Japan's Global Industry Plan

The full text of the $500 billion proposal for Third World development

According to reliable informed sources, Japanese Prime Minister Takeo Fukuda left President Carter a bit stunned in their meetings last spring when, in addition to his widely reported fusion collaboration proposal, he suggested that the United States and Japan work together on a vast development package for parts of Asia. Ambitious as they were, the proposals Fukuda presented were only part of a report — prepared by Masaki Nakajima, the head of Japan's Mitsubishi Research Institute — which calls for creation of a Global Infrastructure Fund which would generate no less than $500 billion in projects primarily in the Third World development by the end of the 20th century.

While the scope of the Mitsubishi proposal, reprinted in full here, may indeed seem staggering to the average U.S. corporate planner, it is typical of the thinking which created the Japanese economic miracle and comes from a leader in Japan's postwar development. In fact, Mitsubishi was set up in the 1870s by the Meiji government specifically to create modern heavy industry in then still underdeveloped Japan.

Today the Mitsubishi group, led by Mitsubishi Heavy Industries and Mitsubishi International, the group's trading company, is still the heavy industry core of Japan's "economic miracle," and Nakajima is personally advising Fukuda on ways to implement the Mitsubishi plan.

The outlook that the MRI report expresses is the dominant way of thinking in Japanese industrial circles today. That outlook, crucially supported by groups like the Industrial Bank of Japan and Nippon Steel, is firmly opposed to the International Monetary Fund's approach of low-capital, labor-intensive Third World development. This anti-IMF world view among Japan's industrial elite is openly expressed in the MRI report, as Nakajima makes clear that his new proposed development fund would be outside the influences of the IMF.

Japan's own policy of Third World development is modeled on the Japanese experience of developing postwar South Korea into a modern industrial state, which the Mitsubishi group played a major role in planning. The need to rapidly increase the growth rate of the entire world, the global replication of Japan's own experience as the first non-Western nation to modernize, dominates the philosophy of every important Japanese business group. It is a philosophy of industrial capitalism itself which is the basis for the Mitsubishi proposals, modeled on the approach by which 19th century U.S. leaders made America the world's leading industrial power. Now, with the U.S. dangerously close to sinking into an industrial twilight zone based on Great Britain, it is long past the time for American business leaders themselves to rediscover that vision.

Here, then, is the text of "The Mitsubishi Report," by the president of the Mitsubishi Research Institute, Masaki Nakajima.

A Proposition For The 'Global Infrastructure Fund'

1. Summary

Under the prolonged worldwide recession in the post-oil crisis years, every country around the world is today groping for ways to get out of it.

What is being proposed herein as the "Global Infrastructure Fund" is a concept that Japan should consider as one of its international responsibilities in these crucial circumstances, and it is being presented by a private research organization having a neutral position.

The proposition is to generate effective demand within this century amounting to more than $500 billion, a sum equivalent in current prices to the U.S. costs of World War II, under the assumption that all leading advanced industrialized countries and oil producing nations cooperate to do so. The proposition may be aptly termed a "Global New Deal," since it has a nature of public investments for common use by the world which go beyond a given national economy. It aims at developing new sources of energy and increasing food production for the world, thereby trying to establish long-range programs to overcome the current worldwide stagflation.

It is expected that the implementation of the various "super projects" proposed herein would lead to the development of peaceful demand in the manufacturing industry as well as of technological incentives in advanced countries in lieu of arms production. Also expected would be the multiplier effects upon the national income and employment of many developing countries which would be recipients of these proposed projects.

It is to be recognized that the elapse of thirty years since the end of World War II has seen the resurgence of narrow-minded nationalism in various parts of the world, which in turn has fomented political and economic uncertainties. Now is the time for mankind to positively assert a bold and long-range vision. And that vision should be the one based upon a worldwide perspective which transcends narrow or short-term national interests. As Solomon said, where there is no vision mankind perishes.

The twentieth century has undergone bitter experiences in two world wars, yet has endeavored to reestablish a prosperous society out of the ruins of each war. The Global Infrastructure Fund, as proposed herein, will address itself toward the coming twenty-first century as a challenge to mankind for worldwide prosperity in rising out of the deep recession.

What Is MRI?

Mitsubishi Research Institute was founded in May 1970, through integration of the Mitsubishi Economic Research Institute, Mitsubishi Computing Center of Mitsubishi Atomic Power Industries, Inc., and Advanced Techno-Economic Information Center. While the shareholders of MRI are the 26 Mitsubishi corporations, MRI emphasizes that its aim is to render services and contributions not only to the Mitsubishi companies but also to society in general. MRI maintains close cooperative relations with research organs and academic circles in Japan and foreign countries, and has regularly received contracts for research projects related to the formulation of Japan's national policies.

MRI's president, Masaki Nakajima, is currently a councilor of the Keidanren, the Japanese business association. A leader in Japanese economic circles, he has served as managing director of the Mitsubishi Bank, president of Mitsubishi Steel Manufacturing Co., and in several government economic policy-making posts.

2. Background: International Economic Situation

The world economy today faces its gravest crisis since World War II. Although ways to escape from it or to bring about a change in direction have been sought for the last several years, confusion continues to increase. Eagerly awaited is the framework of a new economic theory coupled with a bold vision and propositions for economic policies based upon it that may dispel the economic stagnation that is otherwise expected to prevail for a long time to come. However, up to now no such new propositions have been made.

As is generally known, Keynesian economic theory, born out of the world crisis in the 1930's, has provided theoretical support for economic policies and, in particular, the anti-cyclical policies adopted by the major advanced industrialized nations since World War II. As we look back today at Keynes' contributions to economic policy, we find that first and foremost among them was his incisive criticism and refutation of the fiscal and monetary policies based on the classic gold-standard system and their failures. It was the managed currency theory advocated by Keynes that brought about the Bretton Woods system after World War II and the subsequent gold-dollar linked system in the field of international monetary policy. It also led to various effective measures in domestic monetary policies.

Second was the policy for the stimulation of effective demand. The counter-cyclical policies adopted by the major advanced industrialized nations since the latter half of the 1950's rested, in part, on policies for the maintenance of growth through an effective stimulation of demand in the Keynesian fashion, or the New Economics fashion which developed from it.

This Keynesian policy for stimulating effective demand operated with good results for 30 years after the war. Recently, however, its various inherent problems have become subject to discussion.

The first of these is that a policy for the stimulation of effective demand contains, by its very nature, an inflationary trend. Keynes was famous for his criticism of conservative economists who showed great zeal for hoarding gold but paid little heed to unemployment. Keynesian economic policies, however, gave rise to inescapable inflationary pressures on the economy.

The second problem was that such a policy led to increased restraints on the supply of resources by increasing consumption, both in terms of quality and of quantity, in all countries. The inflationary trend that was encouraged by growth policies was called a mere creeping inflation so long as these restraints on the supply of resources did not arise. But, a genuine inflation became evident when human and other resources necessary for growth became restricted (for instance, in West Germany and Japan), where natural and environmental resources were utilized to the utmost and full employment prevailed. The worldwide simultaneous rise in prices, which arose from the large increase in oil prices toward the end of 1973, may be described as a corollary of the Keynesian New Economics of the '60s.

The third problem is that the relative importance of fiscal expenditure in the economic structure of major advanced industrial nations is no longer dominant. As we look at the ratio of government fixed capital formation to gross national expenditures (GNE), we find that, except for its 8 to 9% range in Japan and the United Kingdom, it is about 3% in the United States, West Germany, France and Italy, according to 1974 figures. As a consequence, while the formation of governmental fixed capital, mainly through the improvement of the infrastructure by means of public works, may in itself have the effect of arousing total consumption, it is insufficient to serve by itself as the pivot for policies to overcome a recession.

The world panic of the 1930's was not overcome solely by the Keynesian policy of stimulating effective demand nor by President Roosevelt's New Deal policies. It is a stark historical fact that, unfortunately, rearmament and vast military expenditures caused by war itself provided the effective means to overcome this crisis. For instance, military expenditures of the United States alone in World War II amounted to $288 billion in terms of the dollar's value at that time. Converted to 1975 prices, this sum represents $530 billion (about ¥159 trillion). These war expenditures represent the net increase in outlays during the conflict and do not include peacetime defense costs.

In today's world, however, the development of nuclear weapons and their deterrent effect rule out a large-scale war that would involve major industrial nations. The political and economic consequences of the Vietnam War clearly demonstrate that while a localized war can create temporary economic stimulation, it does not have long-range effects.

To overcome the present worldwide recession, there is no other way but to stimulate private business activity in the major industrialized nations. Enterprises will not invest unless they can expect profits, while the incentive for new investments has already been reduced by the stagnation in technological innovation. This situation is expected to prevail for a long time to come and it seems too early to predict what shape future technological innovation will take. Consequently, we believe that in order to allow the existing world economic system to follow a peaceful and steady course without excessive dependence on military expenditures, a type of public investment on a global scale would be strategically effective.

As we have stated before, however, all the conventional types of public investment have their limits in terms of needs and capability when looked at solely in the light of each national economy. For instance, among the advanced industrialized nations, West Germany does not require much public investment. On the other hand, while there is great need for this among the developing nations, say, in Africa and Southeast Asia, they lack the means to carry such investments through. Therefore, it will be necessary to implement New Deal policies on a global scale in order to first stimulate private business activity in the advanced industrialized nations and then extend its effect to the economies of the developing nations.

For the reasons stated above, the planning and implementation of multinational public investment on a worldwide scale should be most effective as a long-range global economic policy. It could be termed a "Global New Deal." What we mean by multinational public investment is that which involves several countries both in the execution of projects and in the scope of the benefiting areas, and wherein the period of implementation and the size of investment exceed the scope of public investments made by a single country. Moreover, since the object of such investment would be directed at removing restraints on resources, it would also serve to eliminate latent factors causing inflation. Included, for instance, would be the development of untapped energy resources, the development of oceanic resources, and the improvement of the environment.

As examples of such projects, there are many expansive concepts that, since the last century, have been described as "Engineers' Dreams." Some of these "ideas" that could serve as objects for this Proposition include:

1. **Greening of Deserts:** Greening of the deserts in the Sahara, the Sinai and the Arabian peninsula.
2. **Collection Station for Solar Heat:** Erection of a large-scale installation for the collection of solar energy in a remote part of the world. Total investment in land, pipelines, and accessory equipment would reach $20 to $50 trillion. Its total annual energy output would be equivalent to 200 billion barrels of oil.
3. **Second Panama Canal:** Construction in Nicaragua of a large canal linking the Atlantic and Pacific Oceans.
4. **Kra Isthmus Canal:** A 170-kilometer-long canal linking Phang-nga Bay on the west coast to the Gulf of Siam on the east coast. This would shorten by 2,400 km the sailing distance to and from the Indian Ocean.
5. **Electric Power Generation Using Sea Currents:** There are 12 promising areas along undeveloped ocean shores extending from the equator to the temperate zones. Maximum generating potential of one area, 35 million kW. Total for 12 areas about 200 million kW.
6. **Himalayan Hydroelectric Project:** Damming of the Sanpo River on the upper reaches of the Bramaputhra in the frontier area between China and the Indian province of Assam to make it flow into India through a tunnel across the Himalayas. Potential generating capacity 50 million kW in maximum, 37 million kW in average. Annual generating capacity 240 billion to 330 billion kWH.
7. **Control of Sea Currents in the Bering Straits:** Construction of a dam across the Bering Straits at their narrowest point (85 km wide, 45 m deep) and control the sea currents flowing from the Arctic

Ocean. This would alter atmospheric conditions in the North Pacific and make the climate more temperate.

8. **African Central Lake:** Control of the flow of the Congo River by building a dam to create a vast lake in the Congo and Chad regions of central Africa to improve natural conditions in the area.

3. Funds

In order to realize these projects a $13 billion fund, tentatively named the Global Infrastructure Fund, will be established with, for instance, annual contributions of $5 billion collectively from the United States, West Germany, and Japan, $5 billion from the OPEC countries and $3 billion from other industrially developed nations. Such a fund will serve to finance projects with a multiplier effect on a $25 billion scale annually until the end of this century. Total expenditures on these projects should reach a level of about $500 billion. Such an amount would not be very large for expenditures on public works of worldwide dimensions, but its purpose is to carry out a pump-priming role that would arouse effective demand comparable to the military expenditures during World War II.

The $5 billion annual contribution by the major advanced industrialized nations would mean a 30% increase in official development assistance (ODA) provided by the 17 member nations of the Development Assistance Committee (DAC) of the OECD, which amounted to $16.6 billion in 1975. This corresponds to a little over 3% of the amount of military expenditures of these 17 nations during the same year, which totalled $157 billion. It would mean that these nations would have to pare about 3% from their military expenditures and devote that sum to development assistance.

The OPEC nations funneled $5,590 million into the OPEC fund in 1975 for development assistance. This amount is close to the $6,880 million that the World Bank committed to spend for assistance during the same year. Moreover, the military expenditures of Middle East nations during that year were estimated to be about $28 billion. Their proposed annual $5 billion contribution therefore should not constitute an excessive burden.

4. Effects

In the planning and execution of these projects, it will be necessary to give substantial autonomy and authority to the areas where the projects take place, while at the same time maintaining the principle of international harmony. This should contribute to a further promotion of the North-South dialogue. Upon their completion, the projects will have major direct effects on the non-oil-producing LDCs through the development of energy resources to replace oil, besides increasing agricultural production and promoting the comprehensive development of such areas.

We are today faced with the urgent task of evolving means to absorb the prevailing excessive international liquidity. The accumulated oil dollars are not necessarily being effectively used at present, but should be used for the long-range preservation of oil as a valuable industrial resource. Should we fail in this effort, it is possible that it may lead to another shock similar to the well-known "Oil Crisis" of 1973. In such an event, the nations of the world will not be able to put up much political or economic resistance. This proposal could serve to check such an unwanted development.

By advocating this concept, Japan, which does not possess nuclear armaments, can curb foreign criticism that its military expenditures and foreign aid are comparatively small. We believe that such an advocacy will serve to fulfill the international responsibilities of the Japanese people who have today built up a highly industrialized society after rising from the ashes of World War II.

5. Methods for Realization

The reason why we advocate a fund separate from those established by existing international organizations, such as the United Nations and the. World Bank, is because we believe that such organizations have become the scene of international conflicts of interest, in particular between the North and the South, and are showing a strong tendency of compromise. They would not be effective in promoting this concept.

On the other hand, this concept must not be regarded as a monetary measure aimed at alleviating the accumulated foreign indebtedness of developing nations, a problem which calls for a solution today. On the contrary, as we have stated above, it has an entirely different objective and mission. We therefore believe that in order to achieve this objective in the most effective manner, an appropriate international organization is necessary. By this we do not mean that existing international organizations, led by the United States, are inefficient, but we believe that they are inappropriate in achieving our objective.

We believe that this brief Proposition has helped you to understand the intentions of this concept. Additional study and research into concrete proposals and methods for their realization will be necessary.

Your comments and opinions will be most appreciated.