



my  
c. Fleo

10 DOWNING STREET

THE PRIME MINISTER

14 September 1982

Dear Sir Campbell,

Thank you for your timely letter of 6 September relating to my forthcoming visit to Japan, China and Hong Kong.

I can assure you that I shall be leaving the Japanese Government in no doubt that we and our Western partners are now looking to Japan to take on a role properly reflecting her international economic strength. Though welcoming the recent initial steps to remove some obstacles to imports, more far reaching changes in her trading and economic policies are needed including - as you indicate - greater encouragement of foreign investment in Japan (including take-overs) and the overhaul of the domestic distribution system.

I agree that pressure from the European Community as a whole should be the main avenue for bringing about changes - and I shall of course be fully supporting the Community's representations to Japan urging her to increase her imports of manufactures to a level more comparable to that of other industrialised countries, and to restrain exports in sensitive industrial sectors. I shall be pressing hard for more purchases from the UK - for example of our competitive aerospace products - and there are some specific problems of Japanese import penetration that I shall need to bring up.

/I shall

I shall make clear the opportunities for more Japanese manufacturing investment here, where this is of overall economic benefit to the UK, as well as the scope for greater industrial collaboration. The CBI also has a role to play here in your continuing dialogue with the Keidanren and in discussions which I understand you are to have with JETRO on the possible joint sponsorship of a technical seminar on industrial collaboration.

As regards China I agree that the recent trade figures are disappointing. I will, of course, take every opportunity during my visit to support UK commercial interests and to stress the expertise that the UK has in China's economic priority sectors such as energy, transport, communications and agriculture. I also hope to discuss some of the complications affecting UK/China trade which you have mentioned, although some of these problems are likely to remain an inherent part of trading with China. I certainly expect to discuss Hong Kong's future with Chinese leaders, building on the useful discussions Humphrey Atkins had with them in January. As you are well aware this is a complex and sensitive issue, the solution to which is likely to require a step by step process. Certainly both we and the Chinese attach great importance to the maintenance of Hong Kong's prosperity and stability and the need to maintain the confidence of investors in Hong Kong.

Yours sincerely

Raymond Shenton

Sir Campbell Fraser.



*From the Secretary of State*

John Coles Esq  
Private Secretary  
10 Downing Street  
London SW1

13 September 1982

*Dear John*

*Type letter pl.  
ADL 14/9.*

Your letter of 7 September to John Rhodes asked for a draft reply to Sir Campbell Fraser's letter of 6 September about the Prime Minister's forthcoming visit to the Far East.

A draft is attached.

I am copying this letter and its enclosure to John Holmes (FCO) and Jonathan Spencer (DOI).

*Yours sincerely  
John Whitlock*

JOHN WHITLOCK  
Private Secretary

**DRAFT**

**File No.**

Copies to:

Originated by:  
*(Initials and date)*

Addressed to:

Seen by:  
*(Initials and date)*

Sir Campbell Fraser  
President  
Confederation of British  
Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU

Enclosures:

Type for signature of

PRIME MINISTER  
.....  
*(Initials and date)*

DEPARTMENT OF TRADE

Thank you for your timely letter of 6 September relating to my forthcoming visit to Japan, China and Hong Kong.

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I ~~fully~~ agree that pressure from the European Community as a whole should be the main avenue for bringing about changes - and I shall of course be ~~fully~~ supporting the Community's representations to Japan to increase her

*Fully  
agree*

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File No.

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File No.

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Japan, July 82, Visit - Policy





Jul

10 DOWNING STREET

From the Private Secretary

7 September 1982

and John,

Visit by the Prime Minister to Japan, China  
and Hong Kong: Trade Issues

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I enclose a copy of a letter which the Prime Minister has received from the President of the CBI about the main preoccupations of his membership with regard to trade relations with the three countries which the Prime Minister will be visiting later this month and particularly with Japan.

The Prime Minister will wish to reply to Sir Campbell Fraser before she leaves on 10 September. I should be grateful if you could let me have a draft by 13 September.

B/F

I am copying this letter and enclosure to John Holmes (Foreign and Commonwealth Office) and Jonathan Spencer (Department of Industry).

A. J. COLES

John Rhodes, Esq.,  
Department of Trade.

He



Jul

7 September 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 6 September.

This is receiving attention and a reply will be sent to you as soon as possible.

A. J. COLES

Sir Campbell Fraser

Confederation of British Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobustry London WC1

From  
Sir Campbell Fraser  
President

cc China Policy  
Future of Hong Kong



6th September 1982

*Dear Prime Minister,*

In advance of your visit to Japan, China and Hong Kong in the second half of September, I thought you might like to know some of the main pre-occupations of CBI membership over trading relations with these countries, particularly with Japan.

The main concern is readily identifiable: the ever-widening trade gap between this country and Japan. The imbalance in Japan's favour in 1980 was £1.11bn, and that rose, for the first ten months of 1981, to £1.24bn, and for the first six months of 1982 to £990m. Despite the fact that full trade figures for 1981 are still not available, the worsening trend is clear, and it increases further in 1982, when the total gap might well reach £2bn. In the context of trade we consider that the Japanese market has a long way to go before it can genuinely be considered as open to foreign companies, despite the January 1982 measures to promote imports, followed by a second liberalisation package in May. Experience shows that the distribution channels for foreign goods in the Japanese market provide a more effective constraint than quotas or tariffs.

We are also concerned that, despite apparent legal freedoms, there are notable obstacles to be overcome in the acquisition by foreign companies of shareholding in Japanese firms. Allied to this are problems affecting the operations of foreign banks and insurance companies in Japan, which affect British interests among others.

We can and will continue to press the need for changes in the EEC industrial forum in Brussels; it is worth saying that the pressure on Japan for greater liberalisation should be mainly from European sources as opposed to a purely British source. Although you personally are highly regarded in Japan it is desirable to avoid specifically anti-British attitudes being generated in Tokyo. In that context, it was interesting to read in The Times of 18 August, a "vigorous criticism of British management, workers and unions" by Mr. Miyoshi, the Director-General of the Keidanren. The timing of these comments is clearly designed to coincide with your visit, but they are made in the context of a desire to promote measures to strengthen industrial co-operation between Japan and Britain, which will be central to your discussions in Japan. Our own discussions with the Keidanren over the past two years drew some acknowledgement that there was room for more even-handedness in Japanese commercial practices, but as time has passed we have seen little evidence of this. We would agree with the Keidanren, however, that at least some of the hope for improvement lies in the hands of British management.

/ ...

With regard to Japanese imports into the UK market, we are still concerned over the actual and potential threats from Japan's penetration in such sectors as cars and electronics. Not only do existing voluntary restraint agreements need official support from both the British and Japanese Governments, but we need Governmental help, in the shape of specific monitoring by our Embassy staff of developments in Japan which could threaten sectors of British industry. At the same time, we appreciate that British industry itself, via trade associations and companies already operating in Japan, can and must contribute to this process.

As to beneficial inward investment by Japanese companies in the UK, it would be unfortunate if the apparent shelving of the Nissan project discouraged further Japanese investment in Britain, although we of course appreciate that HMG as such can do little directly to influence such decisions by Japanese industry. Once again, the main thrust need be from British management.

I should add that we aired all these matters at a very useful meeting with Lord Cockfield and Mr. Rees on the 16 July, and reached a large measure of agreement on the nature of the problems, even if the solutions are not instantly discernible.

Turning to China, the pre-occupations are on a smaller scale, but nevertheless, they exist. Our exports to China in the first three months of this year have dropped to £21m from a figure of something like £50m in the comparative period in 1981, whereas, over the same period, our imports from China have risen sharply. It is appreciated that the solution to much of this problem lies in the hands of British business, but in spite of a proliferation of inward missions from China, the trading situation from the UK's point of view does not seem to improve.

Two of the complications are: the growing emphasis on counter trade and purchase (i.e. barter); an increasing difficulty in locating the Chinese decision makers, due to reallocation of responsibilities; and, as yet, the undecided roles of such central bodies as the industrial ministries and provincial authorities. Another reason for a diminishing British interest in the market may be a tendency to last minute alterations on the part of the Chinese in project and contract requirements.

But there are bright spots. Within the past few months, Dunlop has signed a contract worth £6.2 m with the Guangzhon Rubber Bureau for the modernisation of a tyre factory near Canton.

You may be interested to know that the Sino-British Trade Council, supported by the CBI, will be paying one of its regular visits to China in November of this year, but should you feel able to discuss in advance of this visit any of the difficulties which British businessmen find in China, this would be very useful.

Finally, no doubt one of your most important preoccupations will be the situation in 15 years' time, when the leased territory in Hong Kong reverts to China. While we realise that this is largely a political matter, British business interests in Hong Kong are so considerable that there cannot be any of them who are not concerned to know what intentions the Chinese authorities may now have in mind.

I have tried in this letter to avoid going into excessive detail in outlining our members' main concerns in this very important part of the world. However, to the extent that you might think it desirable, should your officials wish to go into some of these matters in greater depth, those members of our staff who are involved will be very ready to assist.

*Yours sincerely,  
Campbell Fraser*

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW 1.



2.

10 DOWNING STREET

Prime Minister.

You may like to glance  
at this, especially with your  
visit to Japan in mind.

Sir Campbell Frazar gave it  
to me recently. It is a report  
by a Dunlop employee who  
worked for seven years in the  
firm's Japanese company where  
all the staff but a handful  
are Japanese. I found it v. interesting.

AWH

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**JAPAN**

**A QUESTION OF ATTITUDES**

**A.H. Mc NALLY**

## JAPAN

### INTRODUCTION

In writing this paper on Japan I have concentrated on a presentation of the primary reasons for the differences in the performance of Japanese management and labour versus their Western counterpart. The observations made are generally applicable to all Japanese industry and in most respects reflect my experience of working within a Japanese management team for the past seven years and a study of Japanese business practices as analysed in published literature.

## Industrial Society

Japan is usually viewed as one of the leading capitalist economies in the world, but is it? A study of Japanese business practice suggests that Japan has surpassed the stage of capitalism and that Japanese companies are no longer bound by the rules of capitalist society as it is known to the Western businessman.

Our view of a company operating in capitalist society is of an enterprise, owned by shareholders who, through the board of directors, control the company. The primary purpose of that company is to make profit and provide the shareholders with a return on their investment by the distribution of dividends. This is not the case in Japan, and here is one of the most fundamental differences from which many others derive.

The most important rule governing a company in Japan is that it exists for the sake of its own employees, not for the shareholder. The primary concern of Western management is to seek opportunities for increasing profit. Concentration on the bottom line, which is the primary measurement of management performance, leaves consideration for the employee a secondary matter. Labour is expendable, it is a variable expense which can be manipulated to maximise profit. This quite clearly separates management and labour into two groups with quite different values and aspirations.

In Japan, labour is not expendable. It is a fixed expense. The behaviour of Japanese executives is guided by the belief that their primary mission is to provide a place of work for their employees. Job security takes priority over profitability, hence the drive for market share and growth, often at the expense of profitability. Of the profit that is made, most is retained within the company and reinvested so that a bigger market share and a stronger competitive position may be secured for the benefit of all.

With such an arrangement, labour-management confrontation is rare and because of other national characteristics, team-work and flexibility throughout the whole organisational structure of a Japanese company is the norm.

Where does the shareholder stand in all this? To see things in proportion, it should be noted that most Japanese companies are heavily debt financed with debt/equity ratios of 4 to 1 being quite normal. The typical Japanese investor looks on his shareholding as no different from a deposit in the Post Office or Savings Bank. He does not consider himself part owner of the enterprise. Just as there would be no question of challenging the manner in which the Post Office or bank uses these funds, the same attitude applies to the way in which management uses shareholders' funds. The General Meeting of Shareholders is a formality, usually scripted, running to a pre-set timetable which rarely lasts more than 30 minutes. As most companies pay fixed dividends at fixed periods, it is implied that the shareholder is not expected to share the ups and downs of success or failure. His role in the company management is negligible. Management decisions are therefore directed towards the long-term well being of the company and its employees.

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If one were to set down in order of importance the duties of Japanese management towards the various groups with which they interact it would look something like this:

1. Employees
2. Suppliers
3. Customers
4. Community
5. Government
6. Bankers
7. Shareholders

In dealing with Japan we should therefore recognise that business, whilst structured on similar lines to our own, operates on very different ground rules which impinge significantly on decision making.

#### Management/Labour Co-operation

As has been said earlier, the preoccupation of Japanese executives is with the long-range implications of decision making. What could be more long-term than life-time employment?

In return for this long-term commitment, management receives the workers' whole hearted support, commitment and dedication to the company. The popular term "Japan Incorporated", referring to close ties between business and government, should perhaps more appropriately be used to refer to typical Japanese companies where both labour and management are one and the same, sharing the same values and goals, and therefore able to see eye to eye on company policy.

Problems, which in a Western company would be viewed to be the exclusive responsibility of management, for example, production or industrial engineers in the plant context, are considered differently in Japan. Workers, at plant level, form groups to solve these problems. These groups go under various names, Quality Control Circle, Zero Defect Movement, No Error Movement, but whatever the name, the aim is the same, collective worker participation in creating an efficient and acceptable workplace compatible with the lifetime commitment.

Quality Control Circles are well known. These are usually small groups of six to ten workers who decide on a problem to be studied, with the blessing of management, choose their own leader and meet during breaks or after work to seek out a solution. The original purpose of Q.C. Circles which were introduced into Japan in 1962, was to create the right environment at the workplace and enhance job satisfaction. They were not formed for the purpose of improving productivity and quality control. Their efforts to put things in order and maintain safety led on to more challenging tasks from which the natural spin offs were improved productivity and quality, as these contributed so much to job satisfaction.

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The important feature of Quality Control Circles is the voluntary nature of participation. Management may help in providing direction and professional or technical help and may, in some instances, allow the circles to meet in company time. Recognition of the contributions made by the circles is made in the form of citations or awards for outstanding improvements achieved.

Quite separate from the semi-formalised Q.C. circles are the individual contributions made by the staff and workers through company Suggestion Schemes which, again, demonstrate the value of close management/worker co-operation. In Sumitomo Rubber Industries Ltd. the number of suggestions submitted rose from 15 per head in 1978, the first year the Scheme was positively promoted, to 98 per head in 1981. This in a company employing approximately 4,000 people. The adoption rate in 1981 was 86% and they produced savings of over £5 million.

Management/labour co-operation extends even into the realms of wage and bonus negotiation. Negotiations are long and hard, nevertheless, they are carried out with the long-term interest of the company firmly in mind on both sides. This has been evidenced by the annual wage agreements since 1980 which have been settled with little difficulty at rates below the level of inflation without the immediate threat of unemployment which has conditioned similar negotiations in the United Kingdom in recent years.

As a result of all this, Japanese management have been able to pursue a bold long-term approach because there have been few short-term demands to check their performance. With the support of the various management, financial and political institutions which favour this approach, they simply do what is best for the company in the long run. They are under less pressure than their Western counterparts who are much more competitive and harder working but operate under the handicap of having to motivate an unmotivated workforce.

The co-operative attitude in Japan is probably stronger now than it has ever been. We hear talk of countries like Korea, Taiwan and, eventually, China catching up with Japan but this is doubtful. These countries have already established the contractual work ethic - so much work, so much money. They are making progress but once work processes become more sophisticated so do work rights and obligations and these cannot be reduced to simple contractual terms. In the absence of some instinctive basis on which to operate, these countries are unlikely to reach the levels of efficiency to which Japan is now accustomed.

#### Product Quality

In commenting on Japan's success in the field of quality management, Western observers point to Japanese homogeneity as a race, the high level of education, the feeling of assurance that comes with life-time employment and similar factors. They group all these things under the heading of "cultural factors" when trying to explain the difference from the West. But, are they right?

Within Japan there are large differences in efficiencies between Japanese companies all exposed to the same system or culture.

These differences within Japan display a gap in managerial capability. The newest equipment and a competent workforce do not function well if management is poor. There are numerous examples where companies have run into serious problems, either because of incompetent management or internal struggles at the top, and have been unable to rely on the "cultural factors" for survival. Within the tyre industry Yokohama Rubber was a good example of this in the late '70's. Under new management some of those companies have been rebuilt into prospering organisations. The point is not whether the workforce or staff are competent but whether higher management can provide the leadership necessary to trigger the natural motivation those "cultural factors" are said to promote.

Western management should therefore give as much priority to an examination of its own performance as it is presently giving to an examination of Japanese attitudes.

In many Western factories, workers in the production departments appear not to care beyond completion of the task allotted to them. There is little consciousness of the need to provide the customer with a good product. The introduction of scientific management systems under the broad heading of industrial engineering, whilst making significant contributions to productivity in the context of mass production, brought about a widening in the gap between those who consume and those who produce. They removed very important human factors, the satisfaction of making something and fulfilment from work.

The Quality Control Circle mentioned earlier restores this feeling of fulfilment. It is an attempt to return the concept of manufacture back to the days of the handicrafts. The first consideration is the consumer. The worker is made to recognise that there is a duty that the maker should never sell a defective product to the customer. In doing so a sense of pride in work is re-established and the individual is encouraged to recognise that he is an expert in his own field and the responsibility which this places on him.

An essential part of all this is a regular feedback to the worker of the day to day performance in the workplace. He should be told of the market reaction to the product and how it stands in relation to similar products made by competition. The persistent demand from the marketplace for improvement whether it be for price, quality or design should be fed back to the workplace. In most Western companies these pressures are held in the marketing, technical or engineering departments. In Japanese companies these pressures are viewed as encouragements to do better by everyone from the Managing Director to the lowest level of worker. This total involvement is the key feature of the Japanese philosophy and there is no doubt as to its success.

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It will be a waste of time to ask Western workers to sit around in circles discussing how to improve quality, in its widest sense, unless they are provided with the emotional basis for work involvement or a clear financial return is offered to them for improved quality. If Western management are to attempt this, it should recognise the key factors which have enabled Q.C. circles to work so successfully in Japan.

1. A highly educated and well trained workforce.
2. Team spirit and emotional rewards.
3. Class barriers between management and workers are small resulting in eased communications.
4. The emotional attraction to the company stemming from life-time employment.
5. Union support.

These are factors which society as a whole must tackle if we wish to approach the success of the Japanese in manufacturing industry.

#### The Japanese approach to Productivity

The Japanese set up the Japan Productivity Centre in 1955 with the following philosophy.

- "1. We believe that improvement in productivity eventually leads to expanded employment opportunities. Temporary redundancy should be dealt with to the extent possible by re-allocation thus minimising the risk of unemployment.
2. We believe that specific steps for improving productivity should be studied by joint consultation between labour and management.
3. We believe that the fruits of improved productivity should be fairly distributed among management, labour and consumers."

Such thinking is often heard in the West, but it is applied in a spirit of confrontation between labour and management rather than co-operation.

The success of the Japanese productivity movement is obvious from a comparison of labour productivity changes between 1960 and 1978. In that period, Japanese productivity has improved by 450% compared with: West Germany - 294%; U.K. - 177%; U.S.A. - 164%.

The results may be demonstrated by a comparison of the growths of Per-capita Income in the period 1960-1977 which were as follows: Japan - 1,247%; West Germany - 611%; U.K. - 309%; U.S.A. - 307%.

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We come back to the primary aim of Japanese management, which is that all things are done with a conviction that its ultimate goal should be to improve the welfare of employees. They believe that, no matter what management may do, physical productivity will not improve unless people working in the company are willing to work and retain a feeling of making an important contribution to the success of the company.

In the early days, the Japanese were eager to introduce scientific management from the West, but their approach to its application was different. To them, management involves not only technology but also, equally important, human feeling. Whilst the West takes a technical approach to raising productivity, Japanese efforts are directed to raise the level of satisfaction of workers at the workplace. In other words, they do not manipulate productivity; they draw it out from the natural instinct of the people. It is a cultural approach but one that has been one of Japan's greatest post-war achievements.

The drive for productivity concentrates on the elimination of waste in its widest possible sense, not simply the elimination of scrap or defective products but extending, for example, to the study of the effects of advanced automation and mechanisation, introduced to improve the efficiencies of machines and processes with sophisticated programming but which, in doing so, often leave the operator waiting for the machines to complete their automated cycles. The Japanese worker looks upon himself as a human resource not to be wasted. He is therefore trained to ask himself - "In doing what I do, am I adding value to the product?" If the answer is in the negative he has identified waste and he considers it as much his responsibility as that of management to eliminate that waste.

All this does not negate the responsibility of management to establish and maintain the most efficient manufacturing facilities available to them but it adds a tremendous refinement to the process of manufacture and represents a vast human resource largely neglected by management in the past.

However, amidst the success of its manufacturing efficiency, Japan tolerates an appalling inefficient service sector which currently occupies close to sixty per cent of its G.N.P. The distribution system alone with its army of intermediates produces a delivery service to the consumer difficult to fault, but at the price of enormous mark-ups. The Japanese consumer demands this high level of service, lavish packaging and total after-sales care and accepts the high cost but things are beginning to change.

The service sector has received little attention in the drive for efficiency. Even today, top graduates still queue to join even some of the declining industries in the manufacturing sector but the large service sector industries such as distribution, retailing, housing and transport have had the greatest difficulty attracting even the residues from the lower rated universities. This is now changing with the Economic Planning Agency calling for greater attention to the service sector.

If the Japanese tackle the service sector with the same approach as they have used in the manufacturing sector, great strides can be made in the economy, without the external reaction that has occurred with the growth of trade friction. Progress is already being made. In recent years, growth from the non-manufacturing sector has provided a major prop for the economy. It is significant to note that the rate of increase in the consumer price index is now quite a few points below that of the wholesale index rate, mainly because of a rapid increase in service sector efficiency. Much can be gained from a rather simple change in outlook and economic priority.

### The Group

The Japanese are not the careful, calculating planners many people imagine. Their success relates more to their ability to react to circumstances and is tied in to other and more emotional factors. To the outside world, Japan seems to provide the model of modern rational planning but this is not so.

Japan left feudalism barely a hundred years ago and many of their basic values and attitudes today are hangovers from that period. Group loyalty is one such example. If people are required to work purposefully and co-operatively in any enterprise, they will not do so on the basis of rationalistic reason alone. They have to be persuaded to work for the sake of working and to co-operate for the sake of co-operating.

It is an emotional instinctive thing which comes much more easily to those who have been subjected to the emotional values that usually go with well developed feudalism. Northern Europe, like Japan, has feudal origins and, like Japan, developed very successful industrial societies but it abandoned feudalism much earlier and it may be significant to note that the U.K., which was the first to do so, was the first to run into enterprise productivity problems.

Groups, and perhaps the simplest is the family, operate on an emotional and instinctive basis. Goals are felt instinctively. Mutual rights and obligations are decided in the same way. In Japan, the concept of the Group is spread through the whole of society. There is such a concept in the West but there is a subtle difference which can be expressed clearly in two simple mathematical equations:-

$$\begin{aligned} 1 + 1 + 1 + 1 + 1 + \text{----} &= \text{Western Group} \\ 1 \times 1 \times 1 \times 1 \times 1 \times \text{----} &= \text{Japanese Group} \end{aligned}$$

In the first, adding or subtracting an individual changes the nature of the Group. In the second, the individual is present but as an individual does not really count but all the individuals are inter-dependent. The Western Group stems from the individuals but in Japan the group orientation of individuals starts from the Group.

Japan's great strength stems from a highly developed awareness of the Group's welfare as the means of protecting the interests of the individual. This awareness is present from the levels of national government to the lowest level of worker. It produces a focus on responsibility and sacrifice for the common good. The dominant Japanese relevant value would be described as the primacy of community, whereas, in the West, the primacy of the individual dominates, focussing on self-realization and freedom of choice, individual rights and justice, with little trace of shared responsibility.

Whilst this feature of the Japanese character may be viewed as a strength, it does have its drawbacks. Japan may seem to have the structure of a standard Western style democracy where the various units of society will, in the last resort, submit to the basic principles of the society and the control of central government. This is an illusion. This feature of their society requires that the survival of the Group remains all important. There have been several instances in recent history where even the national interest has been allowed to suffer because the interests of certain groups have so demanded. This is rarely seen to happen in the private sector where the normal forces of competition can check excesses by one group but the public sector has no ready mechanism for controlling excesses.

Japan has survived and prospered because of the strength and vitality of its private sector and an understanding, since the war, of the need to limit the public sector, not as a result of some principle of national planning and discipline.

#### Management

There is a fundamental difference in outlook between the Western and Japanese manager. To the Western manager, life is seen as a series of problems which, with the use of reason and mathematics, are soluable. However, to the Japanese, life confronts them with new situations and with every new situation, their system of relationships is disrupted and must be harmoniously reset in order that inter-relationships and the flow of communication may function freely again. This applies both within and between groups and works because each individual acknowledges and keeps his social place and fulfils the task that is prescribed for him at any point in time.

To the Western mind, authority is normally vested in the leader who, in the normal course of events, is "outstanding". This is completely contrary to the structure of Japanese society where nobody should "stand out". In fact, authority is normally delegated to one who "stands in", or remains an intrinsic part of his group and therefore facilitates communication or interchange among all members of the group.

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The Japanese leader has normally grown up with the group and has a talent, reinforced by training, for keeping an exchange of communication going. He is able to anticipate, by his deep understanding of all the members of a group, what would achieve unanimous approval before a proposal is made. As a result, authority and responsibility are distributed among all members of the group.

As such, no real authority exists, only responsibility, and therefore there is no such thing as an order or command. Instructions do pass down an organisation but these are not imposed instructions. They simply express the impersonal wish of the whole organisation. A command cannot, therefore, be imposed from outside the group but must grow from inside.

With this situation, decision-making is complex and laborious but perhaps, more importantly, is sound and effective.

The mechanics of decision-making in a Japanese company depend on a formal document called a "Ringisho" which is a detailed statement of proposals to be circulated to relevant departments and then submitted to top executives for authorisation.

A manager normally delegates the preparation of this document to a subordinate in his group and in so doing automatically involves a lower level of management in the decision-making process since he will spend many hours negotiating an adjustment of views within his own group before the document is ready for circulation upwards through the management in that particular function and across and upwards through other functions.

Before the "Ringisho" is circulated to other groups for detailed examination and criticism, the manager concerned will call a meeting of the heads of the other groups involved to clear immediate questions and objections. This process, known as "Nema washi", meaning literally "digging around the roots", clears what we would refer to as the internal politics in a Western organisation.

The "Ringisho" will be modified as it progresses through this screening process until everybody who is involved in the proposal in any way accepts it in its entirety. This does not necessarily mean unanimity of view as individuals often suppress their own views for the benefit of a wider management view.

When seals or signatures of all the levels and functions of management concerned have been applied to the "Ringisho", it is then passed to top management for authorisation. By this stage, this is usually a matter of form. On approval, the manager who initiated the proposal has his authority to proceed and all other functions involved know precisely where they fit into the plan and automatically make their contribution. As a result, the execution of plans in a Japanese company can rarely be faulted.

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The system means that authority in a Japanese company is delegated downwards on an ad hoc basis. It is commonly referred to as bottom/up management as opposed to the Western system of top/down. It works extremely well but calls for a much higher level of communication within an organisation than is customarily achieved in Western companies.

#### The Influence of Advancement

Visitors to Japan see the overpowering growth of Westernisation and affluence. Traditional Japan is disclosed to them in the form of preserved tourist attractions, or so it appears. What they do not perceive is that Traditional Japan remains in the heart and character of the people.

The Japanese are great assimilators. Over the past century they have adopted tremendous Western influence and this is what the Westerner sees, but it should be realised that the Japanese adopt very few things at their face value. They take them in, adapt and transform them and make them distinctly Japanese. Westernisation is a surface phenomenon which has barely touched the inner and emotional character of the Japanese.

From a very early age, Japanese children are taught by what we in the West would consider the old fashioned method of rote memory. Their obligations to society are driven into them by constant repetition almost to the point of being a ritual, until recognition and acceptance becomes virtually a reflex. From an early age they become accustomed to serving, working and accomplishing so that their minds react automatically to incentives to activity.

In the West, we direct our children, through family upbringing and education, to stand on their own feet. We encourage independence. In Japan, the emphasis is on inter-dependence. The family, as has been mentioned earlier, is the simplest form of group in society and within that group, the child is reared to recognise its obligations to that group, not as a social pressure or moral obligation but rather as its very reason for existence.

The transfer of that feeling of obligation to the group within which that child develops as it grows up through school, college or university and, ultimately, work, is virtually automatic.

There is some divergence seen in the youth of Japan which is tolerated by society but that is not a new phenomenon. Youth, it has always been claimed, is not very aware of the conditions of human existence and allowances are made. Once a young man enters employment, however, no indifference to the rules of Japanese society is tolerated. Any Japanese who flouted his situational or social obligations would very soon find himself an outcast and, in a country where the greatest problem for the Westerner living there is to find solitude, loneliness is the prime weapon used to enforce the basic law of society.

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The external trappings of Westernisation have been adapted aggressively by the Japanese but Western values have been largely rejected in favour of their own. We might ask ourselves why. I would simply point to the one factor of density of population. Without the harmony which the rules of Japanese society maintain, life in Japan would become intolerable.

The progress that Japan has made is therefore unlikely to change the basic character of the Japanese to any significant extent. The Japanese know this is their strength and will maintain it for survival, the prime motivation understood by every Japanese from a very early age, when they view their country in a world context.

AHMcN/PMW  
30/6/82





H M. Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 .....

Sir Kenneth Couzens, KCB  
Second Permanent Secretary  
Overseas Finance

Dear Robin  
John  
Might be useful  
Robin

As arranged — in case it is  
of use.

Yours ever

Ken

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Japan has derived great advantages from the opening trading system and from the free market framework of the non-Communist world. Its gains have probably been greater than those of any other nation in the postwar period. The industry and ingenuity of the Japanese people have flourished in this framework of freedom.

2. The spectacular growth of the Japanese economy has been built on success in exporting. The rapid growth of the world economy in the two decades preceding the first oil shock was able to accommodate this. But I know that the Japanese Government accepts that in a world of slow growth and high unemployment future Japanese growth cannot be built on net exports. I was glad to see that in the second quarter of this year Japan achieved useful economic growth from increased domestic demand, and that was in accordance with the wishes of the Japanese Government. Japan's economy is now the second most important in the world and the Japanese domestic market is correspondingly large.

3. For the open trading system, which has brought such benefits to Japan, carries with it obligations as well as benefits. Relative to GNP, Japan imports far fewer manufactured goods than the economies of Western Europe or of North America. In this respect its structure is still different from that of other major developed economies of the free world. It is urgent that this situation should change if we are to avoid trade friction and protectionism. It is equally urgent that Japan should avoid a continuously undervalued currency. This was indeed part of the obligation about maintaining the internal and external value of our currencies which the 7 industrial nations accepted at Versailles in the interests of lower world inflation and greater currency stability.

4. I know these points are understood by the Japanese authorities. I applaud too the success which Japan has had in reducing inflation to the lowest level in any of the major economies. But because we

must not undermine the open trading system, I think it is in all our interest to be frank about the need for a major change in the source of growth for the Japanese economy. With that goes an urgent need for higher imports of manufactured goods from its trading partners as part of Japan's contribution to openness in world trade.

cc Japan: Policy on PM's Trip  
Original on Anglo Japanese Relations  
Part 2

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10 DOWNING STREET

*From the Private Secretary*

31 August 1982

Exports of Japanese Machine Tools

I told you that the Prime Minister was anxious to send an early reply to Sir Julian Ridsdale's letter of 24 August which I sent to you on 25 August, in which he expressed his concern about growing levels of exports of Japanese machine tools and the state of the UK industry.

The Prime Minister has since seen FCO telegram number 316 to Tokyo of 24 August, which explains that proposals will be submitted to Trade and Industry Ministers this week on this subject. She has commented that this timetable must not slip and that she must be informed of the decisions reached by Trade and Industry Ministers in good time before her trip to the Far East, preferably by the beginning of next week.

W. F. S. MCKEY

Dr. David Saunders,  
Department of Industry.

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