. There has always been enough leverage in American money, technology, or muscle to have people acquiesce to our language. Now, I would totally agree that this is neither fair nor just, but I am not sure that it's material.

We are a small company—450 employees with more than $50 million in U.S. sales. We have to be very, very careful with our assets, and where and how we invest them. At

the same time, we are eager to participate in the world market, and we do participate in almost all parts of the world except Japan. But as the difficulty quotient rises in foreign markets, the incentive to invest decreases; and it is significantly less expensive for an American company to pursue business in the United States than in foreign locations. This doesn't mean we are not interested. It means that we must make a business decision as to the cost of developing the marketplace.

It is now a world market. And it is important to compete in multiple markets, not just because of return on investment and sales value, but for knowledge. I still want to do business in Japan, and I still want to understand better the way you do business, your culture and economic environment. And I don't believe that language is truly an insurmountable problem. You just have to recognize it.

MAKINO: We are going into the American market next month. I am one of the younger generation, born after World War II. We are interested in creating something. That's the wish of the younger generation. We are not interested in manufacturing personal computers or any other products that have reached the stage of maturity. We want to create a new market, a new field. Many American companies have approached us with offers of an alliance, but what they say is that the Japanese are good at manufacturing, producing high-quality goods cheaply. We say no to those offers. We tell them that we would be interested in something in the R&D field, the creative field; not merely producing something on behalf of others. This is the key to my decision to go to the American market: to see if we can add something creative.

And I have found some Americans who are interested. Some Americans have noticed that the Japanese have creativity, too. That's the way to internationalize our business, I feel. There may be barriers and obstacles, like languages and so forth, but I am not concerned with that, perhaps because I am young.

CORTESE: You should know that there is another great concern among many American businessmen about joint-venture arrangements with foreign countries, especially Japan. You are seen as very fierce competitors, and the concern is that the joint venture would be a short-term relationship, in which the Japanese partner will acquire the American technology, then sell it back to America, competing against American companies. When we first met in California to discuss coming to this roundtable, some of my colleagues advised me to be very careful about what I said, what I revealed. It wasn't clear to me why I needed to be any more careful in dealing with Japanese businessmen than I am with American businessmen, but the fact is that this suspicion is prevalent in the United States, particularly in high-tech companies, particularly with respect to large Japanese companies. Are you aware of this stereotype? How accurate do you think it is?

SANO: In some cases it is accurate, and in some cases not. My company has some joint-business relationships with a certain American company, so let me speak from my experience, if I may. First, we think that any technology that can be copied is not a true technology. Our company is based on high technology: We develop tools to develop microprocessor-

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JAPANESE COMPANIES MAY BE DIFFICULT TO DEAL WITH, BUT I WOULD SAY THAT THERE IS NO ONE IN THE WORLD WITH WHOM IT IS MORE DIFFICULT TO DEAL THAN AMERICANS.—SHIGENOBU NAGAMORI

based systems. Since the day we founded the company, we knew that our technology, by its very nature, could not be easily copied.

But that said, it is still very important to choose the right partner. You have to choose a company that's not in the same field you are. For example, we had an alliance with a software company in the States, a small company in Silicon Valley. The two of us are in different fields. We are not interested in software, and they are not interested in developing tools to make microprocessors. We are, in a sense, complementary businesses.

Another example. We are talking with a company in Oregon at the moment. In the first stage, we are going to have joint marketing; in the second stage, joint manufacturing. The third stage will involve joint engineering. But once again, we have made sure that we don't have head-on competition, that we're going to be complementary to each other.

NAGAMORI: I agree with all that, but let's look at Japan proper and ask who it is that we should have the greatest misgivings about. And the answer is: large Japanese businesses. They have a tendency to steal technology from medium-size and small companies in Japan. We know this from experience. We established our company, and came up with a very outstanding product at the outset. But we were very small, and although we should have applied for a patent, we didn't have the capability. So we put our product on the market, and suddenly the big companies began producing the same things; most people, in fact, probably think that it was we who copied the product from the big companies. So I would say to you Americans, when you think about doing a joint venture in Japan, beware of big Japanese companies. You shouldn't be suspicious of the small companies. We are proud of our own technology; we would never be so cheap as to steal technology from you.

KATO: Over the past 30 years, I have dealt with three of what might be called joint ventures. In terms of numbers, they were successes, but in terms of mentality, they were failures. For the American side, they were successes, but for the Japanese side, they were failures. Let me explain why.

The American manager who shook hands on one of the ventures was a man of very high standing. He could speak and read Japanese, and he knew Japanese *Bushido*, the Japanese discipline of the samurai. But in the next 30 years, the presidency of the U.S. company changed three times, each time for the worst with respect to their understanding of Japan. Meanwhile, 10 years ago, the Japanese partner was on the brink of bankruptcy, with the result that the U.S. partner acquired a majority interest in the venture. This was most unfortunate, for the American managers proved to be very shortsighted. They were myopic. Revenues of the joint venture were registered on a consolidated basis, so that despite the Japanese losses, the American company could show a profit. Each president had a short-term investment in that profit: It would improve his stock options during his tenure in office. But this also meant that they did not want to invest in the Japanese company for the longer term; indeed, each president seemed to quit as soon as he had maximized his stock options.

INC.: Myopia is also causing problems in U.S. venture businesses. In the past six to nine months especially, we've seen many venture businesses going under because of just that sort of shortsightedness. At the same time, larger companies in the United States are becoming more aggressive, leaner, much stronger competitors. They've learned a lot from the venture businesses. It may even be true that, in a sense, we are seeing the end of the venture business boom in America. Is this happening in Japan as well?

KATO: Japanese venture business is still in its embryonic stage, the boom having started in Japan only in 1980 or 1981. So, yes, there are people in this country who say that venture businesses are not working out, that the big businesses are on the counterattack, and that the venture businesses will soon disappear. I don't go along with this. It is much too early to tell. I would like to stress that point.

NAGAMORI: This is perhaps off the point, but earlier I made some provocative remarks about American businessmen, and I'd like to correct them. I am very grateful to the Americans. I was born in 1944, and I was able to grow, literally, because of the powdered milk that was supplied to us by Americans. It was also thanks to Americans that I was able to grow my business. I established my company in 1973. We started with only four people, and I used my house as the office. Japanese big business never accepted our products. Big businesses in this country are always very particular about your past achievements, your performance, your age. They didn't trust us, which is why we went to the United States. And the American big businesses were very warm to us. We told them that we were a new company, that we hadn't any history, and they simply said, "We praise your courage." More importantly, they bought our products. This would have been inconceivable in Japan. In Japan, even if it was me sitting on the opposite side of the desk, even I would probably say, "I won't buy those products." But American businesses were very openhearted: They provided us with indispensable support. So you see, I started out feeling that the United States was a wonderful society, which is why I so regretted the problems I ran into later. I just want to qualify, somewhat, my earlier statements. I also want to make sure some of our American deals don't get canceled. [Laughter]

INC.: One of the things we have heard is that smaller Japanese growth com-

panies, as a rule, seem to have a much more difficult time recruiting talented managers than their American counterparts do. Is that true?

NAGAMORI: Yes. For a growing company in Japan, it's not easy to recruit people as you do in the United States. It's not easy, because of the limited labor mobility in Japan, and because competent human resources tend to spend their whole lives working for the same big companies. This is changing, but not all that fast.

In the case of our company, for example: Over the past 10 years, we have been growing at a pace of 60% to 100% per year. This means that we will inevitably run short of human resources. We want to grow our company; want to push the growth. We try to scout competent people as fast as possible, but we can't seem to keep up with the growth of the company. So this is a big headache for us.

KATO: Labor mobility has begun to speed up in Japan, but only in the past few years. Our country went through long years of turbulence after the war, and people wanted to have stable jobs in big and stable companies. In this decade, however, the traditional managerial system of lifelong employment and seniority-based wages has been gradually breaking down. There is now an increasing tendency among elite students, who once had eyes only for companies of 1-billion yen capitalization, to jump into venture business companies. The trend is only a couple of years old, but I think it will increase.

INC.: I think the Japanese may have a false sense that somehow every brilliant MIT engineer is just pounding the doors to get into Alpha Micro. What about the human resource problem in the States?

CORTESE: Well, there are some differences. Most of the technically educated people in our marketplace look for security in the industry as opposed to the company. They assume that they can transfer their skills easily from one company to another. So we operate with some advantage in that respect.

But the negative side of this shows up very quickly: If you believe you can transfer easily, you do. We have less trouble finding people than you Japanese do. But we have a second problem that it appears you don't face: Our people leave us almost as quickly as we can recruit them.

Our industry, for example, operates on a 30% per year turnover. You all know the value of continuity in technical development and support. We lose that. So, I believe that as you gain in your labor-market mobility, you will face a whole new challenge, which is finding methods for maintaining and retaining your people. In our industry, we attract people by giving them equity participation. We retain them by giving them both equity participation and special incentives for performance. We break our own internal rules to keep the really key contributors, but this causes people to leave who view themselves as equal in terms of skills but less rewarded. So we are in a constant battle to find people, as you are; trying to keep them, having them leave, trying to find other people.

Perhaps the only advantage we have in this area is that Americans are not as sensitive to the size of the company. In fact, I would say they are more interested in joining smaller companies. They perceive that there is less discipline, that creativity is better accepted; or, second, they

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AMERICAN COMPANIES HAVE APPROACHED US WITH OFFERS OF AN ALLIANCE, BUT WHAT THEY SAY IS THAT THE JAPANESE ARE GOOD AT PRODUCING HIGH-QUALITY GOODS CHEAPLY. WE SAY NO.—MASAKATSU MAKINO

think that they can participate in an equity sense and gain significant independence in a relatively short business life in a small company. They cannot get this in a large company. Last, they perceive that they can move to senior positions much more quickly, because there is a flatter hierarchy to move up in. In a larger company, there are many more levels in which they must put in their time.

But let me ask the Japanese a question. Do you have the tools to retain and attract your people that we have in our smaller companies? Equity? Financial markets giving multiples to stock valuation? Bonuses, and so on? Are those available to you? And are they effective? And do you use them?

NAGAMORI: First, I think there is a basic difference between the United States and Japan that we have to consider. In the United States, the emphasis is on monetary incentives. Not in Japan. Of course, deep in their minds, people may want more money. But they don't ask for it. Money is secondary to prestige.

I will tell you a story. A certain student was interested in joining our company. But then he told us that his mother wanted him to join a company that was being publicized in TV commercials. So he chose Toyota. Is he designing Toyota motorcars? No, no. He is working as a service engineer in a local city. He is nearly a salesman. But the mother is proud: He is working for the great Toyota. She can spread it around the neighborhood that her son works for Toyota. The neighborhood is impressed: "Oh, your son works for Toyota!" So, if a Japanese mother feels she has a good son, she wants him to join a company with high visibility and prestige. Generally speaking, someone who has graduated from a top-notch university wants to join the very top company, which means the very large company in Japan. That's the easy way to high social status. *(continued)*

ROUNDTABLE

ALL RIGHT, LET'S SAY A JAPANESE PERSON SUCCEEDS IN A BIG COMPANY—DOES HE GET REWARDED? NOT NECESSARILY. THE BOSSES OR THE PRESIDENT WILL REAP ALL THE CREDIT, NOT HE.—HIROSHI KATO

Yes, we have employee equity in our company, and we encourage the employees to own it. But, remember, some of our employees don't even have any idea what stocks and equity are; they are not interested in that sort of thing as an incentive. So even if we publicize stock options as an attraction, it doesn't have much of an effect as yet.

So, how do we recruit? We tell them our company is growing. We stress the point: "Our company is still small, but it's going to become a big company; and when it does, you are going to get the promotion." We tell them, "If you join Hitachi or Toshiba, you may not go to the very top. But if you join our company, maybe you will become the very top executive; maybe you'll enjoy an even higher status than your colleague who joined Hitachi or Toshiba."

UMEBAYASHI: I would like to ask a question of the U.S. side. When venture companies in the United States grow very large, what happens to them? Are they any different from conventional large companies? I feel that there must be something, some philosophy, that would make you different from other conventional big businesses.

HOSILYK: That's an interesting question, and it touches on a lot of the issues that we have been talking about. Should our company become very large, I think we will be the same as any other large company. However, it's important to understand the motivations behind venture capital–funded companies. In Alpha Micro's case, for example, the management is judged by quarterly results. What profits did the company make for the quarter, and how much did that increase the value of the stock? After all, why do venture capitalists invest in a company? To obtain equity at a reasonably low price; to have the company grow in size very rapidly; to have the equity appreciate very much, so as to be able to sell their stock and make a large amount of money.

I recently had a discussion till 2:30 in the morning here in Japan trying to explain why we don't give dividends in companies in the United States. The reason is that dividends are bad from a tax standpoint. So we look only for capital growth.

I think this answers your question. We are a venture capital–funded company. We want to grow very rapidly. The investors want to be able to sell their stock and recoup their original investment, plus a large profit. At that point, the company becomes a normal publicly traded company like any other—and it has all the problems of any other large company.

NAGAMORI: If I may speak again, we started our company from zero, and we want to grow it into a big and stable company. In Japanese society, a smaller business cannot remain small or medium-size over the longer term. Big businesses come into our markets very aggressively, even small markets, in order to improve their profits. Only a very limited number of smaller businesses that really have their own, shall I say, captive market can remain small. So, of necessity, you have got to make your company big.

There is an expression "small is beautiful," and I am against that idea. Companies have to grow. For the larger they grow, in Japanese society, the easier it becomes for Japanese smaller businesses to operate in this community, because of relations with banks and so on. The smaller you are, the more unstable you are.

Over the long term, venture business is too risky, too unstable. So I think you have to try and grow your company—develop your company as quickly as possible, and then, think about the next stage.

MAKINO: I, too, would like to make my company a big company. But does that mean that inevitably we will introduce the same inflexible methods as other large companies? No. I believe there could be more flexibility as we grow larger; larger companies have more people, more human resources. The real question is, Are we going to be able to have some impact on the new market or society? If we are, then maybe we have to introduce some new tools from the outside in managing the company. Maybe we might have to spin off, so that we would become a group of companies, rather than becoming a big company under one roof.

KATO: I'm not sure about the flexibility of big companies. Let's say we have a brave samurai in a big Japanese company who would like to express his entrepreneurship, or *intra*-preneurship, as you put it these days. And let's say he challenges. Unfortunately, however, he fails. What happens? He loses his career in the big company. All right, let's say he succeeds—does he get rewarded? Not necessarily. The bosses, the senior manager, or the president will reap all the credit, not he. This happens a lot in Japanese large companies; this is still the structure, the organizational setup we have in Japan. Consequently, for the next 10 years or so, you won't find strong entrepreneurial counterattacks by big business on small business. Japanese venture businesses are going to enjoy boom days in the near future. But in the long run, 10 years from now, with the coming of those changes I mentioned in traditional management practices, then I would guess that the larger Japanese companies are going to be a lot tougher than their American counterparts.

INC.: Do you think there's any hope that through this sort of networking we can blend the strengths of the two systems?

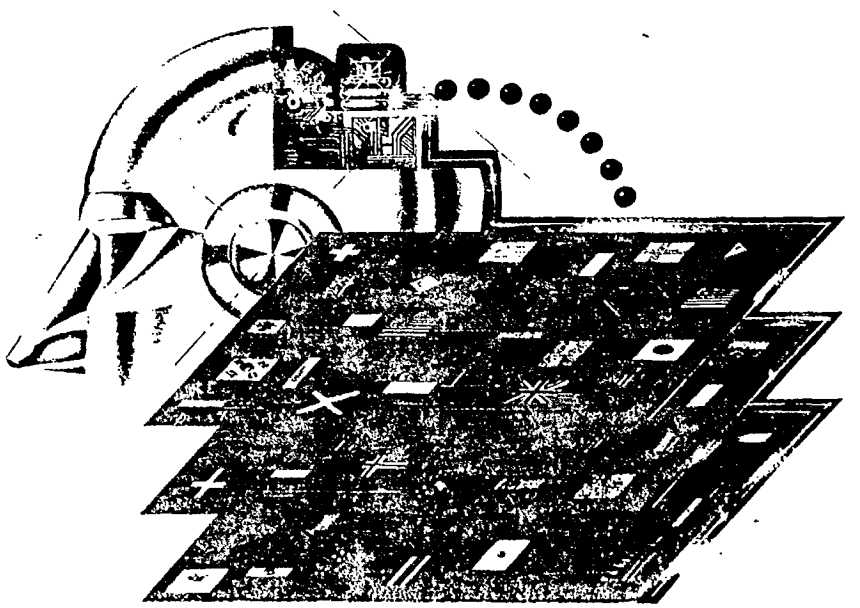
NAGAMORI: From now on, instead of thinking American or Japanese, we ought to think globally. Being involved in the world business for the past 10 years or so, I really feel that we should not be limited to the Japanese perspective or the American perspective. When we try to sell in the United States, we must bring products Americans want to buy. But if we think that because the Americans accepted these products then we can sell them to the Russians, we would be wrong. We have got to produce products that the Russians want to buy. And I think that through this sort of process, people in different parts of the world will tie up with each other. And by doing so, we would also be able to expand American venture business, Japanese venture business, and venture businesses in other parts of the world.

PANZER: I think it is inevitable that in 5 years, 10 years, 15 years, even 50 years hence, we are going to see a breaking down of national boundaries, more and more blending of cultures. As people work together in joint ventures, you sit across the table, maybe on the same side of the table, you take off your jacket, you roll up your shirt-sleeves, and you develop friendships, you get to know the individual. And naturally, you are going to see a merging of different approaches. □

Working Together for Tomorrow's World

–Japan Promotes Industrial Cooperation–

By Masuo Shibata



Internationally important

Helped by last year's lower oil prices and falling inflation, the world economy, led by the U.S. economy, has begun to perk up. The economic recovery in the advanced countries, with its decisive impact on global economic trends, is being sustained primarily by private consumption and housing investments. Yet structural problems, such as slack growth in industrial productivity due to sluggish equipment investment and technical development, have yet to be resolved. Moreover, continuing high unemployment rates are fueling protectionism in some European countries and the United States.

In view of the significant role played by free trade in the development of the world economy, it is essential that the advanced countries sustain and strengthen the free trade system in order to ensure continued world economic growth, without getting caught in the pitfall of protectionism. Japan, which attained its own rapid growth under the free trade system after World War II, has a special responsibility to contribute vigorously to the sustenance and expansion of a free world economic order as a member of the trilateral Japan-U.S.-EC relationship, the central pillar of the world economy and trade today.

In this regard, the significance of industrial cooperation in terms of Japan's international contribution has increased greatly in recent years. Japan's industry is performing much better than that of European countries and the United States, and it is only fitting that the nation should have greater interchange with these countries not only in trade but in capital transactions, technology and know-how. While the three regions work to complement each other's activities through mutual interchange in a wide variety of fields, Japan must do all it can to help Europe and the United States resolve their structural problems, revitalize their industries and establish a harmonious international division of labor.

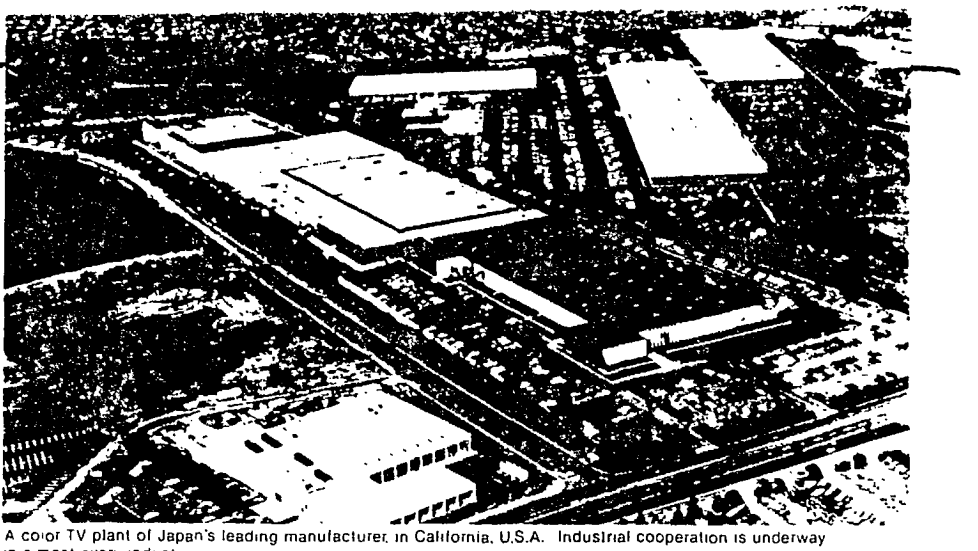
Forms and effects of industrial cooperation

The term "industrial cooperation" refers to interchange among industries of different countries in the wide range of fields mentioned above. Concretely, it can be broken down into (1) investment exchange, that is, making direct investment overseas and receiving direct investment from abroad, (2) technology exchange, technical tieups between enterprises and joint technological development in the form of technology exports, imports, and cross-licensing contracts, and (3) cooperation in third-country markets in connection with the construction of industrial plants, and OEM (Original Equipment Manufacturing) contracts for producing goods under the importer's brand name.

The effects of these three forms of industrial cooperation are as follows.

First, investment interchange. Direct investment overseas has the immediate effect of solving supply bottlenecks and expanding employment in the host country. Japanese direct investment in other countries created an estimated 600,000 jobs in other countries in fiscal 1980 in the manufacturing sector alone. Jobs created by Japanese direct investment in European countries and in the United States increased more than 10-fold from 6,600 in fiscal 1971 to 70,000 in fiscal 1980 (Table 1).

Furthermore, in the medium and long term, direct investment contributes to solving structural problems in the supply sector through upgrading the host country's technical skills, and to stimulating the host's industry. Direct investment overseas not only accelerates the internationalization of Japanese industry but makes it possible for Japanese industry to undertake production and marketing which it could not do single-handed. At the same time, it deepens mutual understanding and Japan's relations with other nations, while helping further much-desired international division of labor.



A color TV plant of Japan's leading manufacturer in California, U.S.A. Industrial cooperation is underway in almost every industry

Direct investment in Japan by other countries, on the other hand, helps foreign enterprises expand their access to the Japanese market. By utilizing Japan's great technical capabilities and skilled labor force, foreign enterprises can engage in efficient production and marketing activities. At the same time, Japan benefits from the influx of sophisticated technology and know-how. As foreign enterprises acquire a better understanding of economic systems and commercial practices in Japan, friction arising from misunderstanding is alleviated. Moreover, the siting of foreign plants in Japan's rural areas can invigorate regional economies. These are some of the merits of foreign direct investment in Japan.

Secondly, technical exchange. The mutual exchange of technologies between advanced countries contributes greatly to upgrading technical capabilities and raising productivity in the industries involved. In due course, it also revitalizes the economies of the advanced countries. Promotion of joint research and development in high technology through sharing the risks and costs involved enables both Japan and Western countries to expedite the development of sophisticated technologies.

Thirdly, cooperation in third-country markets. This not only improves industrial infrastructure and invigorates industries in third countries, most of which are developing nations, but contributes also to boosting efficiency by coordinating the complementary capabilities in which the various countries excel. At the same time, cooperation in a third country market makes it possible for the partners to disperse the financial burden and risk, which become correspondingly bigger the larger the industrial project. OEM contracts, too, are significant in that they not only supplement the supply capacity of the foreign partner but lay the foundations for stepped-up cooperation in the future.

Table 1 Local Employees Hired by Locally Incorporated Japanese Subsidiaries

(Units: Persons, %)

	FY 1971		FY 1980		Average annual growth rate	
	All industries	Manufacturing industry	All industries	Manufacturing industry	All industries	Manufacturing industry
North America	16,335 (6.8)	3,238 (1.7)	78,612 (11.2)	52,473 (8.8)	19.1	36.3
Europe	7,550 (3.1)	3,332 (1.7)	31,588 (4.5)	17,535 (2.9)	17.2	20.3
All regions	241,597 (100.0)	193,401 (100.0)	700,854 (100.0)	599,207 (100.0)	12.4	13.4

Remarks: 1. The number of local employees represents total employees of locally incorporated Japanese subsidiaries minus staff sent from Japan
2. Figures in brackets represent percent of total local employment.

Source: MITI, "Overseas Business Activities of Japanese Enterprises"

Major trends in industrial cooperation

As interdependence between Japan and other advanced countries grows, industrial cooperation is also making steady progress, primarily in investment and technical exchanges. A recent survey by the Ministry of International Trade and Industry (MITI) covering principal exporting enterprises found that industrial cooperation is underway in almost every industry. Of the respondent companies, 43% were planning to make direct investment overseas after 1983 (Table 2).

Principal examples of recent industrial cooperation are given in Table 3. This table shows that industrial cooperation is most advanced in the high-technology fields, such as semiconductors, VTRs, automobiles and machine tools.

(1) Trends in Japanese direct investment overseas

The form of industrial cooperation most desired by the United States and European countries is investment interchange. Japan's direct investment overseas has increased steadily since the 1970s. It expanded rapidly after 1972 when direct investment overseas was to all intents and purposes completely liberalized. Statistics on direct overseas investment by major

Table 2 Industrial Cooperation by Type and Industry

(Unit: %)

Type / Industry	Direct investment		Technical Exchange: Technology Exports		Technical Exchange: Technology Imports		Cross-licensing		Cooperation in Third-country Market		OEM Contracts	
	Actuals	Planned	Actuals	Planned	Actuals	Planned	Actuals	Planned	Actuals	Planned	Actuals	Planned
Textile	37.5	0	50.0	50.0	75.0	42.9	57.1	28.6	0	14.3	25.0	14.3
Chemical	66.7	36.4	93.1	83.3	96.3	79.2	63.2	35.3	11.8	35.3	16.7	22.2
Ceramic, earthenware, stoneware	80.0	37.5	77.7	77.7	90.0	50.0	42.9	16.7	14.3	0	0	0
Steel	30.0	30.0	84.6	50.0	78.6	55.6	33.3	12.5	50.0	60.0	14.3	0
Nonferrous metals	70.0	83.3	92.3	81.8	86.7	90.0	72.7	55.6	42.9	50.0	33.3	50.0
General machinery	76.0	50.0	62.5	42.1	88.0	63.2	26.3	17.6	33.3	29.4	42.9	57.9
Electric machinery	70.7	58.6	73.7	64.5	88.1	72.4	60.6	60.7	34.6	31.8	90.7	88.6
Transport machinery	47.1	35.7	84.2	73.3	89.5	81.3	33.3	30.8	53.8	66.7	81.3	64.3
Precision instruments	87.5	100.0	83.3	100.0	66.7	50.0	57.1	50.0	0	0	100.0	100.0
Others	64.7	43.0	77.9	67.4	87.8	69.2	49.6	38.7	29.5	34.3	56.2	53.6
Companies responding to survey	167	123	172	141	181	133	137	119	122	108	146	125

Remarks: 1. Ratio of firms involved in item concerned to the total number of firms from each industry responding to the question regarding said item.
2. Date of survey: February, 1983

Source: MITI, "Questionnaire Survey on Commerce and Trade Environment and Others"

Table 3 Recent Japanese Industrial Cooperation

	Consumer Electronics	Computers, ICs, Communications Gear	Industrial Machinery	Motor Vehicles	Aircraft	Others
United States	I ... Color TV sets, microwave ovens, audio equipment, refrigerators O... VTRs	I ... ICs, telephone switchboards, data processing equipment T ... Cross-licensing of communications gear, OCR manufacturing technology	I ... Machine tools T ... Robot technology and joint development	I ... Motorcycles, small cars, small trucks	T ... Joint development of civil aircraft Note: Joint undertaking by Japan, US and Italy	I ... Car air-conditioners, head lamps, car tire tubes T ... Space industry technology, ion exchange membrane cross-licensing O... Ultrasonic diagnosis equipment
Britain	I ... Color TV sets, VTRs	I ... ICs T... Computer technology O ... Semiconductor push-button telephones	I ... Robots T ... Robot technology	T ... Passenger car technology O... Batteries, forklifts	T ... Joint development of jet engines for civil aircraft Note: Joint undertaking by Japan, U.S., Britain, West Germany, and Italy	I ... Video tape T ... Sintered silicon carbide products manufacturing technology M... Hydroelectric power plant, fertilizer project
West Germany	I ... VTRs	I ... ICs O... Computers	I ... Machine tools, ceramic conductors T ... NC equipment technology	T ... Cooperation in passenger car field	T ... Joint development of helicopters	T ... Nuclear fuel waste processing technology and electromagnetic valve technology M... Cold rolling mill, dam, port and harbor facilities
France	I ... Audio equipment T ... Pick up tube, VTR technology		I ... Machine tools	T ... Motorcycle technology		I ... Video cassette tapes, carbon fibers M... Thermal power plant, oil refinery
Italy		T ... Semiconductor design technology, joint development of logic circuits	T... MC technology	I ... Small passenger cars, motorcycles T ... Technical tieups for passenger car assembly and manufacture		T ... Polypropylene molding machine technology M... Gas pipeline
Netherlands	I ... VTRs					I ... Sheet glass, film T ... Soda plant technology
Belgium						I ... Glass, sheet glass T ... Carburetor manufacturing technology M... Thermal power plant, fertilizer project

Remarks: 1. I ..... Investment interchange
T ..... Technical exchange
M ..... Cooperation in third-country market
O ..... OEM contracts
2. Investment interchange refers to local production by Japanese manufacturers, and joint ventures with makers in the host country.
3. OEM contract refers to a contract under which a Japanese maker manufactures and exports products in the brand name of a firm in the importing country
4. The cases of industrial cooperation listed above were undertaken between fiscal 1978 and the end of fiscal 1982.

Source: MITI Survey

advanced countries reveal that Japan's balance was $45.4 billion (on authorization and registration bases) at the end of fiscal 1981 (ended March 31, 1982). Although this was relatively small compared with America's $227.3 billion and the Britain's $79.4 billion, Japan still had the highest growth rate among the advanced countries. Along with West Germany, it ranks as a rapidly rising investor country (Table 4).

One characteristic of Japan's direct overseas investment is that investments in manufacturing and resources development are made primarily in the developing countries of Asia and Latin America, while a major proportion of investment in commerce and service industries goes to North America and Europe (Fig. 1). There are a number of reasons behind this pattern.

For one, the expansion of the Japanese economy created labor shortages, strongly motivating such labor-intensive industries as textiles and electric appliances to invest in developing countries with abundant low-cost labor in order to maintain their competitive edge. At the same time, the developing countries' positive policy of inviting in foreign capital greatly encouraged investment by these industries.

Second, resource-poor Japan had to invest in resource-rich countries in order to ensure a stable supply of raw materials for its industries.

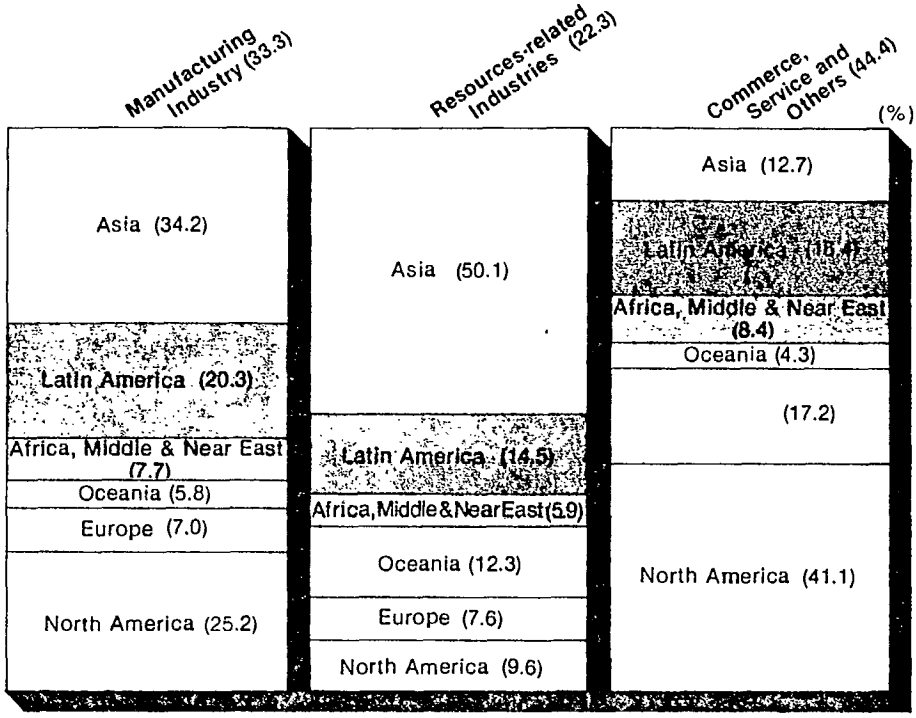
And third, Japan lagged behind Western countries in its stock of "management resources," such as technology and know-how concerning production, sales, and business management, as well as the ability to raise funds. Given the relatively higher cost of labor in advanced countries, Japanese manufacturers found no attraction in investing there. In the advanced countries, investment was primarily in commerce and service industries,

Table 4 **Overseas Direct Investment by Major Countries** (Units: $1 billion, %)

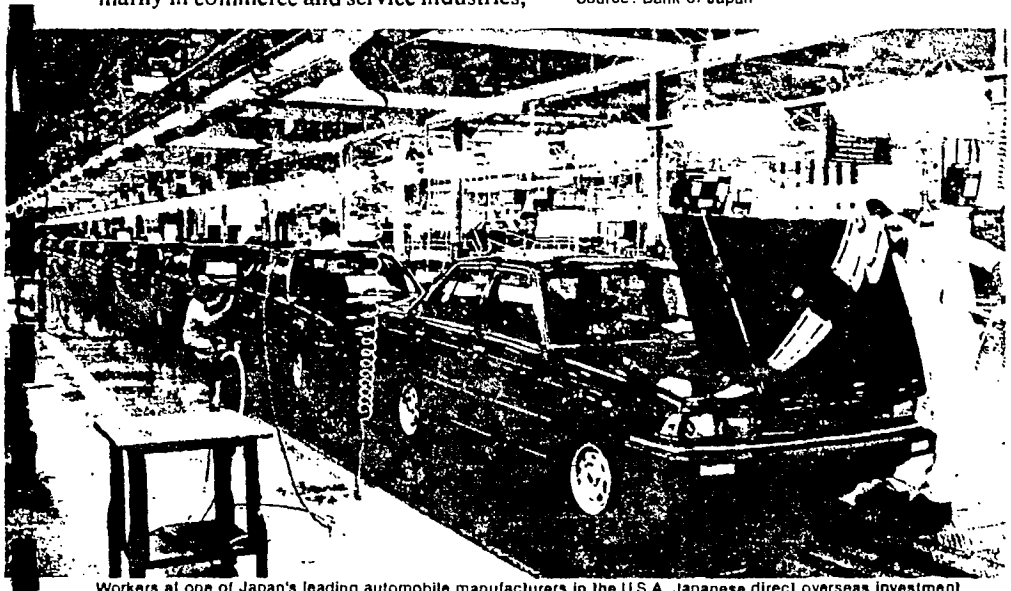
Year / Country	1971	1975	1981	Average annual growth rate 1971-1975	Average annual growth rate 1975-1981
Japan	4.4 (1.9)	15.9 (8.3)	45.4 (24.5)	37.9 (44.6)	19.1 (19.8)
United States	82.8	124.2	227.3	10.7	10.6
West Germany	7.3	16.0	37.3	21.7	15.2
Britain	23.7	30.8	79.4	6.8	17.1

Remarks: Upper figures for Japan represent total overseas direct investment at the end of the year on authorization and registration bases. Figures in brackets represent outstanding balance of direct investment (assets) at the end of each year from balance sheet of Japan's total overseas assets and liabilities.
Sources: Bank of Japan; Survey of Current Business; IMF-IFS; Japan External Trade Organization, "White Paper on Overseas Market"; Bank of England Quarterly Bulletin; OECD-Recent International Direct Investment Trends, etc.

Fig. 1 **Japanese Overseas Direct Investment by Industry and Region**



Remarks: 1. Cumulative overseas direct investment on authorization basis from fiscal 1976 to fiscal 1982 year-end
2. Exluding branches and real estate
Source: Bank of Japan

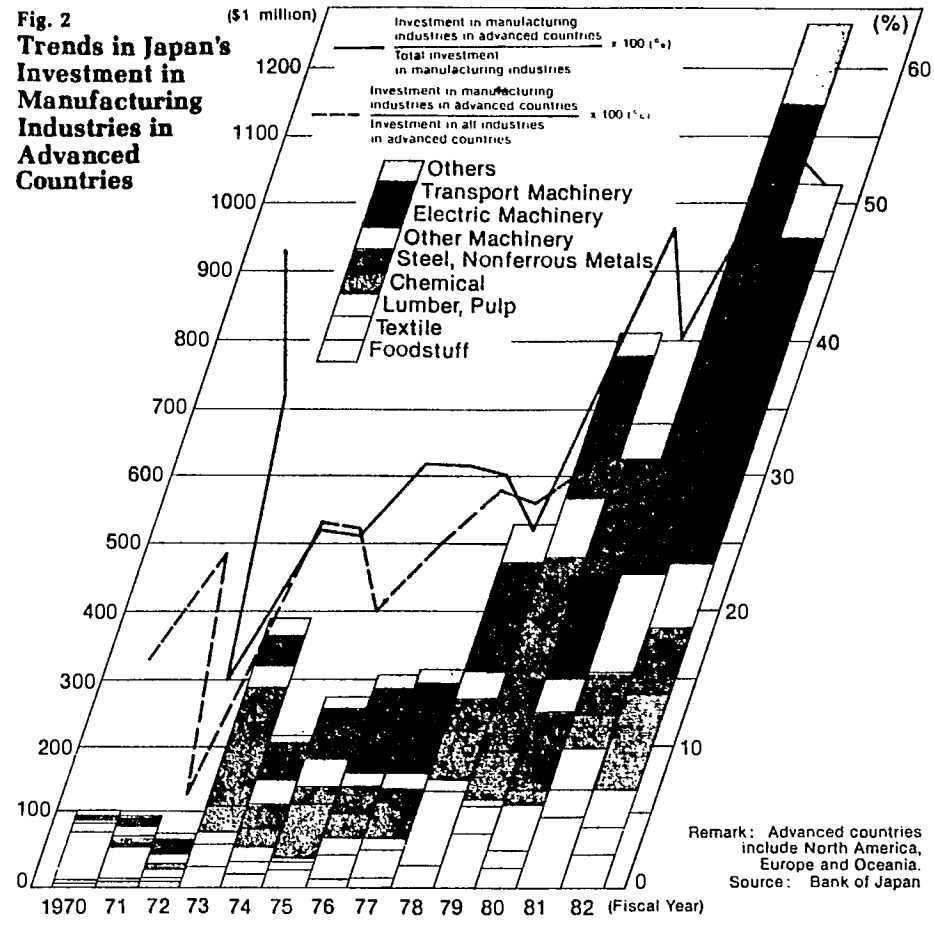


Workers at one of Japan's leading automobile manufacturers in the U.S.A. Japanese direct overseas investment created an estimated 700,000 jobs in fiscal 1980.

in the hope of developing markets for Japanese exports.

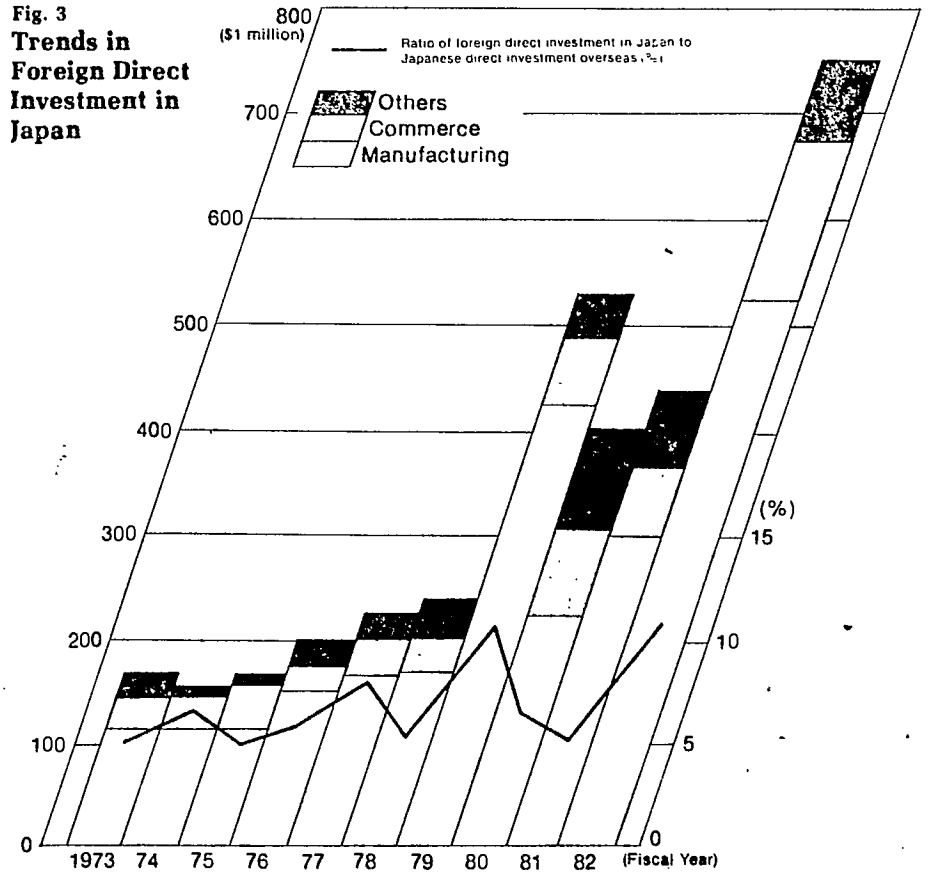
However, manufacturing investment in the advanced countries increased steadily in the 1970s, a trend that became particularly conspicuous after 1978 (Fig. 2). Behind the increase lay Japan's growing industrial strength, resulting from the smooth expansion of the Japanese economy and the accumulation of production technology and other "management resources," the increased need to develop profitable markets globally in pace with the expansion of business activities, and increased requests from foreign countries which wanted to revitalize their own domestic economies. A breakdown shows that the increases in overseas investment in recent years are most evident in those industries in which Japan has become most competitive, including electric appliances, general machinery and transport machinery.

Fig. 2
Trends in Japan's Investment in Manufacturing Industries in Advanced Countries



Remark: Advanced countries include North America, Europe and Oceania.
Source: Bank of Japan

Fig. 3
Trends in Foreign Direct Investment in Japan



(2) Trends in foreign direct investment in Japan

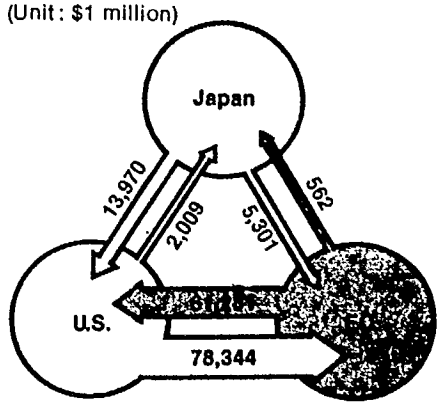
Direct investment in Japan by other countries remains at a low ebb, as compared with Japan's direct investment overseas. However, foreign investment in Japan, centering on the manufacturing industry, has increased in recent years. In fiscal 1982 it rose sharply to $750 million for a growth rate of 73.3% over the preceding year (Fig. 3). Particularly noteworthy is the advance into Japan of foreign companies boasting unique technical capabilities and excellent productivity in high technology fields related to pharmaceuticals and semiconductors.

Japan liberalized foreign direct investment in five steps from 1967 to 1973 to conform completely with the OECD's capital liberalization code. In 1980 Japan went on to revise its Foreign Exchange Law, virtually removing all legal restrictions on capital transactions, and more recently, the Japanese government has taken a number of measures to promote foreign investment in Japan, including dispatching a mission abroad to encourage such activities. The government is actively trying to smooth the flow of direct investment from overseas.

(3) Trends in trilateral investment interchange

A study of trilateral investment interchange among Japan, the United States and the EC shows that whereas cumulative investment interchange between the United States and EC reached $139.6 billion at the end of 1982, between Japan and the United States it remained at a low $16 billion and between Japan and the EC came to a mere $5.9 billion (Fig. 4).

Fig. 4 **Investment Interchange among Japan, U.S. and EC**
(Cumulative total at the end of fiscal 1982)
(Unit: $1 million)



Remarks: 1. Japan-US. and Japan-EC figures represent cumulative totals as of end of fiscal 1982 on authorization and registration bases.
2. EC figures represent total for 10 nations. However, in the case of EC direct investment in Japan, figures represent total for six countries (West Germany, Britain, France, Netherlands, Belgium and Denmark).
Source: Bank of Japan; Survey of Current Business

This difference has come about largely because the United States and EC, helped by their geographic proximity, have always had mutual interchange, while Japan only started full-scale direct investment overseas as recently as 1972. It also reflects the greater proportion of Japanese direct investment in developing countries.

However, as explained above, both Japanese overseas investment and foreign investment in Japan are increasing rapidly. This is especially true of investment interchange between Japan and the advanced countries in Europe and the United States which has recently claimed a greater and greater share of the total. Further growth is anticipated.

The government's role

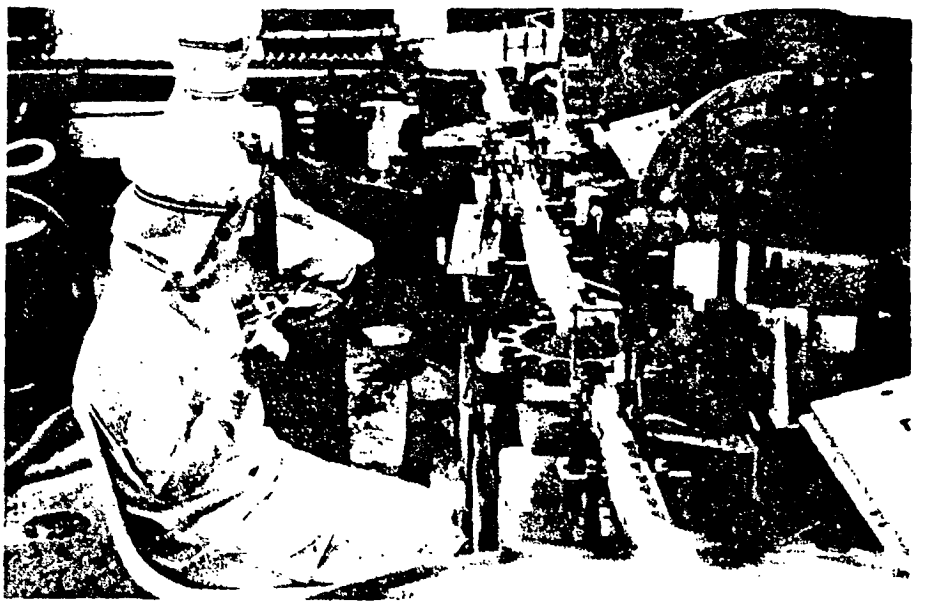
(1) The government can smoothe the way

Industrial cooperation bears directly on the fundamental elements that sustain the life of a corporation, that is, investment, technology and management know-how. It is therefore up to the corporation itself to decide whether or not to engage in industrial cooperation. However, companies lacking experience in foreign operations and second-tier or small- and medium-sized companies are often deterred from embarking on industrial cooperation because of inadequate information about conditions overseas and the vagaries of foreign risk. There are also sometimes problems involving the host country's government policy and traditional economic systems which are beyond the ability of private enterprises to solve on their own.

This being the case, it falls upon the Japanese government to actively exchange information with other governments for promoting industrial cooperation, and, when necessary, to provide enterprises interested in industrial cooperation with general information as well as information concerning individual projects. The government must also remove obstacles hindering the smooth implementation of industrial cooperation and expedite the improvement and expansion of the involved systems.

(2) Concrete measures

MITI conducts regular consultations on industrial cooperation not only with the EC Commission but also with relevant government agencies in France, Britain, Belgium, Italy and Ireland. The ministry also engages actively in information exchange and liaison activities with each country concerned in order to find ways to promote industrial cooperation, including specific projects. The information thus exchanged includes measures taken in each country to promote industrial cooperation and sector-by-sector evaluations of the current state of bilateral industrial cooperation.



The pharmaceutical industry is one field in which investment into Japan is concentrated. *(Photo: Pfizer Taito Co., Ltd.)*

MITI also consults with the United States concerning investment, and exchanges opinions on the impact this investment has or is likely to have on each country's trade, and on their investment policy. In addition, MITI helps foreign enterprises setting up in Japan to find industrial sites, advises missions dispatched to Europe and the United States, provides necessary information and offers other back-up to industrial cooperation efforts.

In fiscal 1983 the Japan External Trade Organization (JETRO) established industrial cooperation and technical exchange centers not only at its head office in Tokyo, but in seven major cities abroad (London, Paris, Dusseldorf, Milan, Brussels, New York and San Francisco), thus bolstering its ability to furnish information and to promote industrial cooperation. JETRO is now conducting feasibility studies on international cooperation in research for promoting the international development of industrial technology, and considering the dispatch and receipt of missions to promote investment in Japan.

Moreover, the government is moving to provide financial assistance to industrial cooperation investment projects by facilitating the utilization of Export-Import Bank of Japan and Japan Development Bank loans. It has also concluded joint insurance agreements with Belgium, the Netherlands, France and Britain in a bid to promote cooperation in the export of industrial plants to third-country markets.

Furthering industrial cooperation

The protracted stagnation in the world economy has led to mounting protectionist pressures in many countries, and the entire free trade system is now being put to the test. As protectionism rises, Japan's environment can only worsen. As the free world's second largest economic power, it is imperative that Japan contribute vigorously to the revitalization of the world economy by making the best use of the dynamism of its private sector. To do so, Japan should undertake the following:

(1) Japan should energetically promote technological development, while accelerating the introduction of investment and technology from abroad and maintaining the vitality of its industry. At the same time, it must constantly maintain and improve its capacity to respond readily to investment and technical exchange.

(2) In investing directly overseas, Japan should understand and respect commercial and other practices in the host country, while trying to transplant to the host the transferable elements of Japanese-style management.

(3) The Japanese government should respect the autonomy and initiative of private enterprise, pay attention to details in improving the environment, and work untiringly to foster industrial cooperation. ●

Masuo Shibata is the director general of the International Trade Policy Bureau of the Ministry of International Trade and Industry. Shibata, 53, joined MITI in 1954 after graduating from the University of Tokyo. He served in many posts such as deputy vice minister for administration and deputy director general of MITI's Agency of Natural Resources and Energy before assuming his current post.

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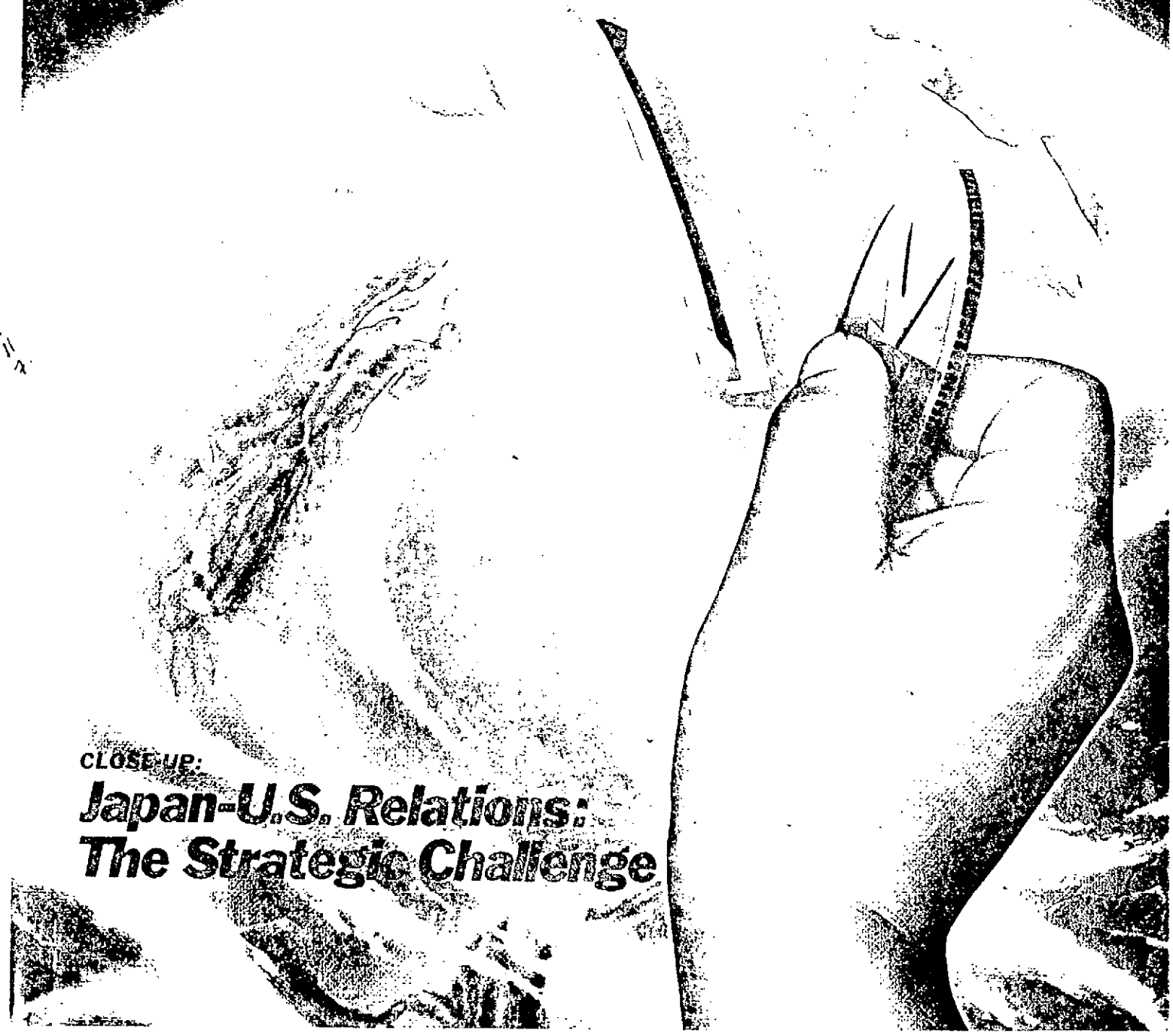
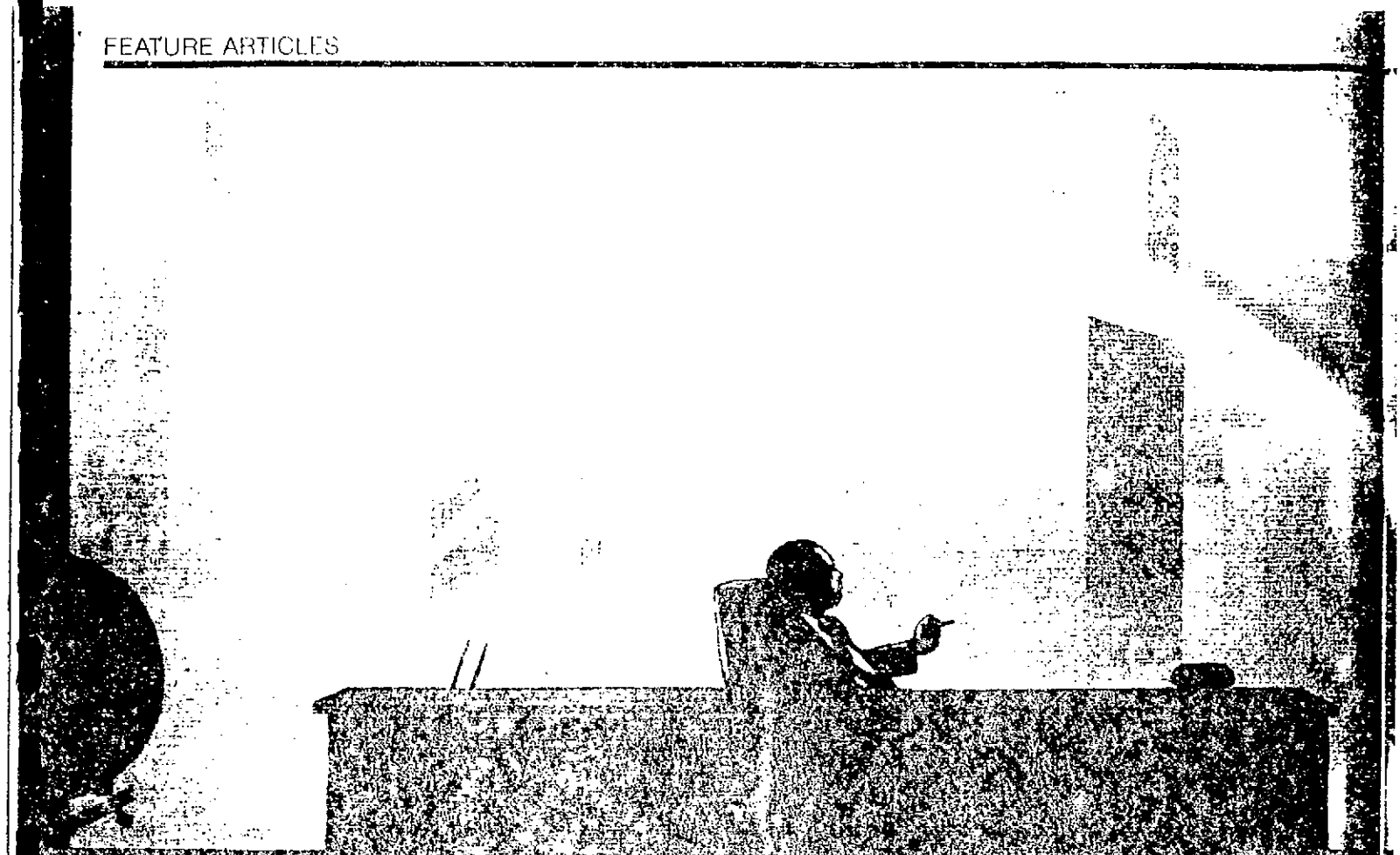
Japan's Direct Overseas Investment



CLOSE-UP:

Japan-U.S. Relations: The Strategic Challenge



Japan's Direct Overseas
And Its Impact on Domestic Indus

Mitsuhiko Yamada, born in 1928, is director, for special research, of Nikko Research Center, Ltd. A graduate of the University of Tokyo, he was an economic correspondent with Kyodo News Service before joining the center as an economics analyst in 1970. He has conducted various studies on Japan's overseas investment and development assistance.

Introduction

Direct overseas investment by Japanese corporations began to increase rapidly in the latter half of the 1970s, with the result that Japan has become one of the world's principal investor nations. The Japan External Trade Organization (JETRO) estimates that as of the end of 1980 the stock of direct foreign investment in the world was $455.5 billion, of which nearly half, or $213.5 billion, was made by the United States. The United States was followed by the United Kingdom with $75.6 billion, West Germany $37.9 billion, France $29.6 billion and Japan $19.6 billion. Thus, Japan ranks fifth in the world in the amount of direct investment overseas.

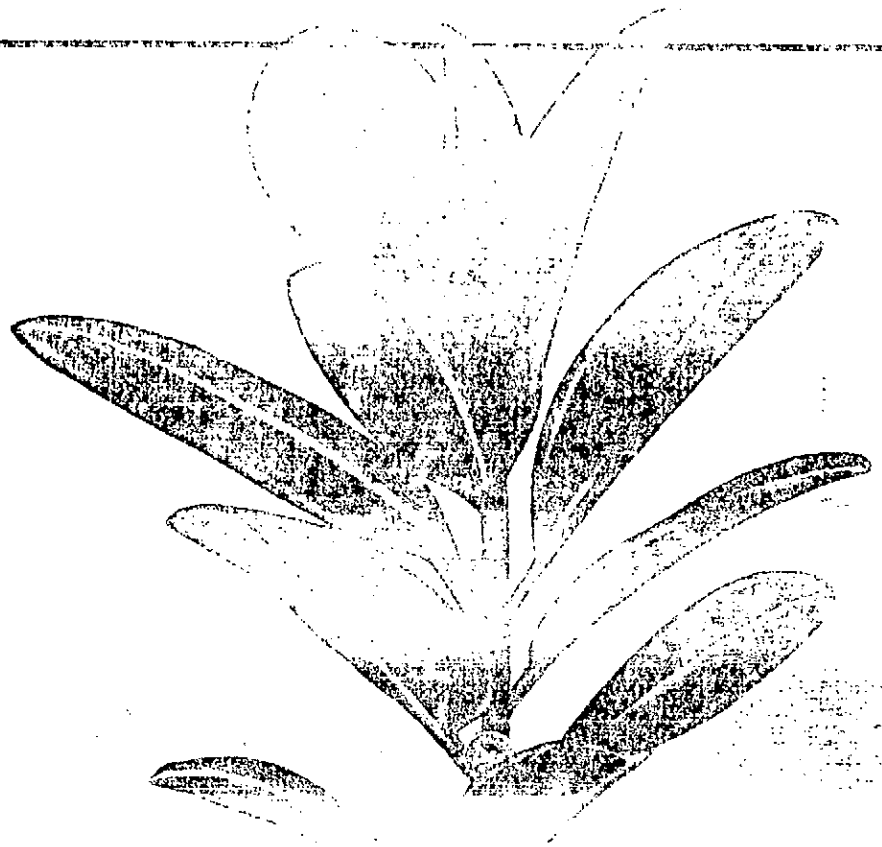
Japan accounted for only 4.3% of the world stock of direct investment. Its overseas investment is still small compared to European countries, which have a long history of investment overseas, and much smaller compared to the United States, whose direct investment overseas increased tremendously after World War II. Japan was a late starter in the field; it was only in the 1970s that Japanese corporations began investing abroad in earnest.

Japan's GNP ranks second in the Free World, next to the United States. Japan's exports and imports rank third, next to the U.S. and West Germany. Considering this, it is probably natural that Japan still ranks low in the amount of direct investment. According to the Bank of Japan's statistics on assets and liabilities vis-a-vis non-residents, Japan's stock of direct investment at the end of 1981 stood at $24.5 billion, while foreign countries' stock of direct investment in Japan was $3.9 billion, showing a big net surplus for Japan.

Japanese investment in foreign countries has increased sharply in recent years, making Japan a big exporter of capital as well as goods (Table 1).

Japan's export of capital, consisting of direct investment, portfolio investment and loans, now has significant impact on industrial activities and on the financial and capital markets of the world. Having attained high economic growth by the early 1970s, Japan has become a mature advanced country full of vitality. Since the start of the 1980s, it has become capable of exporting capital and technologies to developing countries as well as to advanced countries which have lost their vitality.

Although Japan ranks only fifth in the stock of direct investment overseas, its annual investment flow is growing by a wide margin. There is a great possibility of



as Investment

dustry

By Mitsuhiko Yamada

[illegible] of Japanese direct investment overseas keeping up with the level of its total foreign accounts in the 1980s.

By increasing its direct investment Japan has contributed greatly not only to the development of resources in developing countries (and, as a consequence, to the expansion of their export capabilities and their industrialization), but also to the revitalization of the industries of advanced European countries and the U.S. and to the easing of trade friction. The transfer of capital has been paralleled by a transfer of technology and they have [illegible] the expansion of direct investment into Japan by the U.S. and other advanced countries and the increase in investment in Japan by these countries have proceeded at a fast pace. As a result of this growing international disparity in the productivity of the manufacturing industries, trade friction among the advanced countries is worsening. Although protectionism in world trade is a problem that cannot be [illegible] readily, it may be [illegible] measures by multinational enterprises [illegible] as the yen rises. Japan's foreign direct investment, while retaining its investment overseas, has undergone change from 10 years ago. Investment by Japan and investment in Japan are [illegible] liberalized.

Overview

First, we will attempt an overview of direct investment overseas by Japan. In studying the subject we were guided mostly by the absence of reliable or adequate statistics on Japan's stock of investment overseas. The figures given above are from data compiled by the Bank of Japan on the basis of balance of payments statistics. They do not show the stock of investment that includes earnings reinvested from these figures we cannot learn the detailed breakdown of the stock of direct investment by type of industry or by region.

In order to supplement the shortage of information we have to rely on the statistics compiled by the Ministry of Finance on the basis of licenses granted or reports received. These statistics, however, do not show the actual amount of investment [illegible] made, although they show the amount of investment either approved by the Finance Ministry or the amount of investment for which Japanese corporations filed reports with the ministry in compliance with the law. They neither show withdrawals of investment or reinvestment of earnings. These figures therefore, are considerably different from Japan's actual stock of overseas investments.

According to the statistics referred to above, the cumulative amount of Japanese direct investment up to the end of fiscal 1981 (March 31, 1982) was $45.5 billion (table 2). The $45.5 billion is close to double the $24.1 billion, which was the outstanding balance of Japan's assets and liabilities by non-residents at the end of 1981 mentioned earlier. The actual

stock of investment is considered to be halfway between the two figures.

The breakdown by region of the cumulative amount of investment shows that investment in Asia accounted for 29% of the total investment. This is most natural in view of Japan's close economic relations with Asian countries, especially with the nations of Southeast Asia. Next, investment in North America accounted for 27%. This is evidence of the strong postwar ties between Japan and North America in trade and investment. Investment in Latin America comes next. Up to the first oil crisis of 1973, a greater portion of Japan's investment, particularly by the manufacturing industries, was concentrated in the developing countries of Asia and Latin America. However, in recent years investment in the U.S. and other advanced countries is increasing far more conspicuously, mirroring changes in the world's political and economic situation.

By type of industry, investment in the manufacturing industries amounted to $14.9 billion, 33% of Japan's total overseas investment. This percentage, however, is still low compared with 43% in the case of American investments.

In Japan's case, the percentage of investment made in mining (21%) for development of resources and that of investment made in trade-associated service industries, such as commerce (14%) and financing (7%), are high. Regional breakdown of investment made in the manufacturing industries shows that 35% was concentrated in Asia, and much of the investment was in the steel, nonferrous metals, textile, chemical and electric equipment industries. Twenty-three percent of the investment was in North America, mostly in the electric machinery, steel, nonferrous metals, lumber, pulp, and machinery industries. Investment in Latin America accounted for 20% and it was mostly in the steel, nonferrous metals, chemical and transport machinery industries (Fig. 1).

As much as 62% of the investment in commerce and 43% of the investment in financing were concentrated in North America, demonstrating the closeness of the trade relationship.

Investment in Europe accounted for 12% of the total, and the amount involved in manufacturing industries was still small.

History

It was in 1951 that Japan resumed direct overseas investment after World War II. West Germany's overseas investment was also resumed around this time. The history of direct investment overseas since plainly reflects the changes that occurred in Japan's industrial structure.

For Japan, the 1950s were a period of industrial reconstruction when its balance of payments was in the red and imports of

Table 1. Japan as a Capital Exporting Country

Year	Current Balance	Long-term Capital		
		Balance	Direct Investment	
			Outward	Inward
1971	5,797	−1,082	360	210
1972	6,624	−4,487	723	169
1973	−136	−9,750	1,904	−42
1974	−4,693	−3,881	2,012	202
1975	−682	−272	1,763	226
1976	3,680	−984	1,991	113
1977	10,918	−3,184	1,645	21
1978	16,534	−12,389	2,371	8
1979	−8,754	−12,618	2,898	239
1980	−10,746	2,394	2,385	278
1981	4,770	−6,449	4,894	189
Stock-end 1981			24,506	3,915

(Source) Bank of Japan, *Balance of Payments Monthly*, March 1982

Table 2. Japan's Overseas Direct Investment

Amount and Unit / Area	Total FY 1951-1981*	Percentage Distribution	(Manufacturing)	(Percentage Distribution)
	$ million	%	$ million	%
North America	12,295	27.1	3,408	22.9
Europe	5,270	11.6	1,042	7.0
Asia	6,858	29.0	5,258	35.4
Middle East	2,355	5.2	1,094	7.4
Africa	2,018	4.4	154	1.0
Latin America	7,349	16.2	795	20.4
Oceania	2,949	6.5	862	5.8
Australia	2,512	5.5		
Total	45,403	100.0	14,853	100.0

(Source) Ministry of Finance
(Note) Cumulative amount of direct investment authorized by the MOF, as of end of Fiscal 1981 (March 1982).

Sony's video tape production plant in Dothan, Alabama, U.S.A.

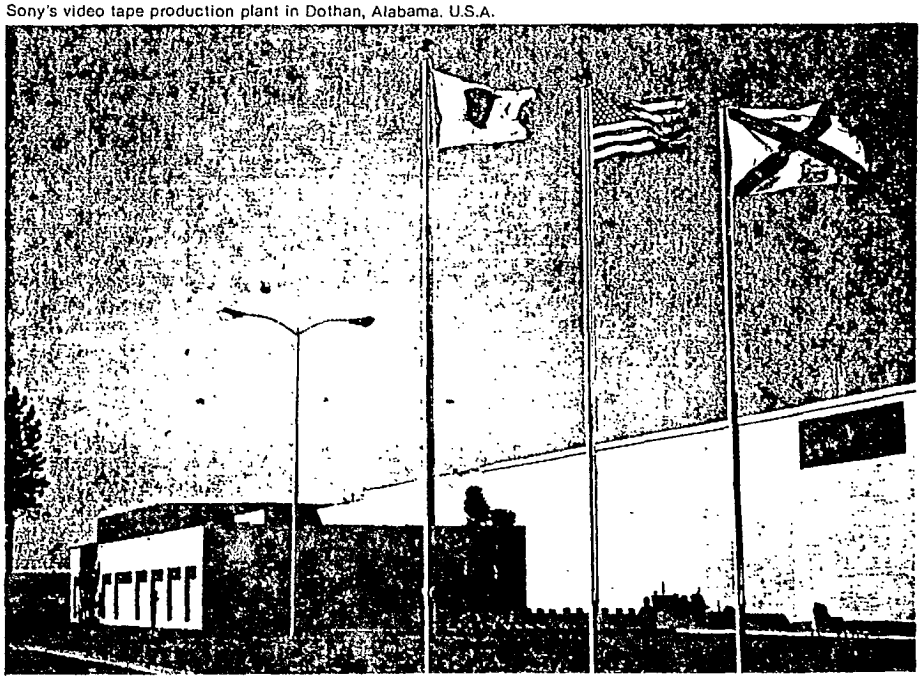


Fig. 1. Cumulative Total of Direct Investment Overseas by Industry (As of March 31, 1982)

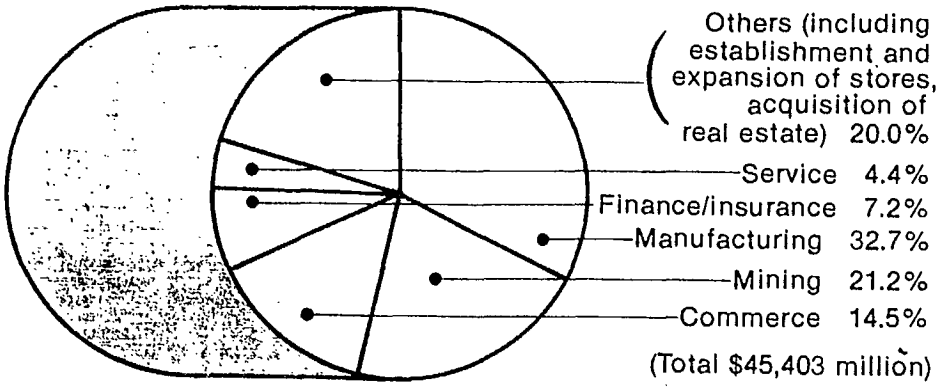
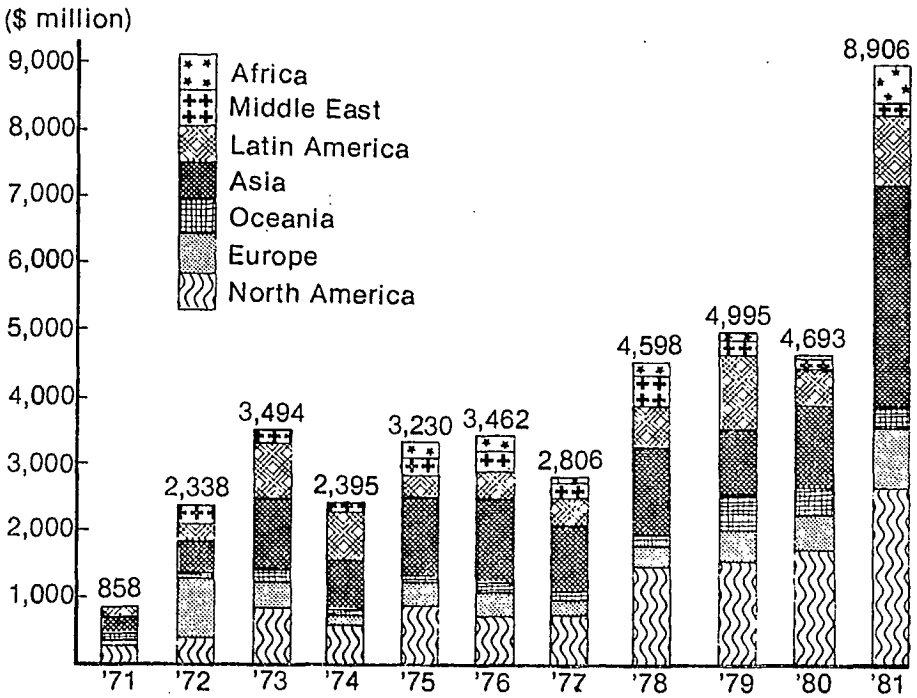


Fig. 2. Flow of Direct Investment Overseas by Japanese Corporations (Fiscal 1971-81)



(Source) Data of Ministry of Finance
(Note) Amount authorized/reported in accordance with the Foreign Exchange Law. Fiscal year base.

Workers at LSI's testroom at Toshiba Semiconductor (U.S.A.) Inc., in Sunnyvale, California

capital and technology were needed. Consequently, investment overseas was strictly restricted. But a resources-scarce country had to import oil, iron ore and other industrial raw material. Thus, through the 1950s and into the early 1960s, most of Japan's overseas investments were related to such developments. Typical of this type of investment were the iron ore development project in Goa, India in 1951, the Alaska pulp project in 1953, the establishment of Arabian Oil Co., Ltd. in 1958 and the North Sumatra oil project in 1960.

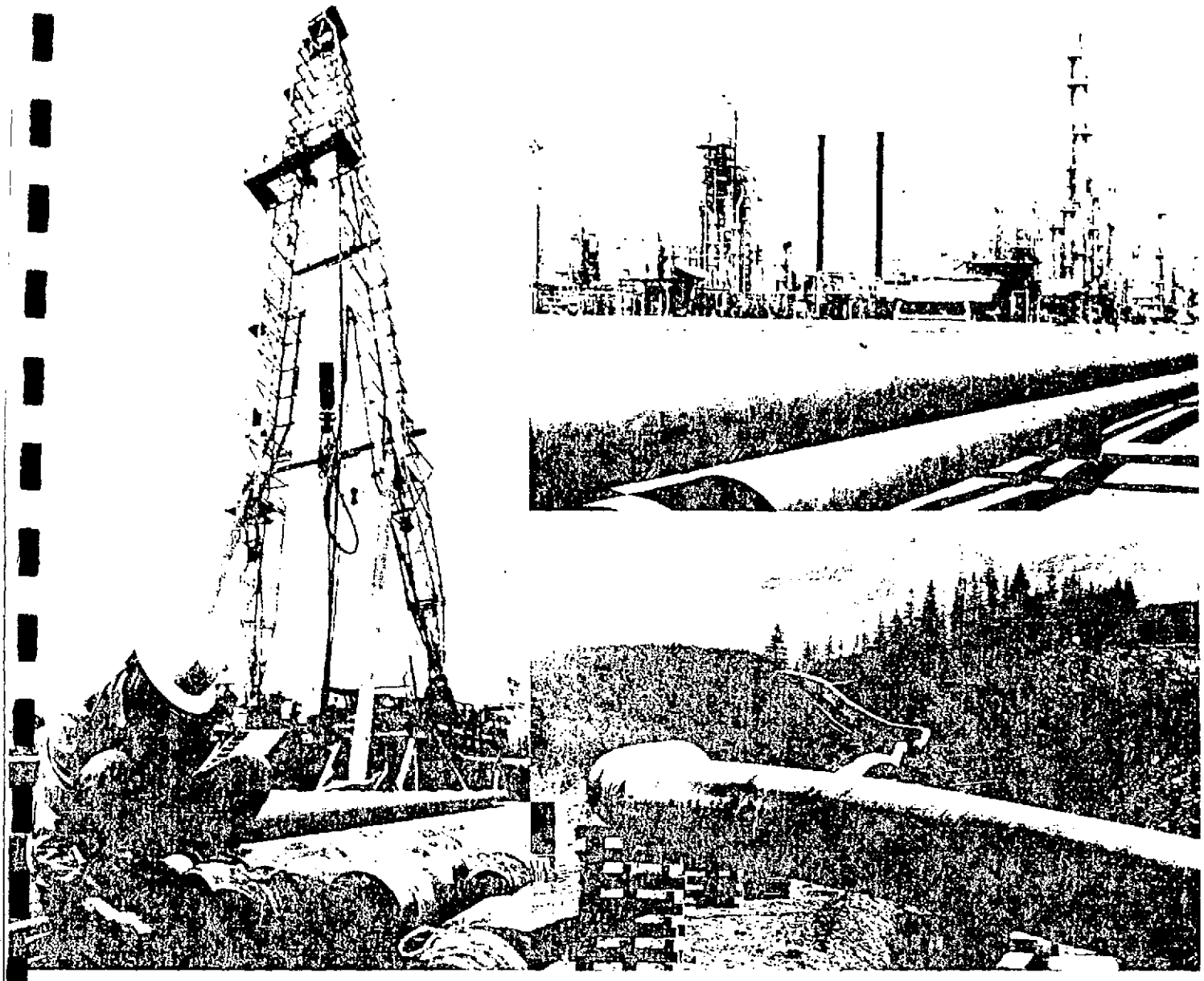
In the 1960s, Japan developed its heavy and chemical industries and achieved rapid industrial growth. The world economy itself expanded vigorously and Japan profited from increased exports. As a result, the country's international balance went into the black and the restrictions on overseas investment were relaxed step by step beginning around 1969. Corporations accumulated abundant funds for use in investment and also built up their technical knowhow, thus acquiring investment capability.

Japan's rapid economic growth in the 1960s resulted in a domestic shortage of labor and industrial sites and caused environmental problems, putting a stricture on domestic investment. The Nixon shock of 1971, and the subsequent floating of the exchange rate as a consequence of the dollar crisis, made the price competitiveness of Japanese products questionable. This led labor-intensive industries like textiles and electric appliances to invest in the developing countries where labor was cheap. On their part, the developing countries instituted measures to welcome direct foreign investment in line with their industrialization aims. In addition, Japanese investment in resources development increased. With all these factors combined, Japanese direct investment overseas increased to boom proportions in fiscal 1972 and 1973, particularly in Thailand, Indonesia and Brazil (see Fig. 2).

The oil crisis and the rise of nationalism in the developing countries threw cold water on Japanese overseas investment. Investment decreased steeply in fiscal 1974, and the years 1975-77 became a period of stagnation.

Although Japanese overseas investment expanded greatly in fiscal 1978-80 (see Fig. 2), the investment pattern also underwent a significant change.

As Japan overcame the negative effects of the sudden rise in crude oil prices and succeeded in rationalizing and modernizing its industry, its exports expanded sharply. As a result, the yen appreciated greatly in value and the trade friction with the United States became serious. The appreciation of the yen made production overseas advantageous from the point of view of cost, while trade friction led to the expansion of investment in overseas production as a substitute for export by



industries which had strong international competitiveness.

As a result, there was an increase in investment in technology-intensive fields such as electrical equipment and electronics and in the fabrication and assembly type of industry such as machinery. The forerunners of this kind of investment were the advances made by Sony Corp., Matsushita Electric Industrial Co., Ltd. and Hitachi Ltd. to produce their color TV sets in the United States.

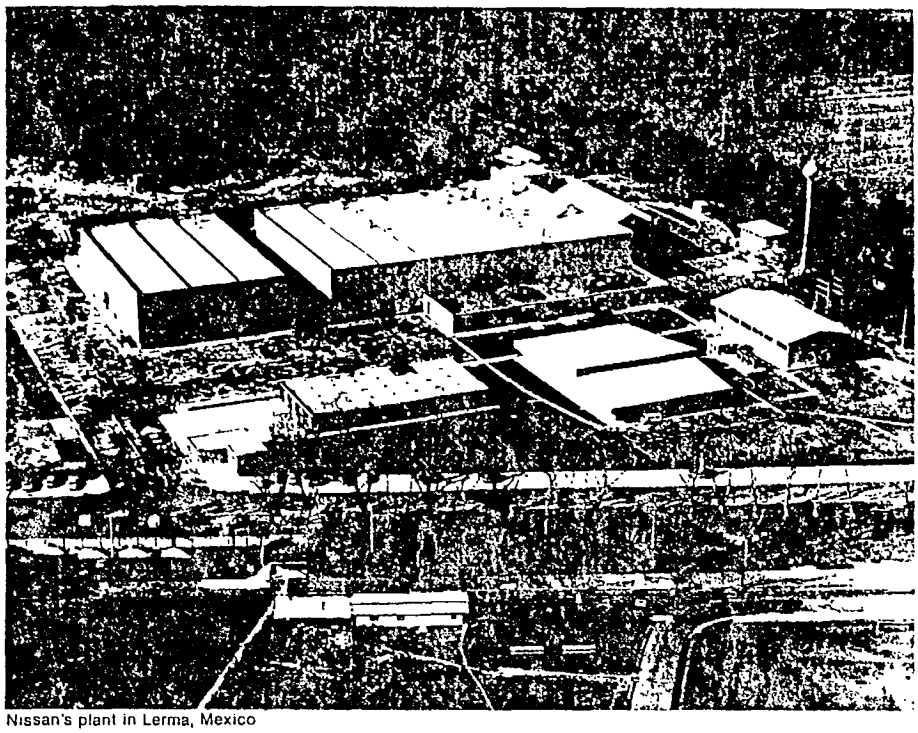
The second oil crisis of 1979-80 spurred this change in the pattern of Japanese overseas investment. Because of the aggravation of trade friction with the United States, the Japanese automotive industry was driven to a point where it had to make a decision on manufacturing in America. Semi-conductor manufacturers, too, had to start production in the United States in order to circumvent friction. As a consequence, Japanese production in America now includes VTRs by Sony Corp., Matsushita Electrical Industrial Co., Ltd. and Victor Co. of Japan Ltd., semi-conductors by Hitachi, Toshiba, Nippon Electric Co., Ltd. and Fujitsu, Ltd., and motor vehicles by Honda Motor Co., Ltd. and Nissan Motor Co., Ltd.

Materials industries, such as aluminum refineries and petrochemical companies, whose international competitiveness declined because of the rocketing energy prices following the first oil crisis, also began to move overseas, particularly to developing countries (the Asahan aluminum project, Amazon aluminum project, Saudi petrochemical project, etc.).

Japanese overseas investment in fiscal 1981 jumped by $8.9 billion, or 90%, over the year before. There were various factors behind this sudden spurt in Japanese investment overseas. Because of the high interest rates in other countries, it became a widespread practice among Japanese corporations to raise funds in low-interest Japan and lend them to their overseas subsidiaries. In this year, moreover, a huge investment was made in LNG development in Indonesia.

Impact

A survey conducted by the Ministry of International Trade and Industry revealed that as of the end of fiscal 1978 the number of persons employed by Japanese overseas subsidiaries totaled 770,000. Of these, 660,000, or 86%, were in the manufacturing industries. Further, 58% of those in the manufacturing industries were in Asia, mostly working in textile and electrical-equipment plants. In recent years, the number of employees in Japanese subsidiaries in the United States has been increasing conspicuously. In the case of European corporations, many of their investments in the United States are in the



Nissan's plant in Lerma, Mexico

form of acquisition of American companies or in the purchase of land, having very little effect in creating new employment. In contrast, Japanese investment in the U.S. is mostly in the form of the establishment of new plants whose effect in providing local employment and increasing income is very great.

A feature of Japanese manufacturing investment in Asia is that with the passing of the years, Japanese equity is decreasing in proportion to local equity, the percentage of local procurement is rising, and the ratio of Japanese directors and managers is decreasing. Localization is progressing in the fields of capital, supplies and personnel. In the United States, too, the percentage of local procurement is rising.

Direct overseas investment represents not only a movement of capital but also a transfer of technology. In addition, it leads to the transfer of culture. Soft technology, such as manufacturing technology and QC (quality control), developed in Japan is being exported to both the developing and the advanced countries where it is contributing to productivity and improvement of product quality. In recent years, there have been attempts to export the Japanese style of management which places importance on job security and training of employees. It goes without saying that this form of cultural export inevitably causes friction in the host country. Even so, there is much interest in the fact that the Japanese style of management is more effective than the Western style of management in boosting worker morale and raising productivity. In the long run, the Japanese style of management might gradually be adopted by other countries.

It is possible that direct investment may have demerits for the host country as well as benefits. In the mid-1970s, as resources nationalism mounted, we witnessed protest movements in Southeast Asia against the "overpresence" of Japanese business. With progress made in mutual understanding, backlashes of this type have all but evaporated. At present, the United States welcomes Japanese investment and is enthusiastically wooing Japanese enterprises. On the other hand, it appears that European companies generally do not welcome Japanese investment.

Outlook

On the basis of current trends, it is expected that direct Japanese investment overseas will increase greatly in the future. Because it is inconceivable the international competitiveness of Japanese manufacturers will weaken in the foreseeable future, expansion of exports and resultant trade friction will probably continue. In order to avoid this, it is expected that cases of local production in the advanced countries by Japanese companies will increase as a substitute for exports. The products for overseas manufacture will probably spread from color TV and motor cars to advanced products such as sophisticated electronic goods and computers.

Direct investment in developing countries will probably increase in the materials industries, such as steel, aluminum and petrochemicals. Manufacturing companies already operating in a host country will probably make additional investments in order to raise their ratio of overseas production. There will also be an increase in investment in the development of energy and other resources overseas.

The speed at which such investment will proceed depends on the numerous factors which influence the investment environment, such as the state of world business, interest rates, the price of energy, country risk, trade friction, the results of the industrial revitalization policies of the advanced countries and so forth. The pace of investment will also be influenced by the management strategy of Japanese corporations, particularly their strategies regarding internationalization and multinationalization. Direct Japanese overseas investment will continue to expand in the 1980s and Japan will rise in the world ranking of foreign investment.

The expansion of direct overseas investment and the accompanying increase in overseas production by Japanese companies will pose new problems for Japanese industry.

Firstly, Japanese direct investment will take on a decidedly strong tone of industrial cooperation in the developing countries' industrialization and modernization programs and in the industrial revitalization of the advanced countries. It will be different in nature from the profit-maximization investment made by Western corporations when they became multinationalized in the 1960s. Investment, however, is investment and not aid. Therefore great effort and wisdom will be needed to attain compatibility between profitability or efficiency of direct investment and the other benefits demanded of industrial cooperation (expansion of employment, localization of personnel and supplies, etc.).

Secondly, the direct overseas investment of the past did not greatly affect Japan's domestic production, employment and international payments balance. Thus, there were no cases in which Japanese labor unions opposed overseas investment as a form of job export as did American labor unions. However, in the future it will be necessary to give careful consideration to labor unions, related manufacturers and the regional community which will be affected by a company's move overseas.

Thirdly, expansion of production overseas by Japanese companies will reduce Japan's export of finished goods and have the boomerang effect of causing changes in Japan's industrial structure (production structure). Therefore, it will be necessary for Japanese industry to prevent the evisceration of the domestic industry. This will have to be done by vigorously promoting R&D and investing in plant and equipment for furthering technology-intensive production and achieving greater value added. It is also desirable to increase foreign investment in Japan to balance the effects of Japanese investment overseas. ●

High-Tech Investment Revolution

cc: Ms.D.Moores(INV.CDA
(Fm: D. Dix, Tokyo)

By Toshio Sanuki

Japan's high-technology industry has entered a new development phase. Particularly conspicuous is the growing weight of high technology in private capital spending, a phenomenon which might properly be termed a high-tech investment revolution, and which raises the possibility of a renaissance among Japan's regional industries. How is the high-tech revolution altering the pattern of capital spending? And what effect will it have on the geographical location of industrial plants?

High-tech revolution leads capital spending

Electronics has combined with mechanical engineering to create "mechatronics" technology, a development which in turn has triggered the "5-A revolution"—FA (factory automation), OA (office automation), SA (sales, social and security automation), MA (medical automation) and HA (home automation).

At the same time, electronics is affecting other high technologies such as mechatronics and new materials, producing interactive economic effects. And the new materials revolution in turn is boosting electronics to an even higher level. Such high-tech interaction has also appeared in biotechnology, where electronics is accelerating technological development.

Many people consider high technology a futuristic industry which will not come into being until the distant future; they view it as an industry still on the drawing board. But in the two years since 1983,* rapid evolution has made the industry a reality. One typical example is the rapid rise in the weight of high technology in capital spending. It is this that will cause the coming renaissance of Japanese industry—the structure of which has already been forced to change by the two oil crises of the 1970s—and of regional industries across the Japanese archipelago. The high-tech revolution stands to trigger a new industrial surge in the 1990s.

A review of capital spending by manufacturing firms capitalized at ¥1 billion (nearly $4 million) or more between 1973 and 1984 finds steel, a leading basic-material industry, by far the number one investor in terms of cumulative investment. During this twelve-year period, Japan's steel industry spent ¥11.2 trillion (nearly $46 billion), a sum equivalent to 20 nuclear-powered aircraft carriers, on new plant and equipment. The automobile industry came next at ¥8.6 trillion, followed by chemicals, ¥8.1 trillion, and electric machinery, ¥6.6 trillion.

But the list looks radically different when limited to 1983–84. Spending most during the past two years was the electric machinery industry, the leader of the electronics revolution. The high-tech revolution that is propelling the 5-A revolution with infusions of computers, communications equipment, word processors, facsimile units and other high-tech equipment is turning high-tech industry into the new pacesetter of capital spending.

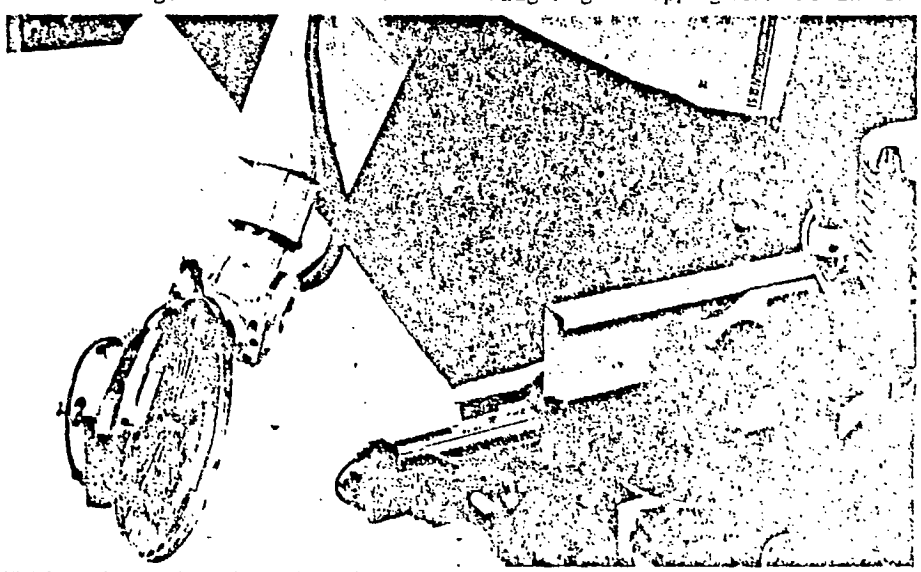
The second largest investor in the two-year period was the automobile industry, followed by chemicals—spearheaded by fine chemicals—and steel, a complete reversal of the ten-year ranking. Chemicals and steel are both basic-material industries. But the former has outpaced the latter in capital spending for the past two years, suggesting that basic-material industries are beginning to separate into two clear categories—industries that cannot survive without a new emphasis on high technology, and those that can keep themselves going a while longer simply by relying on their accumulated conventional low- or mid-tech technologies. How, in fact, is such high-tech orientation developing?

High-tech ratios differ by industry

An industry's high-tech orientation can be quantified by the ratio of capital spending in high technology sectors to total investment (Table 1). Total capital spending planned for 1985 by all industries is projected to rise 17.2% from 1984. But high-tech investment is forecast to climb 45.6%—much faster than the growth in total spending.

A similar trend is seen among the materials and processing/assembly industries. The former plans an 8.4% increase in total capital spending, but sees a 67.5% surge in high-tech investment. For the latter, the figures are 41.2% and 89.9% respectively; again, the growth of high-tech investment is more than double that of total spending.

An industry-to-industry breakdown underlines the trend. Steel, for example, plans to cut total investment 24% but is budgeting a whopping 189.4% or 2.9-fold



High technology is taking a larger chunk of private capital spending.

*All years are given in terms of fiscal years.

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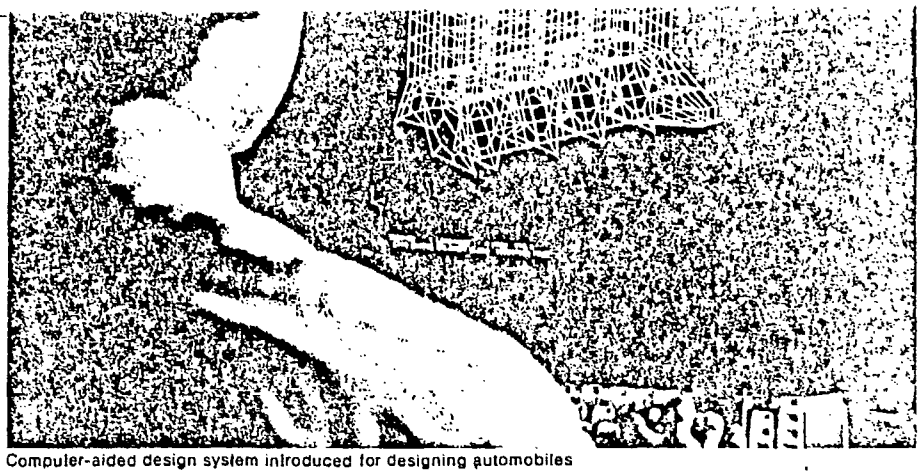
leap for high-tech; the gap between the two growth rates should reach a full 213.4 percentage points. In the ceramics industry, which includes a high-tech *protégé* offshoot fine ceramics, high-tech investment is projected to grow far more sharply—86.3%—than total investment at 40.3%. Automakers plan a relatively moderate 20.9% increase in total outlays, but a 61.5% surge in the high-tech sector, including investment in electronics equipment, new materials and flexible manufacturing systems. General machinery plans a 62.9% increase and electric machinery a 102.8% increase in high-tech investment. The high-tech revolution in capital spending is leaping ahead.

The high-tech ratio, the rate of high-tech investment to total capital spending, is a very low 3.9% in the steel industry but reaches 19.8% in ceramics and 40.3% in chemicals. There is no better indication of the wide difference between the low and the high end of the same basic materials sector. In the face of keen competition from developing countries, basic-material industries have no choice but to turn to high technology for survival. Steel is the prime example, but chemicals are no exception, as they find accelerating the high-tech orientation in their capital spending necessary to their survival.

One might not expect automobiles, the star of Japan's processing/assembly industries, to need much of a high-tech orientation. But they do. The automobile industry's high-tech ratio is a substantial 17.3%; much of its investment goes into R&D on electronic equipment and new materials, computer-aided design and manufacturing (CAD/CAM), computer-controlled production systems and robotics. The high-tech ratio is even higher in electric machinery, itself a high-tech industry, and in general machinery. In the electric machinery industry the ratio is 72.4%, meaning ¥724 billion



Computer-aided design system introduced for designing automobiles

(nearly $2.9 billion) goes to the high-tech sector out of every ¥1 trillion (nearly $4 billion) in total capital spending.

The high-tech ratio for the leasing industry is 60.0%, second only to electric machinery. Why is this? The answer lies in the wide gap between the legal and actual life of equipment. Take machinery for producing large-scale integrated circuit (LSI) chips, for example. Mask-processing equipment is technologically viable for only four years, wafer-producing equipment 3.4 years, chip-assembling equipment 3.2 years and testing equipment 3.3 years. The average for these and other semiconductor-related gear is a mere 3.7 years, and given the accelerated technical innovation expected in the future, it can only continue to decline.

In contrast, the legal period of depreciation—the time during which manufacturers are allowed to set aside tax-free reserves equivalent to the cost of their equipment in order to replace it when it becomes obsolete—is set at 50 years for buildings and seven to eight years for machinery. This is far longer than actual technological life, and the wide gap, coupled with rapid technical innovation, is prompting manufacturers to lease rather than purchase high-tech equipment. It is this that has been keeping the leasing industry's high-tech ratio at a remarkable 60%. It is hoped that the tax system will be reformed to bring it into line with the realities of technical innovation.

The steep rise in the high-tech ratio, and especially in the electric machinery industry, will greatly change the future pattern of capital spending. And this, in turn, will accelerate the high-tech orientation of Japan's industrial structure, albeit after a certain time lag. Capital spending by the electric and general machinery and chemical industries, for instance, accounts for 40.2% of that by all industries. But their share of high-tech investment is much higher at 51.2% (36.2% for electric machinery, 5.0% for general machinery and 10.0% for chemicals: Table 1). Clearly the weight of high technology in the industrial structure is bound to rise, and the pace of this transformation is likely to be much faster than expected.

Emerging high-tech orientation in declining industries

The textile industry has long been regarded as the archetype of a declining in-

Table 1
High-Tech Ratio of Capital Spending

	Sum of high-tech investment (1985)	Growth of capital spending (%) (1983–85)		High-tech ratio (%)			Investment share (%) (1985)		1983–85	
	(¥ billion)	Total spending	High-tech spending	1983	1984	1985	Total spending	High-tech spending	Increase in high-tech spending (¥ billion)	Contribution to increase (%)
Industry	3,755.3	17.2	45.6	18.9	22.4	24.2	100.0	100.0	1,176.1	100.0
Manufacturing	2,535.4	26.4	84.3	23.6	32.4	34.3	53.3	67.5	1,159.6	98.6
Nonmanufacturing	1,219.9	10.0	1.4	15.4	13.3	15.0	46.7	32.5	16.5	1.4
Basic materials	576.0	8.4	67.5	14.5	21.2	22.5	13.3	15.3	232.2	19.7
Chemicals	375.0	16.6	50.0	31.2	37.2	40.3	9.7	10.0	125.0	10.6
Ceramics	57.0	40.3	86.3	14.7	18.5	19.8	1.2	1.5	26.4	2.2
Steel	24.6	-24.0	189.4	0.9	3.4	3.9	0.3	0.7	16.1	1.4
Nonferrous metals	80.6	25.9	201.9	14.2	33.0	34.7	1.0	2.1	53.9	4.6
Processing/assembly	1,959.4	41.2	89.9	33.1	42.2	44.0	40.0	52.2	927.4	78.8
General machinery	189.0	40.1	62.9	36.6	42.2	42.8	4.5	5.0	73.0	6.2
Electric machinery	1,359.0	76.8	102.8	66.9	72.5	72.4	26.0	36.2	689.0	58.6
Autos	187.7	20.9	61.5	12.9	15.6	17.3	4.5	5.0	71.5	6.1
Leasing	1,155.9	-3.3	-3.3	65.1	60.0	60.0	46.3	30.8	-39.2	-3.3

Notes. Based on Japan Development Bank capital spending survey; years are in fiscal.

Table 2 High-Tech Plant Locations and Computer Installations

Region	Plants built (FY 1976–84)		Gap (national average=100)			
	No.	Share (%)	Ratio of electric machinery	Ratio of computer installations	Employment ratio of college graduates	Per capita income (FY 1985; $)
Hokkaido	29	1.7	12.3	51.7	77.1	7,879
Tohoku	544	31.8	136.8	35.7	58.1	7,002
Kanto	607	35.4	145.6	170.2	132.9	9,728
Tokai	112	6.5	64.9	73.6	81.8	8,433
Kinki	90	5.3	103.5	113.7	115.5	9,012
Hokuriku	95	5.5	62.3	48.1	70.3	7,802
Chugoku	73	4.3	36.0	56.7	84.0	7,777
Shikoku	37	2.2	58.8	36.2	74.4	7,027
Kyushu	149	8.7	52.6	42.5	79.4	7,274
Nation	1,713	100.0	100.0	100.0	100.0	8,518

Notes: 1. Ratio of electric machinery = Electric machinery shipments/Total factory shipments
2. Ratio of computer installations = Value of computers in operation/No. of employees
3. Employment ratio of college graduates = Employees with college education/Total employees
4. Per capita income based on author's estimate of prefectural income distribution, exchange rate is ¥245/$1.

Sources: Table of Industrial Statistics, Survey of Computer Deliveries and Repurchases, Survey of Plant Locations (MITI); Annual Report on Prefectural Economies (Economic Planning Agency); National Census Report (Management & Coordination Agency), Annual Report on Economic Statistics, Annual Report on Foreign Economic Statistics (Bank of Japan)

dustry. But is it? Today manufacturers are trying to computerize design and dyeing. A computer already designs traditional *"Nishijin-ori"* brocade fabrics in Kyoto, electronically controlling the 5.06 million interstices made by 2,250 silk threads the length and breadth of the loom.

In ceramics, another "declining" basic-material industry, the high-tech orientation is growing not only in fine ceramics but in glass operations, where the weight of investment is shifting from the conventional float glass used in the construction industry to facilities for producing picture tubes used for personal computers and videocassette recorder display units. Future capital spending will be targetted on plant for picture tubes used in the terminals of new electronic media services, and equipment for manufacturing liquid crystal display units.

The nonferrous metal industry is switching from coaxial to optical-fiber cables following the emergence of the enhanced electronic systems known technically as Information Network System (INS), an integrated services digital network developed by Nippon Telegraph and Telephone Corporation. In the spotlight in the electronic machinery industry will be shape memory alloys, alumina and zirconia fibers, amorphous silicon and amorphous alloys, and other new materials.

Needless to say, the chemical industry is increasingly focusing on fine chemicals as it switches away from petrochemicals. Capital spending in such electronics-related engineering plastics as silicon, ABS, fluoric and epoxy resins is rising rapidly, as is investment in electronics-related materials like silicon and gallium arsenide.

The new high-tech orientation is evident as well in processing and assembly. The general machinery industry has rapidly boosted investment in smaller, more precise numerically-controlled machines and machining centers. Investment is also expected to surge with the introduction of CAD/CAM, automated conveyors and automatic testing systems. Capital spending related to the OA revolution, centering on the "Three C's" (computers, communications and cards), is rising steeply. A prime example of stepped-up high-tech investment in miniature products is bearings, which are becoming smaller and more precise than ever; the precision of Japanese-made commercial miniature bearings is already greater by one digit than U.S. bearings used in military missiles. The high-tech revolution in these less glamorous areas also deserves attention.

It is hardly necessary to dwell on the high-tech revolution in the electric machinery industry, itself the heartland of electronics and mechatronics. Suffice it to cite just one example of how even small- and medium-size companies can take advantage of the new technologies. Using CAD techniques, Japanese engineers have been able to develop an "ultra-thin motor" by producing a precision sheet coil only 300 microns thick and combining four of them into a 1.2-mm sheet coil. The plant to commercialize this technology can be built for a relatively modest ¥7 billion (about $29 million), and already there are a number of smaller firms taking the plunge.

The sharp rise in the ratio of high-tech investment will be followed by corollary developments on the factory shipment front. The ratio of high-tech product shipments to total factory shipments was only 3.1% on a value basis in 1980. But it will reach 20–30% by around 1990—a pace far faster than originally expected—and could hit 60% by the year 2000.

Clearly, the high-tech orientation of Japan's industrial structure is gathering steam. And the side effects are already apparent. Even geographically, the change is being reflected in the increasing location of high-tech plants in the country's provincial areas.

New transportation networks spur regional plant location

Table 2 shows the opening of new high-tech plants in Japan's outlying regions between 1976 and 1984. In all, 1,713 such plants were established in provincial parts of the country during the nine years. The Tohoku region, covering the northern part of Honshu, Japan's largest island, accounted for 544, or 31.8%, of the total. The relatively large concentration of high-tech plants in this area mirrors the completion of an expressway and a *Shinkansen* bullet train line linking it to Tokyo. Before that, Tohoku was a remote, isolated area, bound to the capital by a single narrow road, described as *"oku-no-hosomichi"* (a path deep in the country) by the famous seventeenth-century Japanese poet Basho.

Similarly, two of the world's four largest production centers for silicon, a symbol of the high-tech revolution, are found in rural Japan—"Silicon Island" or Kyushu, the westernmost of the main islands, and "Silicon Road," stretching from Utsunomiya northeast of Tokyo to Morioka, the capital of one of the six prefectures in Tohoku. And then there is the "Kanto Corridor" circling Tokyo. In the Kanto area, which encompasses both the corridor and Tokyo, 607 high-tech plants, a full 35.4% of the national total, were put up during the period surveyed. Tohoku and Kanto together account for 67.2%.

The Kanto area not only produces hardware, it also plays a crucial role in high-tech R&D, the commercialization of new technologies, and software development. The actual production of the high-tech goods developed and commercialized there is often transferred to other regions.

Any effort to accelerate regional development in the future clearly must include inviting in high-tech industries. At the same time, efforts must be made to increase the high-tech ratio of existing industries. By forming a complex of information industries for technological development involving development of new technologies and software, it will be possible to continuously boost the high-tech orientation of regional industries.

Only success in such far-reaching efforts can yield the national and regional industrial renaissance so essential to Japan's 21st century. ●

SPECIAL REPORT

JAPAN'S TECHNOLOGY AGENDA

Industry leaders such as Hitachi president Katsushige Mita (far left), Mitsubishi president Yohei Mimura (left), and Matsushita founder and ex-chairman Konosuke Matsushita (below) have helped engineer Japan's successes.

Over the past two decades, Japan has established itself as a front-runner in a wide variety of technology-based markets. Japanese leaders have forged sophisticated industrial policies that balance competition and cooperation, yielding a steady stream of commercially successful innovations.

What's next for this resourceful nation? Several of our editors traveled through Japan, visiting companies in specific industries to get a firsthand look, while others complemented these efforts with research at home. The result is the following ten-part report. It consists of an overview that analyzes how Japanese government and business work together to develop targeted technologies, and nine articles on Japan's major industries—where they're headed, and how they intend to get there.

Managing the industrial miracle

Forty years ago, at the end of World War II, Japan's economy was in ruins, its major cities lay buried in rubble, its territory was occupied by foreign troops, and its empire was dismembered. Yet in less than four decades, this overcrowded island nation—smaller than California and dependent on imports for 99.8% of its oil, half of its food, and most of its raw materials—has risen from the ashes to become one of the world's great manufacturing powers. By the mid-1960s, Japan ranked third in GNP, and it recently moved into second place, ahead of the Soviet Union. In international trade, Japan's success has been so great that it is sparking protectionist sentiments in the U.S. and Europe.

Conventional wisdom has long attributed the Japanese economic miracle to a monolithic government/industrial complex dubbed Japan, Inc. But although the state has a long tradition of intervening in almost every facet of the economy, most analysts now agree that Japan's industrial success has resulted from a unique blend of cultural, historical, economic, and social factors, in which government policy has played a significant but not dominant role.

Contrary to the notion of "state-run capitalism," Japan's industrial policy recognizes the market as the primary agent of economic activity. The government does not intervene in the management of individual firms, nor has it nationalized industries in financial straits. Instead, the state catalyzes economic growth by supplementing and complementing market forces. It anticipates major developments that will affect the nation's economy and encourages the private sector to make the necessary adjustments as smoothly as possible. "Japan offers an alternative vision of economic planning," writes Robert S. Ozaki, professor of economics at California State University (Hayward). "It is a case of programming for dynamic growth of a competitive economy; planning is thus an instrument of pragmatism devoid of socialist ideological content."

The lead agency in the formulation and implementation of Japanese industrial policy is the Ministry of International Trade and Industry (MITI), which was reformed in 1948 from the wartime Munitions Ministry to direct the reconstruction of Japan's war-ravaged economy. In addition to making industrial policy, MITI manages Japan's foreign trade and commercial relations, runs the patent office, and ensures that industry obtains an adequate supply of energy and raw materials.

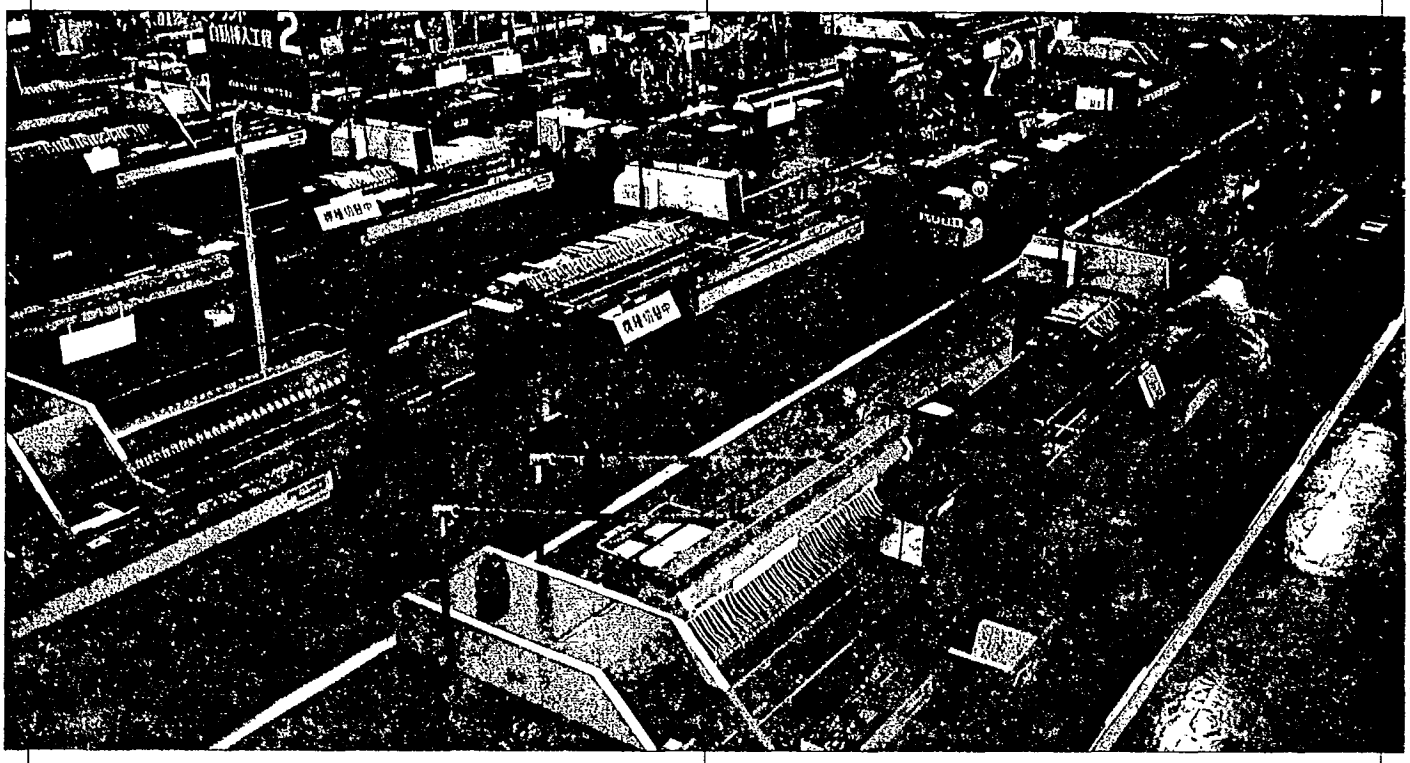
Despite MITI's influence and prestige, it is relatively small, with about 2500 bureaucrats in its central Tokyo office. The majority of the ministry's staff are not technical specialists but well-trained civil servants with a solid grasp of the international marketplace and the leading individuals within each industry. MITI's financial resources are also surprisingly limited; in fiscal 1983 it received only 1.6% of the government budget and spent a total of $260 million on R&D.

Industry first. MITI's role has changed markedly over the years in response to the shifting realities of Japan's economy and trade relations. Immediately after the war, MITI undertook the enormous task of reconstructing Japan's economy. The ministry implemented an "industry-first" strategy in which well over half the government budget was funneled into industrial development at the expense of other programs. MITI allocated preferred loans and official guidance to a few key industries, including steel, automobiles, shipbuilding, and petrochemicals.

Since most Japanese industries were too weak to hold their own against foreign competition, MITI protected the domestic market with such measures as high tariffs, quotas, and investment controls. These trade barriers would ordinarily have reduced competitive pressures, slowing technological development. But the traditional rivalry among Japanese firms for shares of the domestic market kept most industries efficient and innovative. MITI further stimulated domestic competition by providing incentives and subsidies to entire targeted industries rather than individual firms. When Japanese industry had become strong enough to compete internationally, MITI gradually reduced trade barriers and opened up the economy to world markets. Japan soon became an export-led economy, selling manufactured goods abroad to pay for its vital imports of food, energy, and raw materials. Throughout the 1960s, the Japanese economy grew at the remarkable rate of 10% a year in real terms.

Scholars are divided over the importance of MITI's industrial policy in working Japan's postwar economic miracle. Chalmers Johnson, professor of political science at the University of California (Berkeley), views MITI as the activist hub of the "developmental state." But other analysts argue that MITI's subsidies were relatively modest, and that the ministry was far from infallible in its choice of industries on which to bestow advice and financial support. Hugh Patrick, professor of economics at Columbia University, points out that while some of MITI's targeted industries (such as microelectronics and computers) performed well, others (such as commercial aircraft and shipbuilding) did not. And although MITI did not target the automobile and consumer-electronics industries, they thrived beyond

by Jonathan B. Tucker



A fully automated factory operated by Matsushita manufactures circuit boards for television sets.

anyone's expectations without government favors.

Moreover, even when MITI had strong enforcement tools such as control over imports of foreign technology, its power over private industry was not absolute. During the mid-1960s, the ministry advised Japan's eight automobile manufacturers to merge into three major groups, each specializing in one category of cars, in order to achieve economies of scale and to improve the industry's international competitiveness. But MITI's directive went unheeded in the face of strong industry opposition.

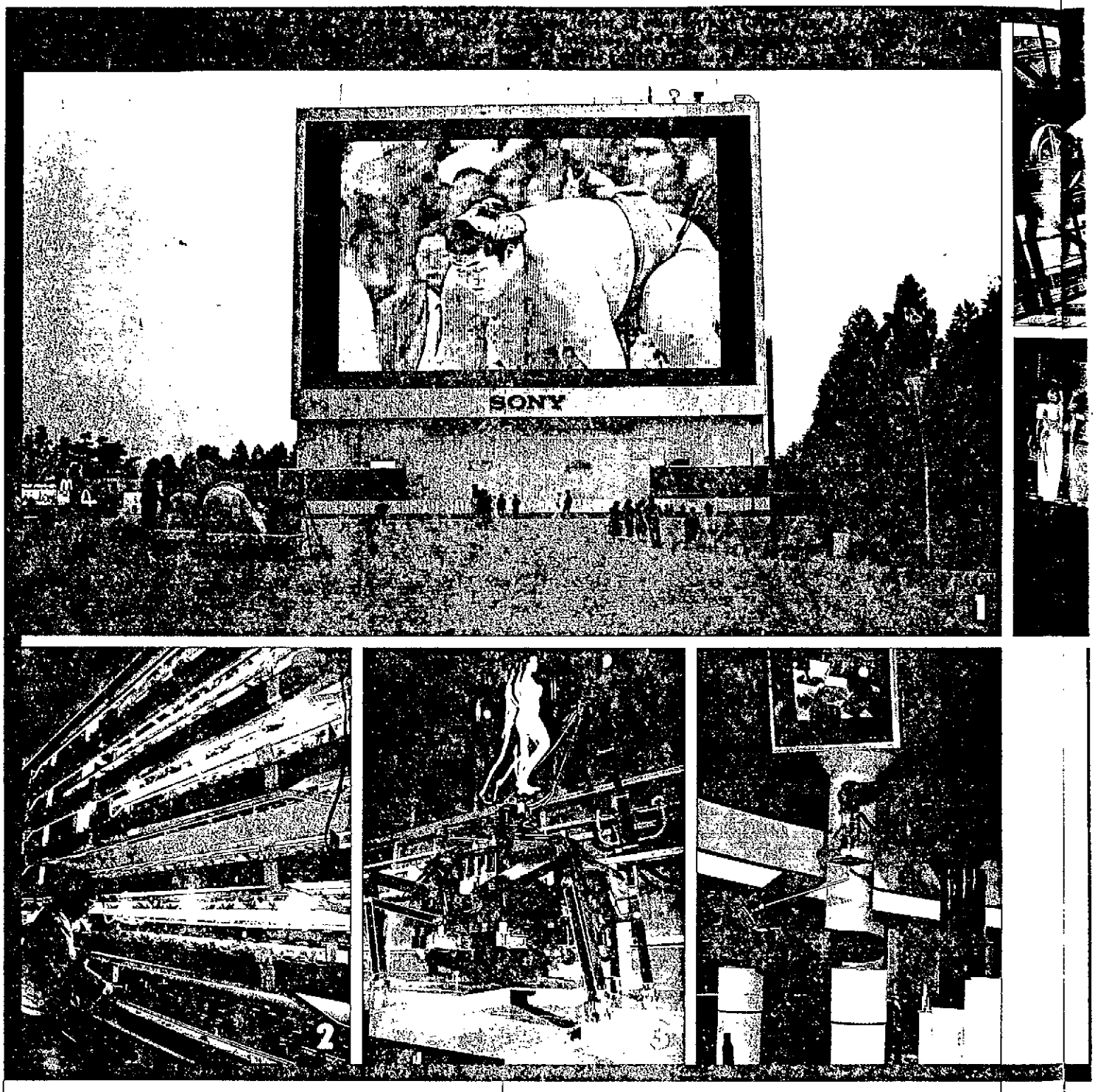
Thomas Pepper of the Hudson Institute (Washington, D.C.) contends that MITI's industrial policy was far less important to Japan's rapid postwar growth than was a confluence of macroeconomic and historical factors, including United States defense guarantees, a stable political system, the abundance of skilled managers and cheap but motivated labor, the availability of Western technology, an economic climate favorable to investment, the undervaluation of the yen, and the great size and rapid growth of consumer demand.

Crisis and recovery. After the boom years of the 1960s, the early 1970s were a period of deep crisis for the Japanese economy. Publication of *The Limits to Growth,* an influential Club of Rome study that used computer models of the global economy to predict environmental and resource constraints on economic growth, triggered near-panic in Japan and fueled land speculation and high inflation. At the same time, MITI's policy of fostering unrestrained industrial growth at the expense of social programs and environmental protection began to meet with public resistance. By the early 1970s, severe pollution—particularly from the antiquated caustic soda and chlorine industry—was causing a disturbing rise in certain diseases. Perhaps the most frightening incident was the outbreak of Minamata disease, a grotesque congenital abnormality caused by the consumption of fish contaminated with high levels of mercury.

Mounting public discontent over the social costs of rapid industrialization sparked large environmental and consumer movements in Japan, which accused MITI of being in league with big business and acting against the public interest. After a period of soul-searching, MITI supported citizens' demands for the creation of an Environment Agency in the Prime Minister's office to regulate industrial pollution. Soon afterward, the 1973 oil crisis and the subsequent global recession battered the Japanese economy. Since the government had been taking fiscal measures to fight inflation, the country was hit particularly hard by the sudden outflow of capital and the foreign-exchange deficit. The soaring costs of energy, imported raw materials, and labor caused 14 smokestack industries (including petrochemicals, pulp and paper, aluminum smelting, shipbuilding, and artificial fibers) to become "structurally depressed," or chronically noncompetitive on world markets. The shipbuilding industry, for example, had greatly expanded its capacity for building oil tankers in the 1960s. Then, when the price of oil skyrocketed and consumption dropped, Japan was left with a large surplus of shipbuilding capacity.

Keijiro Murata heads the Ministry of International Trade and Industry (MITI).

Seeking to address the severe economic

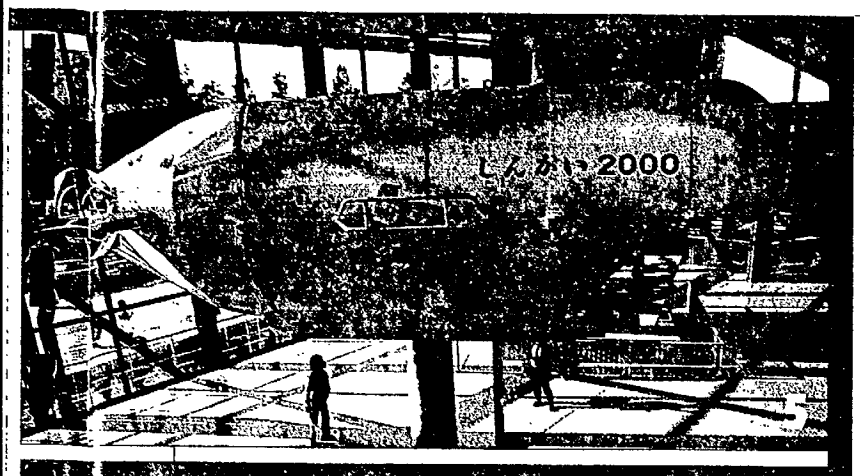


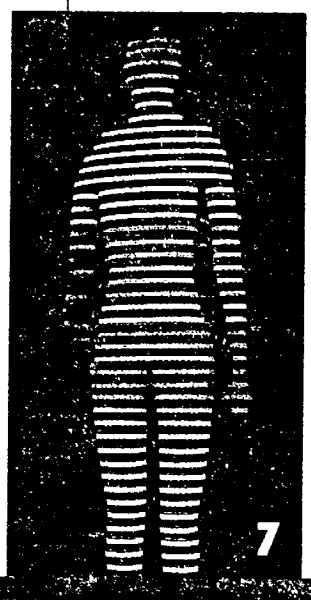
crisis; MITI pushed for a massive restructuring of Japanese industry. In a long-range planning document called "Visions for the 1970s," the ministry recommended a major shift in investment away from energy-intensive heavy industries and petrochemicals in favor of "knowledge-intensive" light industries, which would consume less energy and raw materials. Because of the gravity of the economic crisis, the Japanese Diet (Parliament) granted MITI, the Ministry of Finance, and the Bank of Japan extraordinary powers to implement the new policy.

MITI's newfound authority was particularly strong with respect to the structurally depressed industries. In an effort to minimize the social and political dislocations of the industrial transition, MITI provided financial aid to laid-off workers and obtained legal exemptions so that depressed industries could form production cartels to stabilize prices. In return, the affected companies agreed to make coordinated cutbacks in production and to retrain workers for jobs in other industries.

In large part because of its restructured economy, Japan was able to weather the second oil shock of 1979 with much less disruption than it had suffered in 1973. The government also began to shift from an industry-first policy toward greater emphasis on social programs. By the early

1 LEE CHARLIER; 2 E. HAMILTON HOFFMAN; 3 and 4 COL. JONES





1. *With a screen 75 feet high, Sony's Jumbotron TV welcomes Expo visitors from almost a mile away.* **2.** *In the Japanese government pavilion, lettuce raised in a controlled atmosphere grows at 4–5 times the normal rate.* **3.** *Mitsubishi's four-legged robot uses tiny sensors on each foot to produce graceful, lifelike movements.* **4.** *Expo's battery of robots can draw your picture, play the organ, or just kill time spinning a top.* **5.** *The Japanese government's marine technology exhibit features a miniature exploratory submarine.* **6.** *Toshiba claims that its high-definition TV will create images as clear as those of 35mm movies.* **7.** *A colored map of the human body guides visitors through a CT scanner demonstration in the Japanese government pavilion.*

1980s, government loans to industry had declined to about 10% of total public investment, while housing loans had increased to 32%. Even so, living standards in Japan still lag behind those of other advanced capitalist countries. A recent study by the Ministry of Construction found that about half the roads in Japan still lack sidewalks, only three out of every ten homes are linked to a sewer system, and one tenth of Japan's 120 million people live in substandard housing and hygienic conditions.

Today, industrial policy in Japan is not simply imposed from above, but emerges from a continual process of consultation between government and industry. To convince the private sector to comply with its policies, MITI uses "administrative guidance," a uniquely Japanese form of official persuasion. Since the ministry's statutory powers are limited, it does not attempt to enforce its will through the legal system. If it did, companies might challenge it successfully in the courts. Instead, MITI backs up its advice with a variety of carrots and sticks. The carrots include subsidies, tax incentives, and directed research and development projects; the sticks include gentle arm-twisting and implicit threats of new legislation. Even so, private firms are likely to resist administrative guidance if they believe their interests diverge significantly from MITI's definition of the national interest.

Soft guidance. One of the ministry's most effective "soft" tools for achieving influence is to work with industry and other interest groups to build a unified "vision" of Japan's future industrial structure that will best meet the changing conditions of the international marketplace. The forums for vision making are some 30 MITI-chartered "deliberative councils" such as the Industrial Structure Council and the Industrial Technology Council. Included in the councils are representatives from trade associations, government, academia, mass media, labor, and consumer and public-interest groups.

These various bodies discuss which industries and technologies are most important for the country's economic growth and hence should be targeted for special favors, and which industries are becoming noncompetitive and thus should be phased out. The consensus that emerges from the vision-making process is then published and distributed throughout Japan. Although this document is intended to serve as a basis for corporate strategic planning, the extent of compliance is left up to the private sector.

Richard J. Samuels, professor of political science at MIT and director of the MIT–Japan Science and Technology Program, describes the vision-making process as a form of "reciprocal consent." In exchange for the use of public resources, private industry grants the state the power to define industrial structure in the national interest. This process benefits everyone by creating a stable framework for economic growth.

In formulating industrial policy, MITI's primary goal is to create orderly markets with a limited number of strong competitors. "While the U.S. is concerned that excessive concentration of economic power will lead to monopoly," says Samuels, "MITI's greatest fear is that excessive competition will lead to chaos." This is why MITI tolerates production cartels and the concentration of economic power in giant financial/industrial groups such as Mitsubishi and Mitsui (see "Business in Japan," p. 28).

The Japanese also view the international marketplace—not just the domestic economy—as the standard against which a company's market share should be measured. As a result, antitrust regulations are much less stringently enforced in Japan than in the U.S. After World War II, the Allied occupation authorities imposed on Japan an antimonopoly law and an antitrust regulatory agency called the Japan Fair Trade Commission, which was modeled after the U.S. Federal Trade Commission. But the philosophical underpinnings of these institutions remain largely alien to Japan's corporate culture. "The Japanese don't feel that antitrust is a necessary component for achieving economic efficiency," says William F. Finan, former special assistant to the U.S. under secretary of commerce for international trade and now a principal specializing in electronics at the consulting firm of Quick,

Business in Japan: big and small

As Japan began to industrialize in the mid-19th century, economic power came to be highly concentrated in a few family-owned groups of industrial companies. By World War II, these mammoth combines, known as *zaibatsu*, controlled much of Japanese industry, commerce, and finance. At the end of the war, the Allied occupation authorities broke up the *zaibatsu* because of their close ties with the Japanese military, but they later reemerged in the form of six giant industrial groups centered around a major bank or trading company. Today these finance-centered groups—Mitsubishi, Mitsui, Sumitomo, Fuyo, Dai-Ichi Kangyo, and Sanwa—once again dominate Japanese industry.

Each group is made up of companies representing every major sector of the economy, including energy, steel, chemicals, pulp and paper, shipping, construction, heavy machinery, electronics, retailing, and financial services. The Mitsubishi Group, for example, consists of about 45 companies with worldwide sales in 1983 of $140 billion.

The companies within each finance-centered group are linked by interlocking directorates, mutual stock ownership, supply and marketing agreements, and joint development of new business lines. In addition, the companies rely for capital on the group's bank or trading company and thus have little need to sell shares on the stock exchange. This reduced dependence on equity and stockholders enables the group companies to enjoy a longer planning horizon than most U.S. firms. The diverse holdings of the finance-centered groups have also helped to smooth the transition of the Japanese economy from heavy machinery and chemicals to high tech industries by allowing workers to be transferred from one company to another within the group.

Allied with the six finance-centered groups are seven big industry-centered groups—Nippon Steel, Toshiba, Hitachi, Toyota, Nissan, Matsushita, and Tokyu—characterized by vertically integrated operations within a single industry or related industries. In contrast to the loose coordination of companies within a finance-centered group, the companies within an industry-centered group are managed as though they were divisions of one giant corporation. Since these groups do not include a financial institution, they tend to sell shares to meet most of their capital needs.

The 13 industrial groups have certain common interests and often cooperate in government-initiated programs intended to develop promising new areas of technology. At the same time, however, the firms within each industrial sector compete vigorously for market shares and influence in government. That each of Japan's major industries has several big companies competing on nearly equal terms has been key to the country's success in international trade. Without this vigorous domestic competition, 25 years of protectionist trade policies could not have yielded companies that today compete so effectively in global markets.

Although the giant industrial groups represent an extraordinary concentration of economic power, they exclude many of Japan's most innovative and dynamic firms, such as Honda, Sony, and Pioneer. In addition, two-thirds of the Japanese economy is made up of small firms of less than 100 employees. While the big assemblers are unionized and provide good benefits and guaranteed lifetime employment, the workers in the small companies receive lower wages, have poorer working conditions, and do not enjoy the same degree of job security.

Each big manufacturer relies on a large number of small parts suppliers and subcontractors, known as *shitauke*, which usually work for it exclusively. Many of these firms are technologically advanced and can fabricate whatever parts the big assemblers require. "Throughout the manufacturing sector, and particularly in automobiles and electronics, a higher proportion of value-added comes from the suppliers than from the final assemblers," says Robert E. Cole, professor of sociology and business administration at the University of Michigan (Ann Arbor). This dual industrial structure has enabled Japanese manufacturers to introduce new and improved products rapidly, giving them a competitive edge in international markets.

The relationship between the large manufacturers and their suppliers is both hierarchical and mutually beneficial. While the *shitauke* are entirely dependent on the assemblers for their financial survival and suffer the impact of economic downturns disproportionately, the big manufacturing firms put a lot of effort into upgrading the performance of their suppliers, including financing the purchase of new equipment. In addition, each large assembler typically owns a small amount of equity in its suppliers (5–8%) as a way of cementing the relationship.

"The major strength of the system is accountability," says Cole. "By keeping their suppliers independent and at arm's length, the big assemblers have more clout in demanding increased productivity and quality. At the same time, the suppliers are closely integrated into the production system."

Finan & Associates (Washington, D.C.).

Indeed, while U.S. antitrust officials block corporate mergers that would jeopardize domestic competition, MITI has encouraged mergers, production cartels, and price standardization that will enhance the international competitiveness of Japanese industry—even at the expense of domestic competition. And although the Japan Fair Trade Commission has consistently opposed MITI's pro-merger, pro-cartel policies, it has had little real power to enforce its views.

Research and development. Complementing MITI's industrial policy are government policies dealing with research and development. Of the $23 billion Japan spends annually on R&D (2.6% of the country's GNP), the amount contributed by the government is surprisingly small. While the U.S. government provides about half the United States' R&D funding, the Japanese government pays directly for only 25% of Japan's R&D. Nevertheless, the Japanese government provides many indirect subsidies for private-sector investment in R&D, including R&D tax credits, accelerated depreciation for new R&D facilities, and low-interest loans through the state-owned Japan Development Bank.

Today Japan has some 300,000 full-time researchers—a number exceeded only by the United States and the Soviet Union. And although Japan's population is only about half that of the U.S., Japanese universities produce more graduates in scientific and technical fields than their American counterparts. Japan has also become less dependent on Western nations for its technology. Since 1975, Japan has licensed more of its own technology abroad than it has imported foreign technology (although when payments for old licenses are included, Japan is still a net importer). In 1981, for example, new contracts for Japanese technology exports were valued at $314 million, while new contracts

for technology imports were valued at $111 million.

In addition to being heavily focused on industry, Japanese R&D is oriented almost entirely toward the civilian economy. Japan is restricted by its postwar constitution to a small military establishment and hence relies on the U.S. for its security. Only about 2% of the Japanese R&D budget goes to military research, compared with more than 50% in the U.S. Thus while the total U.S. research pie is much larger, Japan spends nearly the same amount on civilian R&D. Since most military systems are low-volume and high-cost—precisely the opposite of what is required in the civilian marketplace—large U.S. expenditures on military research have yielded few direct economic benefits and have allowed Japan to pull ahead in several key industrial sectors, including consumer electronics, integrated-circuit production, carbon fibers and ceramics, and amorphous-silicon solar cells.

R&D policy in Japan is made by several government agencies, which often compete fiercely among themselves for control over the most promising new areas of technology. At the top of the policymaking hierarchy is the Council for Science and Technology, chaired by the Prime Minister, which sketches the broad outlines of Japan's technological agenda and places its imprimatur on plans developed by various agencies of the bureaucracy.

Large technology projects, such as the Japanese space program and nuclear fusion research, are the bailiwick of the Science and Technology Agency (STA), which also does long-range planning on the nation's science and technology needs and prepares an annual White Paper on trends in Japanese science. The agency funds three public corporations staffed by non-civil servants: the National Space Development Agency, the Japan Atomic Energy Research Institute, and the Power Reactor and Nuclear Fuel Corporation. STA therefore combines some of the functions of several U.S. government bodies, including NASA, the Department of Energy, and the White House Office of Science and Technology Policy.

Also partially funded by the STA is a public corporation called the Japan Research and Development Corporation (JRDC), which transfers the results of research conducted at universities and national laboratories to private industry through contracts and licensing arrangements. JRDC also coordinates an innovative program known as Exploratory Research for Advanced Technology (ERATO). Established in 1981, ERATO brings together scientists from different fields to work on interdisciplinary areas of technology that are far from commercialization but may yield major breakthroughs in the future. Current ERATO projects include research on ultrafine particles, amorphous and laminar materials, fine polymers, perfect semiconductor crystals, and biological control systems.

The main government body responsible for industrial R&D is the Agency of Industrial Science and Technology (AIST), a branch of MITI. This agency employs about 300 bureaucrats and runs 16 national laboratories staffed by some 3500 scientists, who perform research in fields ranging from advanced materials and electronics to production engineering. Nine of the national labs are located in Tsukuba Science City, north of Tokyo. Another branch of MITI, the Machinery and Information Industries Bureau, runs the Institute for New Generation Computer Technology (ICOT), where research is under way on the well-known Fifth Generation Computer Systems project. In addition, the various functional ministries—Construction, Transport, Education, Health and Welfare, and Posts and Telecommunications—sponsor R&D in their respective areas and compete for influence with STA and AIST. And Nippon Telegraph & Telephone (NTT), a former state-owned monopoly that was privatized last year, is second only to AT&T/Bell Laboratories in the amount and quality of its telecommunications research.

A Toshiba engineer examines the design of an IC chip, which represents one of Japan's top technological priorities.

Cooperative R&D. Since 1971, MITI's AIST has launched a series of national technology projects in which it provides grants or soft loans to groups of companies that agree to cooperate for a set period of time on developing specific new technologies. The ideal projects for cooperative R&D are those in which developing a desired technology would require a greater investment of money and manpower than any single firm could undertake on its own. Since AIST limits competition by inviting only the leading companies in a given field to participate, each national project must be exempted from the Antimonopoly Law.

To ensure that the national projects are geared to industry's needs, each proposal undergoes a three-year review process by the relevant trade associations and deliberative councils. After a project has been approved, AIST creates a research association to coordinate and manage industry participation throughout the life of the project.

Japanese firms agree to participate in the national technology projects because AIST provides seed money, and because they benefit from knowing what the next genera-

NATIONAL TECHNOLOGY PROJECTS

MITI/AIST

PROJECT	YRS.	$ (MIL.)	PURPOSE
Sunshine Plan—alternative sources of energy	1974–2000	1100[1]	To develop coal liquefaction and gasification, solar power generation (especially amorphous-silicon solar cells), geothermal, and hydrogen energy.
Moonlight Plan—large-scale energy saving technology	1978–undecided	247	To develop magnetohydrodynamic (MHD) power generators, high-efficiency gas turbines, new types of storage batteries, fuel cells, a general-purpose Stirling engine, and chemical heat pumps.
Optical measurement and control system	1979–85	62.8	To develop optical sensors and transmission networks for conveying large amounts of information. The project will use a petroleum refinery to demonstrate the application of such systems to controlling plant operation and management.
Basic-chemical manufacturing methods using carbon monoxide feedstocks	1980–87	60	To develop technologies for the production of basic chemicals (i.e., ethylene glycol, ethanol, and acetic acid) from coal and natural gas.
Manganese nodule mining system	1981–89	80	To develop a hydraulic mining system for harvesting large quantities of manganese nodules from the deep-ocean floor.
High-speed scientific computers	1981–89	92	To develop advanced computer hardware. A basic experimental IC chip for high-speed devices has been produced. The next phase of the project involves trial production of a variety of highly integrated chips using Josephson-junction devices, high electron mobility transistors (HEMTs), and gallium arsenide field effect transistors.
Basic industrial technology for the next generation	1981–90	416	To stimulate R&D for next-generation technologies and to fully utilize the potential of private industry under a cooperative arrangement including companies, universities, and the government. The program focuses on three different areas, divided into a total of 12 projects: New materials: fine ceramics, high-function polymers, semipermeable membranes, electroconductive polymers, highly crystalline alloys, and composites. Biotechnology: bioreactors, mass cell culture, recombinant DNA. New devices: superlattice devices, three-dimensional circuit devices, devices resistant to adverse ambient conditions.
Automated sewing system	1982–89	52	To develop an automated continuous sewing system for the textile industry, which has been labor-intensive because of a complex production process.
JUPITER (Juvenescent Pioneering Technology for Robots)	1983–90	80	To develop advanced robot technology to replace humans in dangerous work environments such as nuclear power plants and undersea operations.
Resource exploitation observation system	1985–90	92	To develop an observation system for earth-resources satellites. AIST will conduct the project jointly with the Science and Technology Agency.
Aqua Renaissance 90	1985–91	52	To develop a bioreactor capable of processing and purifying waste water.
Interoperable databases	1985–92	80	To enable databases with different operating systems to exchange information.

OTHER MITI PROJECTS

Fifth Generation computers	1979–91	47[2]	To develop advanced computers that will use artificial intelligence to make them easier to run. The first three years of the project concentrated on basic studies. The Institute for New Generation Computer Technology (ICOT), established in 1982, is entering a new phase in which it will concentrate on developing an inference system, including a parallel processing architecture and a knowledge base. (Machinery and Information Industries Bureau)
SIGMA (Software Industrialized Generator and Maintenance Aids)	1985–89	100	To develop an automated system for producing software. (Machinery and Information Industries Bureau)
Water desalination system for smaller plants	1985–89	.08	To develop a desalination process based on vapor-permeation membranes to replace costly distillation and reverse-osmotic membrane systems. (Industrial Location Bureau and Environmental Protection Bureau)

[1]Total to fiscal year 1985.
[2]Initial commitment. Expected total: $250 million.

This chart lists Japan's major technology projects, led by the government with broad participation by industry. The Agency of Industrial Science and Technology (AIST), the main promoter of these projects, is a branch of the Ministry of International Trade and Industry (MITI). A few other MITI projects are run by specialized bureaus within the ministry, such as the Machinery and Information Industries Bureau. The Japan Research and Development Corp. (JRDC) sponsors the Exploratory Research for Advanced Technology (ERATO) program, which fosters the development of potentially revolutionary technologies that are far from commercialization.

ERATO

PROJECT	YRS.	$ (MIL.)	PURPOSE
Ultrafine particles	1981–86	8	To explore the characteristics of ultrafine particles (less than a tenth of a micron in diameter) for applications in recording media (such as magnetic memories), light absorbers, catalysts, and filters.
Amorphous & intercalation compounds	1981–86	8	To design and synthesize new inorganic materials for industrial use by modifying the atomic configuration of existing metals, semiconductors, and ceramics.
Fine polymers	1981–86	7.2	To develop a new generation of synthetic polymers by taking as models the sophisticated functional capabilities of living organisms.
Perfect crystals	1981–86	8	To develop a new generation of semiconductors by combining perfect crystal growth technology with static induction transistor (SIT) technology.
Bioholonics	1982–87	7.2	To study "holonic" systems in biological organisms, in which molecules, cells, tissues, and organs interact cooperatively at various levels of organization, and to build models of such systems.
Bioinformation transfer	1983–88	7.2	To elucidate the mechanisms of action of neuroactive substances such as prostaglandins and leukotrienes, which play a crucial role in intercellular information transfer. The project aims to apply these mechanisms to medical problems and information technology.
Superbugs	1984–89	7.2	To search for microorganisms that grow under extreme environmental conditions, such as high acidity, temperature, salinity, and pressure, and to analyze their tolerance mechanisms and metabolic pathways. A possible result may be new bioreactors that can operate at higher temperatures.

Source: National Science Foundation/Tokyo office

tion of useful technology and products will be. "Most of the companies go along with the projects because they want to stay on good terms with MITI and don't want to be frozen out of any information that's developed," says Justin Bloom, former science counselor with the U.S. Embassy in Tokyo and now president of Technology International, a consulting firm in Potomac, Md. "And because of the Japanese tendency to maintain consensus, they feel that they have an obligation to participate."

Although the companies taking part in a national technology project work toward a common goal, actual intercompany cooperation is limited. Each company works on a separate task, includes only a few engineers from rival companies on its team, and does not disclose unique technical secrets or know-how. Once the targeted generic technology has been developed, the firms compete intensely to bring their own products to market.

So far, the most successful of the national projects has been the Very Large Scale Integration (VLSI) Project of 1976–79, which yielded important advances in semiconductor manufacturing technology. AIST funded about half of the project, in the form of a $120 million loan repayable from future profits. The investment paid off: The VLSI Project helped Japanese firms to carve out a large share of the market in 64K random-access memory chips.

MITI is currently providing partial funding for 15 national technology projects, each involving 5–15 companies (see table). The most recent is the Sigma Project, a five-year effort to automate the writing of software. Virtually all computer programs in Japan are now written by hand, creating a severe manpower shortage in the software industry. MITI hopes that successful completion of the Sigma project will make it possible to automate 80% of software writing. (In the meantime, the Japanese have begun subcontracting some of their software writing to South Korea, Taiwan, India, and, most recently, China.)

The contribution of cooperative R&D to Japan's industrial success has been mixed. On the one hand, the national technology projects have benefited Japanese industry by reducing redundant research and providing economies of scale. "Cooperative R&D has diffused know-how to more Japanese companies and gotten them into the marketplace faster and at lower cost than otherwise would have been the case," says Finan of Quick, Finan & Associates. And by enabling competing firms to agree tacitly on a common ground for competition, the national technology projects have created more orderly markets and facilitated the diffusion of industrywide standards.

On the other hand, joint R&D has probably yielded no products or processes that would not otherwise have been developed. Indeed, some Japanese businessmen claim that the national projects have hindered innovation by reducing the diversity of technological approaches being tried and by drawing money away from more competitive projects that might have been undertaken by individual companies. A growing number of Japanese companies are also reluctant to share information with competitors—particularly in fields like biotechnology, where the path from basic research to commercial products and processes is short. As a result, several of Japan's leading biotech companies have declined to participate in the national project in this area.

Creating new knowledge. Japan has long emphasized applied research and engineering at the expense of basic science. Government and industry allocate approximately 60% of total R&D expenditures for development of new products and processes, 25% for applied research, and only 15% for basic research. The low priority of basic research is also reflected in the educational system. While American universities produce about as many scientists as engineers, Japanese universities turn out nearly seven engineers for every scientist. Many talented scientists also choose to pursue careers in industry rather than academia. Thus, despite Japan's genius in commercializing new technologies, it lags behind the West in such measures of scientific innovation

as published papers and Nobel Prizes.

In recent years, however, there has been a growing recognition in Japan that neglect of fundamental research has become an obstacle to future economic growth. Having caught up with the West in many areas of technology, Japan can no longer simply license patents and know-how from more advanced countries. New scientific discoveries and inventions will be crucial if Japan is to compete in areas of technology closely tied to basic research, including aerospace, new materials, biotechnology, computer science and microelectronics.

A major impetus for Japan's growing commitment to fundamental research is the fear of a "technological blockade," a rise of protectionism in the U.S. and Europe that will prevent Japanese companies from obtaining leading-edge technologies developed in the West. Indeed, some Japanese researchers and firms have already been denied access to scientific documents, conferences, databases, and patent licenses, and barred from importing sensitive products or acquiring U.S. subsidiaries.

Concerned that the 1990s could be an era of technological blockades, Japan is investing in R&D facilities abroad. In April, for example, Mitsubishi Electric opened a new U.S. subsidiary called Horizon Research (Waltham, Mass.), which plans to employ six Japanese and 31 American research engineers by the end of the year. Mitsubishi's apparent objective is to keep tabs on new developments in Boston's high technology community. Japan is also moving to strengthen its own scientific base. Already, leading Japanese electronics firms such as Toshiba, Hitachi, Sanyo, and Matsushita are building laboratories devoted to research on new materials and processes rather than specific products.

This past February, MITI and the Ministry of Posts and Telecommunications presented a bill to the Japanese Diet to establish a Basic Technology Research Promotion Center, which will provide conditional, interest-free loans for private firms to do basic research in mining, manufacturing, telecommunications, and broadcasting. In addition to funding individual projects, the center will coordinate basic technology projects between national laboratories and private firms. Foreign researchers will also be invited to participate. The proposed center will be jointly funded by the government, the Japan Development Bank, and the private sector, and staffed and run by private companies and independent experts, with MITI's guidance.

In addition, the Japanese Ministry of Education (Monbusho) is working to strengthen the ties between industry and the national universities. In 1983 the ministry introduced new regulations to make it easier for industry to gain access to analytical equipment in university labs in exchange for funding basic research. Monbusho has also realized that the rigid hierarchy of the university research system, in which chaired university professors distribute all research funds as they see fit, often suppresses the initiative and creativity of young scientists. The ministry has therefore made some tentative steps to reform the system—for example, by allocating about 8% of its academic research funds to direct grants for young scientists.

It is often suggested in the West that the strong emphasis in Japanese culture on group identity and teamwork rather than individual achievement militates against innovative research. But many observers believe that the Japanese will rise to this new challenge, as they have in the past. "Perhaps the 'technological blockade' was just what Japan needed to propel it onward on its path to becoming a world leader in science and technology," writes Donald L. Philippi, editor of *Japan Intelligence,* a monthly newsletter on Japanese technology.

A cloudy future. Despite its present economic strength, Japan will soon face major challenges, such as rising costs for raw materials and strong competition from the "four dragons" of the Pacific Rim—South Korea, Taiwan, Hong Kong, and Singapore—which are rapidly improving their technological capabilities while maintaining wage scales considerably below those of Japan. To a large extent, cheap imports from these "mini-Japans" have already displaced older Japanese industries such as shipbuilding, steel, and textiles.

As the newly industrializing countries of East Asia start churning out mass-produced consumer electronics goods, says MIT's Samuels, the Japanese have no choice but to move up the ladder to higher technologies, such as advanced semiconductors, optoelectronics, factory automation equipment, software, and integrated systems. "We hope for a horizontal division of labor on the Pacific Rim," says Yohei Mimura, president of Mitsubishi (Tokyo). "And the leader in this will, of course, be Japan."

But Japan's strong push into high technology export markets is worsening trade frictions with the U.S. and Western Europe and risks provoking protectionist measures that would jeopardize Japan's prosperity. Thus MITI's greatest challenge in the coming years may be to "harmonize" Japan's industrial policy with the policies of its Western competitors. "Japan is investing in R&D that will advance the development of its own, fairly innovative technology and strengthen its bargaining position," says Mimura. "But at the same time, Japan recognizes its responsibility to participate in international cooperative research that will contribute to the economic health of the world as a whole."

Despite the challenges facing Japan, MITI's ability to control private industry is waning as the Japanese economy becomes more liberalized. "Because of the growing complexity of the economy, consensus is becoming harder to achieve, and MITI's influence is bound to weaken," says Finan. Financial deregulation is also freeing market forces to play a greater role. Within the past five years, for example, a venture capital market has appeared in Japan that has supported the creation of more than 500 high tech start-up companies. Still, the total amount of venture capital in Japan is less than 10% of that in the U.S. And although many of the new start-ups are autonomous, "in some cases when you look behind the veil, the money actually comes from major Japanese corporations such as Fujitsu and NEC," says Finan.

The extent to which the Japanese government will continue to "manage" the economy is a matter of debate. Peter Fuchs, a research associate in the U.S.–Japan Program at Harvard University, observes that MITI is assuming a number of new functions, such as organizing cooperative basic-research projects, protecting Japan's access to foreign markets, developing intellectual property law (e.g., legal protection of software), and monitoring Japan's international competitiveness in various fields of technology. Overall, however, the private sector is taking the lead in charting the course of the Japanese economy, with MITI playing a secondary but still important role as resource and facilitator. Concludes MIT's Samuels, "Private firms are establishing their own strategies for competition in the marketplace, and channeling the government's industrial policy to their own benefit." □

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Commercial Section
Canadian Embassy
Tokyo, Japan

August 1983

MITSUBISHI CORPORATION

Mitsubishi Corporation
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