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In 2 Sections — Section 2

## JAPAN: THE GROWTH ECONOMY



*Partial View of the Business and Financial Centre of Tokyo*

(Photo: Courtesy of Consulate General of Japan, New York)

## SOUND INVESTMENT OPPORTUNITIES IN WORLD'S FASTEST GROWING NATION

# Japan: The Growth Economy

By Edward Marcus, Professor of Economics, Brooklyn College, and Mildred Rendl Marcus, Economic Consultant, New York City

Not too well known is that Japan's unparalleled postwar economic growth and export recovery, until it slowed down in 1961-62, stems from a significant increase in capital-intensive production industries. Japan, for example, has become the world's fourth largest crude steel and pig iron producer and its over-all growth rate exceeds even that of Western Germany's "miracle" performance. Gross domestic investment was 37% of GNP in 1957 and 43% in 1961 and has been accompanied by modern innovational changes—so much so, that Japan no longer is the leading exporter of goods based on cheap labor. Japan plans to double its GNP and exports by 1970, and faces the problem of exporting more in order to import more, and to achieve the economies of large-scale production its built-up capacity can produce. Described here are the reasons for Japan's solid, startling industrial advance, the changes in the capital market and capital financing methods, and the bright opportunities the Land of the Rising Sun offer.

The economic growth rate of Japan, from the postwar recovery to the present, is the most outstanding in the world. It surpasses



Edward Marcus Mildred R. Marcus

that of West Germany whose economic rehabilitation, and expansion has been called the "miracle" of the 20th Century. The reasons for Japan's phenomenal economic growth are many, but the central fact seems to be that creativity in Japan is automatically channeled into economic activity. From the fiscal years 1957 to 1961 gross national product at constant prices increased 58%, an average annual rate of 12.1%. During the same period gross domestic investment increased from \$9 billion (31.6% of gross national product) to \$21

billion (42.6% of gross national product), an increase of 135%. The wholesale price index was relatively stable from 1952 to 1960, but rose 3.8% in 1961 over 1960 primarily because of a rise in construction material costs during a period of high investment. Latest data show that the June 1962 wholesale index was 104.0 compared to 105.0 in June of 1961.

Japan is a nation which must trade in order to survive. Since it lacks nearly all of the principal raw materials necessary to its industrialized economy, it must import the major portion of its iron ore, petroleum, rubber, cotton and wool. However, Japan's postwar trade has undergone a radical transformation in commodity composition with the development of new export products brought about by its willingness to respond to technological change. During the prewar period textiles accounted for 50% of Japanese exports and machinery for 6%; in 1961 textiles decreased to 27%, and machinery increased to 27% of total exports. During the prewar period mineral fuel and metal ore imports were 17% of total imports; in 1961 this rose to 32%.

Japan has made an intensive effort to convert its export trade from low quality labor-intensive commodities to highly technical new export items like locomotives, cameras, binoculars and machinery with rigorously controlled quality. Many Japanese exports are now capital rather than labor intensive, but they are also cyclically sensitive. However, even in labor-intensive industries the Japanese have a superior capacity to compete because of production and marketing efficiency. For example, transistors which are an American invention were initially exported to Japan, but in a very short time the United States became a net importer of Japanese transistors.

The foundation of Japan's industrial and commercial structure was laid in its feudal period, but the concentration on economic values began to accelerate from the year of the Meiji Restoration in 1868. Since then Japan has experienced commercial and industrial revolutions, Westernization, Empire, World War II, and an unparalleled postwar economic growth. Japan has, in fact, compressed into a period of less than 100 years a rough economic history of Europe since the 14th or 15th Century. Today Japan's ambitious program is the doubling of its national income in the ten-year period to 1970, an average annual growth rate of 7.2%. During the past year gross domestic product increased 4½% to 5%, a decline from previous years, but still excellent when compared with the growth rates in the United States and the United Kingdom.

## Economic Role

Japan consists of four main islands: Honshu, Hokkaido, Kyushu and Shikoku, an area smaller than California but with a population of 95 million people which is more than half the population of the United States. The population is the sixth largest in the world after Communist China, India, U. S. S. R., the United States and

Indonesia, and estimates place the population increase at approximately one million per year. Population density is about 675 per square mile, but since the country is so mountainous and only about 19% of the total area is available for cultivation, the population density is more than 3,500 people per square mile of cultivated land. Agriculture is still the most important single occupation of the Japanese even though there has been a steady drop in the percentage of persons in agriculture. However, while foods and beverages accounted for 23% of total Japanese imports in 1934-36, they accounted for only 12% in 1961. Japanese farms are intensively cultivated and yield more per acre than the average American or European farm, while the yield of rice per acre is about two or three times that of India, Indochina and the Philippines. The scarcity of land makes animal husbandry unimportant, while 65% of the protein in the Japanese diet is from fish.

While agriculture, forestry and fishing declined from 32% of gross domestic product in 1948 to 15% in 1961, manufacturing increased from 23% to 30% during the same time period; electricity, transport and communication doubled in importance and trade and commerce rose from 12% to 16% of gross domestic product.

## World's Fourth Largest Steel and Pig Iron Producer

Japan is now the fourth largest producer of crude steel and pig iron in the world, after the United States, U. S. S. R., and West Germany. Japanese production in each of these areas tripled in the six years from 1955 to 1961, surpassing the United Kingdom and France. From 1955 to 1961 machinery production in Japan increased six and one-half times, electrical machinery manufacture nine times, vehicle production eight times, oil refining 3.8 times and chemicals 2.4 times.

While wages rose 54% from 1952 to 1959, the increase in productivity was even greater, thus cutting wage costs per unit in contrast to rising trends in the United States and Western Europe. Still, the Japanese worker's hourly wage of 26 cents in manufacturing industries is about one-ninth that of American workers, one-third the British, and one-half the West German. About half the firms in Japan employ 50 or fewer workers, compared with 15% in the United States. These small,

usually capital-poor firms, pay about half the wage rates paid in large Japanese firms but are able to compete because of high labor productivity, low economy of scale and product differentiation. In addition, high interest rates and credit discrimination against small-scale producers makes the climate favorable for the maintenance of labor-intensive methods. The high labor absorptive capacity of these small indigenous production facilities helps provide "total employment," but since they operate under less efficient conditions than large-scale industry, there is a good deal of under-employment. These is a lack of mobility of labor in Japan because workers join firms for life and are rarely dismissed. Wages are increased on a seniority basis, often to the detriment of efficiency, but trade unions are weak. However, a growing share of Japan's external trade is capital rather than labor-intensive, and Japan no longer holds the leading position in foreign trade based on cheap labor. This dubious honor is now Hong Kong's, followed by India and, potentially, Mainland China.

## Saving and Investment

There has been relative stability in the orientation of the Japanese domestic consumer sector towards indigenous labor-intensive products. Thus increases in per capita income have placed minimal demands on scarce capital. Today per capita income is only \$400 in Japan, ranking about 30th among the nations of the world, although her gross national income over the past few years ranks eighth or ninth, as does her place in volume of world trade. And although personal consumption in Japan has more than doubled since the postwar recovery, based on the prewar index, and real wages have doubled since 1952, the outstanding characteristic of the Japanese economy is the extraordinarily high level of savings and investment. During the fiscal years 1957 to 1961, the percentage of personal disposable income saved averaged 18%.

In 1957 gross domestic investment was about 32% of gross national product and in 1961 over 43%. This high investment explains Japan's extraordinary growth in productive capacity rather than in effective demand. There has been a remarkable progress in industrial techniques, the introduction of new products, the improvement of management

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and the replacement of obsolete equipment. This stress on innovative investment for a growth factor is also characterized by a mixed private and public sector plan. Japan's deep-seated tradition of government paternalism is a subtle but very powerful force in its economic development. It also indicates that Japanese authorities may in the future enlarge their role beyond conventional fiscal monetary measures in order to insure private business confidence in growth and stability. At the present time the Japanese Government in collaboration with the private sector, prepares an overall economic plan which is carried out largely by private business enterprises under the guidance of the government, and in effect amounts to a government policy of controlled capital investment.

**Private-Public Mixture**

Gross fixed investment, excluding inventories, was about \$4.2 billion in 1954 and \$12.2 billion in 1960. In 1954, 62% of the total gross fixed investment was private and 38% government; in 1960, 72% was private and 28% was government. During both of these years more than a quarter of gross capital formation, including fixed investment and inventories, was provided for by depreciation, but the amount accounted for by savings increased from 60% in 1954 to approximately 75% in 1960. The share of total savings from 1954 to 1960 changed as follows: private enterprise savings from 18% to 24%, government savings from 28% to 30% and household savings from 54% to 46%.

During the same time period (1954 vs. 1960) gross fixed investment increased from 20 to 31% of gross national product, inventories increased from 4 to 6%, exports of goods and services remained a stable 13% of GNP, imports of goods and services remained at 12%, but private consumption declined from 63% of GNP in 1954 to 54% in 1960.

While the employment index,

excluding agriculture, rose one-half from 1953 to 1960, and the percent unemployed remained low (about 1%), the consumer price index increased 9% from 1959 to 1961 after comparative stability over the previous five or six years. At the same time labor productivity increased more rapidly than real wages, the latter standing 75% above 1955 by 1961.

Although such factors have made possible the rapid economic growth of Japan and the high rate of capital investment, the consumer attitude of strong attachment to indigenous labor-intensive products plus a high rate of savings has weakened the domestic market for the output of modern consumer goods. Therefore, consumer durables like automobiles and refrigerators which require a large market in order to maximize returns to scale, are expensive in Japan because the market is not readily available at home. The result is increased stress on export items.

However, an important aim of the Japanese is to raise their own living standards towards those of comparably developed and industrialized nations. In order to do this it is necessary to shift consumer preference away from traditional and indigenous labor-intensive products. The consequent increased development of market demand in modern consumer goods at home would cut the savings proportion of consumer income, and would also change the composition of international trade.

**International Trade**

Like Great Britain, Japan must trade to survive. In 1890 its export trade, primarily silk, tea and porcelain was \$27 million; by 1920 it reached \$945 million. During the Twenties, Japan gradually began to export items such as textiles, leather goods and hardware which it previously imported. It definitely was on the offensive in foreign trade. Between 1928 and 1935 Japan became the leading textile exporter in the world and by 1937 was a leading country in world trade. However, im-

ports grew faster than exports during the Thirties and Japan began to have adverse balances of trade although the trade deficit was usually offset by net earnings on shipping and foreign investment. The depression brought many changes in the world including controlled trade and managed currencies. At first Japan responded by depreciating the Yen, increasing efficiency, depressing wages at home and "dumping" goods abroad. Nevertheless, it regarded its economic relations as threatened and finally

responded by military expansion and economic nationalism.

Considerable production facilities existed in Japan after the war although many of the major factories and mills required rehabilitation in the changeover from war production. Early in 1946, Japanese factories were operating at one-third of the 1930-37 level. The end of the war also brought about the breakup of the economic empire of the Zaibatsu, a financial clique which had control over almost all important industry, banking, shipping and

commerce. After the problem of war reparations was tackled and the controls of the occupation authorities were weakened, Japanese industry responded quickly. In addition, the United States gave Japan \$2 billion of aid from 1945 to 1951 and also made grants of credit to Japan to enable it to import raw materials for processing and re-export.

Beginning in the middle of 1950 the United States Government placed large orders with various Japanese manufacturing firms to

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# Japanese Industries With Marked Growth Outlook

By Mutsuji Nakano, President, Yamaichi Securities Co. of New York

Exceptional growth prospects depicted for both the Japanese economy and securities generally include Mr. Nakano's assessment of nine different industries expected to do better than the market's over-all performance. Attention is called to the confidence reflected in the growing foreign purchase of Japanese securities, and to the favorable indications suggesting an early end to remaining six-months holding restriction on capital repatriation. Mr. Nakano indicates to what extent further trade liberalization will affect growth trend for some industries, and he identifies some of the major U. S. firms which have linked themselves with Japan through joint ventures, technological agreements or wholly-owned branches.

It is estimated that over \$100,000,000 in Japanese securities will have been purchased in the open market by foreign investors by the end of the year.

This topping of the \$100,000,000 mark—it exceeded \$55,000,000 in 1961 and \$82,000,000 in 1962—is a vote of confidence by foreign institutions and individuals in the growth potential of the most heavily industrialized free nation in the Far East.

Judging by past performance this confidence should stand the measure of time. Here is just part of the record: 344 securities continuously listed on the Tokyo Exchange from the date of its reopening on May 16, 1949 showed an average growth rate<sup>1</sup> on original investment of 55.6 as of January 4, 1962.

<sup>1</sup> Growth rate of original investment equals current price per share times growth rate of an original share minus total payments for new shares resulting from an original share. Per-share price at the basic date.



Mutsuji Nakano

Precision machinery stocks led with a 239 growth rate. Electrical equipment, real estate, miscellaneous manufacturing, marine products, machinery and foodstuffs also exceeded the 55.6 average. A detailed analysis of these groups reveals that camera shares reached a growth rate of 305, watches 278, communication equipment 703 and industrial instruments 501.

## Factors Underlying Growth

Powering this tremendous growth of Japan's industry following the war initially was the need for reconstruction. This quickly—almost imperceptibly—swung into phase two, a drive by Japanese industry to raise productivity, to streamline, to modernize, to become competitive on the world markets on a quality rather than a price basis.

The Japanese Government also met the needs of a modern industrial nation with vast road building, water control and other works programs.

To build up the economy after the war, the Japanese Government clamped rigid restrictions on currency conversion by foreign investors.

As the country's gross national product grew—it has shown an

average rate of growth of 9.5%, the world's highest—currency restrictions on foreign investment have been eased steadily. Today, foreign purchasers of Japanese stocks need to hold their securities for a minimum period of six months if they wish to convert the proceeds into their native currency. If they sell before the six month period expires, they must reinvest and the waiting period starts all over again. Dividends, however, are paid promptly in dollars or other foreign currencies.

At this moment, the financial community is awaiting the removal of this last barrier to free conversion of invested funds. When that occurs, investment in Japanese securities should become even more interesting to foreigners.

Another vanishing hurdle to freer participation by foreigners in Japan's rapidly expanding economy is the easing of import barriers by the Japanese Government. Last year up to 88% of import restrictions were liberalized. The remaining group is expected to be done away with during the next few years.

This will open the door wide to foreign competition and will undoubtedly affect the growth prospects of some industries. Others are expected to remain virtually unaffected by the prospect of foreign competition and during the coming years selectivity will become a paramount consideration in the choice of securities by institutions or individual investors.

Many American and European companies already have taken significant positions in Japan's industrial complex through the establishment of joint ventures with Japanese companies, the formulation of technological agreements or the establishment of wholly-owned branch operations.

Among the major American companies falling into these categories are Monsanto Chemical Co., Tidewater Oil Co., Corning Glass Works, International General

Electric, Westinghouse, Minneapolis-Honeywell and IBM.

## 1963 To Be a Good Year

Last year almost every market throughout the world fared poorly. But the resilience of Japan's was strikingly demonstrated by its recovery at the close of 1962.

During July, 1961, the Tokyo Exchange's index had reached an all-time high of Y1,829 and began to spiral downward bottoming out at Y1,216 on Oct. 29, 1962. By the year's end the market had recovered dramatically closing less than 1% under the Y1,425 registered on the first day of the year. Currency reserves which had dipped to about \$1.5 billion, a result of the nation's massive industrial expansion effort which marked 1961, had climbed back to over \$1.8 billion by October 1962.

As this is written, the averages are continuing their upswing reaching Y1,541.45 on March 18. The 1963 market thus far has been dominated by the lowering of interest rates, the open market operations by the Bank of Japan, diminishing of inventories as personal expenditures remain high and export markets continue to firm, and the improving tone in corporate earnings.

Large sums earmarked by the government for public works—new roads, subways, port facilities, etc.—are adding impetus to the economy. There is every expectation too that by the end of this year there will be a noticeable pick-up in capital investment by industry.

## Selectivity Remains Key to Investment

As the economy forges ahead some industries will of necessity enjoy better market action on the exchanges.

The following are those which Yamaichi believes will prove interesting for investors:

**Construction:** Prospects for Japan's construction companies—particularly those in civil engineering—are expected to remain bright during 1963 due to continuing government spending on public works projects. Government budget proposals for fiscal 1963 call for expenditures of \$253.6 million for flood and landslide prevention, up from the \$227.9 million earmarked for 1962; \$571.6 million for road construction and maintenance in 1963 compared with the \$493.4 million for 1962, and \$98.9 million for port and harbor construction in 1963 against \$87 million in 1962. Government loans and investment for road construction are expected to reach \$261 million in 1963 against the \$16 million in 1962.

**Cement:** During the first half of 1962, cement manufacturers shipped 13,647,000 metric tons, 12% over the same period for the preceding year. Increasing monthly demand continued to whittle down inventories and at the end of last October only a week's supply—considered marginal—was on hand despite steadily increasing production. Total sales for fiscal 1962 are estimated at 28,000,000 metric tons and at 33,000,000 metric tons during fiscal 1963.

**Synthetic Fibers:** Japan has become a major producer of synthetics, second only to the United

States. The Ministry of International Trade & Industry anticipates an annual increase of 20% in demand for the foreseeable future. While there will be intensified competition in certain categories, the old established manufacturers are expected to continue to do well.

**Communication Equipment:** From the longer point of view continuing growth of government-owned Nippon Telegraph & Telephone will keep demand for telephonic and telegraphic equipment at a high level. NTT's five year program starting fiscal 1963 calls for the installation of 5,000,000 new telephones at a cost of \$4.9 million. The five-year program scheduled to begin in fiscal 1968 envisions expenditures of \$7.5 million. Various government agencies as well as private installation of teletypewriters, television, radio and wire broadcast equipment also will add to the demand for this industry's products.

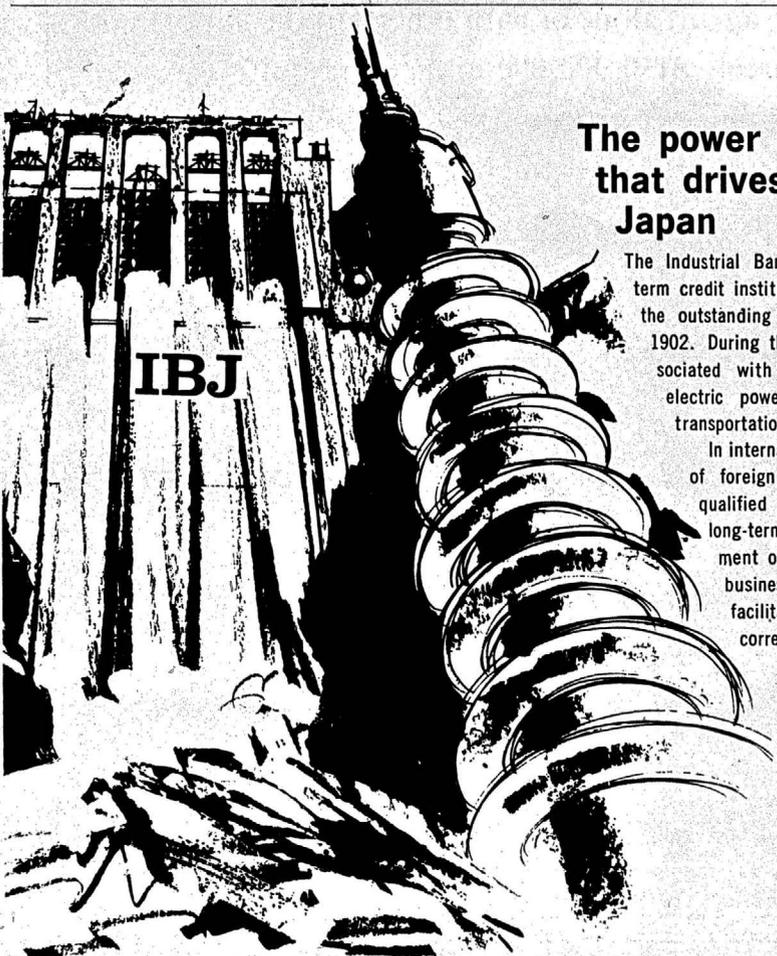
**Electronics & Electrical Equipment:** Japan's transistor radios and television receivers are well known throughout the world. Many producers have broadened their sales base to include home appliances—washing machines, refrigerators, vacuum cleaners, etc.—while the giants of the industry also are emphasizing the manufacture and export of rolling stock, turbines, generators and other heavy equipment. The expected pick-up in industrial building toward the end of this year should brighten the prospects of this group.

**Pharmaceutical:** The Pharmaceutical Economy Research Institute anticipates a 7% annual growth rate through 1965. Total pharmaceutical production and trade is estimated at \$666.6 million for 1962, \$722.2 million for 1963, \$777.8 million for 1964 and \$833.3 million for 1965.

**Foodstuffs:** The ever-rising standard of living of the Japanese people has brought about striking changes in their eating habits. Coming to the fore now are milk products, confectionery, frozen and canned foods. Selected companies in these segments of the food industry are expected to do well despite relaxation of trade barriers.

**Utilities:** The increasing use of appliances and the growth of industry should have a favorable effect on the electric and gas utilities. The adoption of the "fair-return" basis for rate structures also should aid the utilities' earnings outlook.

**Automotive:** Long known for its trucks and buses, Japan's automotive industry is emphasizing passenger car production today. The industry has made a massive effort to streamline its plants in anticipation of an increase in foreign imports, possibly within the next two years. Passenger cars now account for about 30% of total automotive production and is expected to increase as the standard of living continues to grow and as export demand particularly in Southeast Asia grows. Although the industry's problems now loom large there is every indication that the major companies will continue to drive ahead despite intensive domestic competition and imports from abroad.



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# Sound Financial Policies Key to Japan's Rapid Growth

By Risaburo Ohta, Governor,  
The Japan Development Bank, Tokyo

Japanese governmental agency head attributes his country's remarkably rapid expansion to the economy's over-all modernization and drastically changed industrial structure facilitated by sound financial policy and capital financing. Mr. Ohta describes: (1) the shift of labor from agriculture to industry and heavy industry's development; (2) progress in exports and in overcoming external payment difficulties; and (3) extent and sources of private and government capital financing. With regard to the latter, Japan's banks and, lately, new stocks and bonds have played an important role as suppliers of equipment funds to industry. In addition, government financial institutions have supplied about 10% of equipment funds, and foreign capital is credited with easing the shortage of domestic funds and helping to balance the nation's external payments. The bank's Governor is convinced Japan's improving attraction to foreign investors will continue, and that domestic financing inadequacies will be overcome.

## I

### Nation's High Economic Growth

After having passed through the post-war reconstruction period Japan made new economic strides. Since 1952,

our nation has been able to continue her rapid economic growth while overcoming by a sound financial policy the external payments difficulties and several business fluctuations encountered. Her



Risaburo Ohta

Gross National Product was almost trebled and industrial production increased by about 4.6 times during the past decade.

This remarkable economic growth can be attributed to the facts that the Japanese economy as a whole has been modernized and her industrial structure drastically changed to make it more productive. It is also notable that the nation was diligent and the Government took sound and reasonable financial policy, and the U. S. financial aid in the early days of the post-war economy contributed to the economic reconstruction.

The disposition of Japanese employment has also been changed conspicuously by the shift in the labor from agriculture to industry. Parallel with the development of modern industry in Japan, wage levels have sharply risen not only in large enterprises but in small and medium sized ones and agriculture, where wages used to remain at a relatively low level.

## II

### The Present Industrial Pattern

Light industry, particularly that of textiles, held the leading place in Japan's pre-war industry. In the process of post-war economic development, heavy industry rapidly developed, the industrial structure was modernized and a number of industries attained to world fame.

Take the ship-building industry for instance. It took a rapid step toward rationalization soon after the war, and became the world's largest producer from 1956. Its exports at present constitute a large share of the world export market.

The iron and steel industry has also actively modernized and ra-

tionalized its production facilities after the war. Thus it could overcome the demolition caused by the war and became one of the most modernized and technologically advanced industries in the world. In the production of crude steel Japan ranks fourth in the world followed by the United Kingdom.

Among the industries which have developed their export trade after the war, we may refer to domestic electrical appliances particularly transistor radios and also cameras, motorcycles, etc. These new industries have technical know how and are now exporting many products. In the production of synthetic fiber, Japan ranks second in the world following the United States. In the field of chemical industry, the production capacity of oil refineries has sharply increased, and petro-chemicals and other new industries have been growing. In addition, various machine industries have developed rapidly in recent years.

On the other hand, there are many small and medium sized enterprises, less developed industries as compared with those in the United States and Europe and some depressed industries such as coal mining that are adversely affected by the changing pattern in the consumption of fuel. In these fields modernization or re-conversion is proceeding, though.

As a result of the rapid economic expansion and industrial development, Gross National Product has been boosted to the level of over \$53 billion and the national income per head has approached to that of Italy, though still far below that of the United States. Foreign trade also developed during the past decade. According to foreign trade statistics based on custom clearance, exports to the United States amounted to \$1,067 million in 1961 while imports from the United States, exceeding the exports, amounted to \$2,096 million in the year. Japan is the second largest customer for the United States following Canada.

In accordance with the development of Japan's economy stated above and the movement of the international economy, Japan is making efforts to promote the liberalization of trade and foreign exchanges. She liberalized her import transactions to the extent of 88% and in February 1963 expressed her readiness to accept the recommendation of the Inter-

national Monetary Fund of becoming an Article 8 nation under the IMF Agreement. Some of Japan's industries will be greatly affected by the liberalization. Nevertheless, the Government is intending to promote further trade. The industry itself is carrying out its rationalization program more than ever in preparation for the liberalization.

## III

### Characteristics of Japan's Industrial Finance

While Japanese industry continued its high rate of growth,

production expanded, new products and technical knowledge were imported or developed and industrial equipment was modernized. And it can safely be said that these developments were prompted through the initiatives of private enterprisers.

Our nation has a considerably well developed banking system. Japan's national savings constitute a high percentage of her national income. But the national economy developed so rapidly that industry did not have sufficient funds to meet its financial needs. Conse-

quently, industry was obliged to depend much upon outside funds in financing its facilities. It is one of the characteristics of the Japanese industrial financial system that the commercial banks extend to the industry a considerably large amount of equipment fund loans, which are similar in substance to the U. S. commercial bank's term loans.

The industry raised about half of the equipment funds needed through the issue of new stocks and bonds. The stock market expanded to a considerable extent

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# Japan Plans to End Controls To Meet Highest IMF Status

By Tadashi Ishida, General Manager, New York Office, The Nomura Securities Co., Ltd.

Indicative of Japan's improving external payments-balance are the preparations being made to soon accept Article VIII status in the International Monetary Fund. That article forbids use of exchange control or import restrictions to combat international payments disequilibrium, and entails automatic acceptance of GATT's Article XI instead of the greater protection afforded under GATT's Article XII. In essence, Japan's willingness to allow free currency convertibility and to continue its sizable trade liberalization reflects the soundness of the economy and confidence in being able to compete internationally. Mr. Ishida points out the calmness with which industrial, trade and financial circles have met the news; notes this desirable step is not one without difficulties; reports on interest rate, merger and other changes designed to improve Japan's international competitive position; and relates no noticeable change in stock prices is expected as a result of the epochal move underway.

Early this February the executive directors of the International Monetary Fund adopted a resolution recommending that Japan shift to the status of Article 8 countries. In its resolution, IMF pointed out that import restrictions, which Japan has still been exercising, are not considered necessary any longer for balance of payments reasons. It is also requested that restrictions on payments in invisible trade be abolished.



Tadashi Ishida

What would this transfer to an Article 8 nation mean for Japan and its economy? And, what if any, preparations has Japan made for such a switch?

Firstly, it must be pointed out that Japan has anticipated the formal IMF request for some time now. In November of 1962 an IMF observer journeyed to Tokyo

to study the question. Upon leaving, the opinion was expressed that Japan should no longer continue exchange restrictions for reasons of its balance of payments position.

Although this view was held as one man's opinion at that time, there was little doubt in the minds of Japanese Government and business leaders that a formal recommendation would soon follow.

Finance Minister Kakuei Tanaka wasted no time in informing the Diet of the government's intentions, stating that "the government would announce as soon as possible its plans" for shifting Japan to the status of an IMF Article 8 nation.

## Japan's Preparation to Drop Certain Controls

Mr. Tanaka's announcement of IMF's recommendation that Japan drop its foreign trade and exchange controls did not find the country unprepared. Reports of IMF's approval of the resolution found the Government ready to accept. Advanced stages of planning in both trade and economic areas for transition to the IMF

standing have been noted. Most interests center on the Article's prohibition against import restrictions imposed for reasons of unfavorable international payments balances. In September of 1964, when Japan hosts a general meeting of the IMF, Japan will be ready to become the first such Article 8 nation in Asia and the 23rd in the world.

There can be little doubt that IMF's recommended withdrawal of the remaining restrictions should be highly desirable. It will not be a simple matter, of course. There will be some obstacles; all in due time solved. The principal purpose of the IMF, of course, is to promote international monetary cooperation and exchange stability, and to assist in the removal of exchange restrictions.

This move would be of great significance to Japan. In various quarters, the progress toward freeing commerce from all kinds of restrictions, including financial ones, has been considerable. It is eminently clear that Japan, one of the greatest trading nations in the world, could go against the general trend, notwithstanding any natural disadvantages from which she may suffer as a result of limited land surface and lack of natural resources. The advance toward freer trade and monetary exchange must be accepted, whatever changes in the national economy involved.

## Would Permit Free Flow of Capital

In so far as liberalization of imports is concerned, 88% have already been set free; the remaining 12%, it is hoped, will be freed as quickly and as painlessly as possible.

In essence, Article 8 means dollars for the man with the yen. Free controls on foreign currency spending is, in effect, what the IMF asks Japan to do when it adopted its resolution. Eventually—when the transfer is consummated, the people will be able to spend dollars freely, and restric-

tions on the import of various goods (254 items are currently restricted) will be removed.

Overseas travels are now limited to business and scholastic tours, and even then spending is limited to \$35 a day. In the future, the restrictions will be removed to a greater extent. From about September, next year, those with a yen to travel and the necessary yen to spend will be able to make their long-planned overseas trip. Already some 50,000 persons are setting aside money in "overseas travel deposit plans" set up by banks and the Japan Travel Bureau in expectation of a freeing of currency restrictions.

Judging from their travel plans, most depositors want to go to Hawaii (45%), followed by Southeast Asia (17%). Fourteen per cent have their sights set on a round the world tour. French cosmetics and British fabrics will be imported without limit in the future at prices 10% to 20% below current prices.

Full liberalization of trade, however, is still in the future. Lovers of whiskey, for example, will have to be satisfied with a 20% increase in imports, which the Finance Ministry says is a "service" to tipplers.

## Further Trade Liberalization Moves

The International Trade and Industry Ministry greeted the news of Japan's summons to the IMF's world economic elite with confirmation of plans that include the lowering of import hurdles on an additional 150 to 160 items by October of next year. The liberalization list embraces about 75% of the 254 articles on which imports have been restricted to help the nation maintain its international payments balance.

Japan may be criticized at GATT's (General Agreement on Tariffs and Trade) meetings in May and October for its restrictive measures, the Ministry concedes, but that could depend on how many items—including sugar—can be liberalized beforehand. The Ministry has said that it would make every effort to line up the domestic industry and improve the tariff system to meet the new situation. The very fact that it took quick action in revoking GATT's Article 12 to alleviate balance of payments difficulties "is very significant."

The latter decision is in line with the catalytic IMF action. Japan's switch to an Article 8 nation under the IMF also means that it change to an Article 11 country under GATT, automatically curbing Japan from exercising its import restrictions under Article 12. Import liberalization in Japan has thus far been propelled steadily and slowly side by side with various measures to protect domestic industry. It was because of this special consideration in the economic policy that Japanese industry was not seriously affected so far by the progress of liberalization. As the items to be liberalized in the future embrace many products to be acutely affected, it appears likely that many difficult but not insoluble, problems will crop up.

## Calm Reaction in Japan

Financial, trade, monetary and securities circles reacted calmly to the IMF resolution because they had taken its adoption for granted. They were unanimous in the view

that the Government should take effective and prompt measures to strengthen the domestic industrial structure and improve the international competitive power of the nation's industries. (Prime Minister Ikeda has ordered an immediate study of possible measures for facilitating the merger of enterprises and the organization of cartels in order to strengthen the competitive power of industry in international trade. A bill, now under preparation by the International Trade and Industry Ministry, is designed to strengthen the international competitive power of specific industries. Much is dependent on whether or not the new bill can be attained with the framework of the Antimonopoly Law).

Financial observers believe that new applications of the Antimonopoly Law would be their main interest in connection with the IMF resolution. Monetary and banking circles are urging the Government to recognize the normal functions of interest but are a little doubtful about the advisability of lowering money rates by artificial means. Securities dealers held the view that there would be no noticeable change in stock prices as a result of the IMF action.

There is no doubt that the Government should act fast—and it has been. Lowering of the interest rate, for instance, was urged upon the Government as necessary for cushioning the impact of financial liberalization upon the nation's economic structure as soon as the IMF resolution was revealed. This was quickly done, too, when Japan lowered its official bank rate by 0.365% (effective March 20). With the cut, the official discount rate for commercial bills has been lowered from 6.57% to 6.21% and for export bills from 4.38% to 4.02%. This was right in line with Prime Minister's Ikeda's liberalization policy—the easing of import restrictions and foreign exchange controls.

We believe that a further reduction can be anticipated in the near future in view of Japan's still high bank rate (vs. western countries). West Germany and the U. S. have 3% rates; France and Belgium, 3½%; Italy and Great Britain, 4%; and Canada 5%. We should expect commercial bank rates to be lowered shortly.

And soon now, the last barrier to full convertibility of investment funds by non-resident foreigners in Japanese securities may fall. Kakuei Tanaka, Minister of Finance, has announced that he has instructed his administrative staff to make a study for removal of the six-months holding period and allow for free repatriation of all proceeds of Japanese investments by foreigners. The study is expected to be completed by April 1 this year. Lifting of the six-month holding period is expected to open the doors completely to increased foreign investments and, thus, foreign investors would enjoy nearly the same freedom as an investor in any security here in the United States.

Japan is now entering a new era. The past decade saw the country and its economy burgeon to record heights. We believe that as soon as it officially assumes the mantle of an Article 8 IMF nation, Japan's stature as a world nation and its economy will be at the strongest peaks in its history.

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# Impact of Foreign Capital On the Japanese Economy

By Shozo Saji, New York Agent, The Fuji Bank, Ltd.

Experienced banker traces shifts in, and significant rise of, foreign investments in Japan which takes in the growing popularity of Japanese corporations' shares and investment trusts. Mr. Saji looks forward to a more systematic and business-like cultivation of foreign bond markets by Japanese firms; takes cognizance of the internal qualitative problems arising from capital inflow affecting yields spread between money and capital markets as well as the interest rate; and concedes that capital imports still require flexible controls but should continue to decline with Japan's growing viability. The banker sums up the financing accomplished and that planned for the near future; says the next step facing Japanese concerns will be the listing of ADR's on the NYSE; and evaluates the outflow of Japanese capital—though still relatively insignificant compared to reliance on incoming capital.

The influx of long-term capital as well as short-term funds into Japan has risen steadily during recent years. Among the reasons for this development are a strong demand for funds, Japan's high interest rate compared with those abroad, the willingness of foreign companies to supply capital together with technological assistance,



Shozo Saji

and a growing awareness of Japan's investment opportunities. This movement may be expected to become even more pronounced in the future as restrictions on capital transactions are liberalized.

The increasing attractiveness of Japan for the private investor is underlined by two visits of American security analysts during 1962 and similar number of visits from British financial inspection teams.

Since Japan's Foreign Investment Law was adopted in 1950, both the type of foreign capital flowing into Japan and the Government's regulations have changed appreciably. Since July 1962, a foreign investor has been able to repatriate the principal he has invested in equities after holding his stocks for a period of only six months. This marks a sharp departure from the original provisions of the Foreign Investment Law which guaranteed the remittance of dividends in foreign currencies, but made no provisions for repatriation of principal.

## Shift From Government to Private Capital Sources

During the 10-year period from 1950 to 1960, Japanese borrowings were limited mainly to three sources: the International Bank for Reconstruction & Development (World Bank), the U. S. Export-Import Bank, and American commercial banks. In recent years, changes in the lending policies of the World Bank have led to a decline in loans from these two institutions, while borrowings from American commercial banks have risen, marking a shift from governmental to private capital sources.

Between April 1953 and March 1962, Japan had received a total of \$487,900,000 from the World Bank and between April 1956 and March 1962, \$274,000,000 from the Export-Import Bank. With borrowings from the Export-Import Bank tied to exports of American machinery, and in view of Japan's continuing need for the complex heavy equipment available from

the U. S., such transactions may be expected to increase rather than decrease in the future.

The significant shift from public to private investment during the past three years has been marked by foreign bond flotations, private placements by Japanese corporations and the first sales of Depository Receipts to American investors. Japan's first foreign bond issue after the war was offered in the United States in 1959, a \$30,000,000 Government issue for electric power development projects. Since that date the Government has guaranteed two bond issues for the Japan Telegraph & Telephone Corporation, one for \$20,000,000 in April, 1961 and the second for \$18,500,000 in September, 1963, and three issues for the Japan Development Bank, the first for \$20,000,000 in October, 1961, the second for \$17,500,000 in May, 1962 and the third, for \$22,500,000 in February, 1963. The nation's first European flotation was the Prefecture and City of Osaka bond issue for DM100,000,000 in Germany in February, 1962, followed by a second issue of the same size recently.

Among other Government offerings now scheduled is a further \$20,000,000 issue for the Japan Telegraph & Telephone Corporation to be floated in both the United States and Switzerland.

Before the last war, national and local government bonds made up the largest part of Japan's foreign offerings, with a considerable number of issues floated in London, Paris and New York. Private bond offerings were limited chiefly to electric power companies but included certain of Japan's leading manufacturing concerns, including Nippon Electric, Tokyo Shibaura Electric and Mitsubishi Petroleum.

The postwar period has been marked by a sharp decrease in Japanese reliance on the London capital market and a much smaller volume of national bond flotations. The introduction of foreign capital in connection with technological assistance agreements and a more active role by international financial institutions have replaced prewar practices. But Japan's utilization of foreign bond markets is still erratic and in view of the country's financial needs, a more systematic and business-like cultivation of these markets appears indispensable. For such issues to become really successful may require a thorough re-examination of such factors as issuing procedures, costs, size of offerings and timing.

## Equity Investment

Although foreigners have been permitted to purchase shares of Japanese corporations for nearly

13 years, this form of foreign investment has only become popular since 1959. At first, foreign investors favored small firms with good prospects for appreciation and the average investment was relatively small. Gradually, however, attention has shifted to Japan's larger corporations and the size of the average investment has also risen, with buying orders coming not only from the United States but also from Europe. This rise in foreign interest in Japanese equities in part coincides with the Government's gradual easing of

its requirements on repatriation of foreign principal. As noted above, a shareholder of a Japanese company need wait no longer than six months to repatriate his principal. Investment in Japanese stocks runs roughly 60% institutional investment and 40% individual investment. While in previous years direct investment in Japanese enterprises was approximately double the amount invested through direct stock market purchases, in fiscal year 1961, these amounts became roughly equal and, in fiscal 1962, stock purchases

via the stock market have further expanded.

Although the Ministry of Finance gave its approval in January 1961 for the issuance of American Depository Receipts for 16 Japanese corporations, only five ADR issues have so far been offered. These are Sony, Toshiba, Honda Motor, Nippon Electric and Kansai Electric Power. Further ADR issues are expected to be approved by the Securities & Exchange Commission.

Continued on page 18

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# Opportunities in Japanese Equities for U. S. Investors

By Harry G. A. Seggerman, Vice-President and Treasurer, The Japan Fund, Inc., New York City

Officer of investment company specializing in Japanese securities is convinced that one can make more money faster in Japan than elsewhere in the world, that Japan is now in a bull market, and that Japanese stocks are potentially the world's strongest equities. These points are underscored by comparing Japan Fund's performance with market performance here. In providing some ideas on how to make money in Japan despite sharp market volatility, Mr. Seggerman notes ready availability of information on stocks and companies, cautions on what to look for, calls attention to unique rights custom of periodic capital stock increase, and avers Japanese stocks are cheap relative to prevailing international investment standards. The writer catalogues the reasons for Japan's "miracle" growth, sees growth pace continuing but not at quite as rapid a rate, and comments favorably on productivity rate, on the cooperative relationship of management and government and on the absence of workers' job fears.

Japan and the United States have much in common. Japan is the economic colossus of the East, we of the West, the power of each being out of all proportion to size and population. Japan is the showplace and success story of democracy and free enterprise there as we here. We are both vigorous, pragmatic, optimistic and dedicated to peace and economic progress through expansion of world trade.



H. G. A. Seggerman

### Money Making Opportunities Despite Market Volatility

The purpose of this discussion is to provide some ideas on how to make money in Japan, and I think one can make more money faster in that country than anywhere else in the world. For example, early in 1963, The Japan Fund put about 5% of total assets into the Japanese bank stocks. In

about two months they are up about 50% over the cost adding 28¢ per share to our asset value. Of course, declines can be sharp too. In many American investment houses they have a contest each year to see who can pick the best stock of the year. In Japan they have a similar contest, but it is for the week or month.

I call attention to the accompanying charts which graphically illustrate the recent growth of Japan. Japan is the fastest growing country in the Free World, and with recent slowdowns in the Communist countries, we believe it is the fastest growing country in the entire world. A rapid rate of growth is not new for Japan; even before the war Japan's economic growth rate was outstanding.

A recent study shows that between 1872 and 1940 the gross national product increased 20 times. But, it is in recent years, after the rebuilding from the devastation of the last war was basically accomplished, that this growth became so conspicuous, particularly compared with the United States and Western Europe.

In the past four years the gross national product in Japan rose 81% or an average of 16% per annum compounded. In Western Europe the figure was 32%, about 7% compounded, and in the United States 24% or about 6% compounded. This was achieved with almost no U. S. foreign aid. The yen is strong relative to the dollar suggesting that inflation was less than in the United States. The index of industrial production has actually risen faster than the gross national product in the past four years, 17% per annum compounded compared with 6% in Europe and 6% in the United States.

### Reasons for "Miracle" Growth

What are the factors responsible for the outstanding performance and are they still operative? Are there lessons here that other countries could learn and benefit from? In my opinion the one overwhelming reason which not only explains the Japanese "miracle," but also explains the most rapid growth periods in the United States and other countries is that in Japan capital uses labor, whereas in many countries it is labor that more often uses capital. In Japan prices are kept high relative to wages, while in the United States, the opposite is true. The high profitability of business in relation to invested capital encourages capital investment and borrowings by companies. The high interest rates and rapid growth in corporation profits and, hence share values encourages individuals to invest and save rather than consume. Thus, capital investment is at a very high rate in Japan relative to the Gross National Product and productivity increases rapidly.

Among industrialized countries, Japan is one of the few where productivity has been rising faster than wages. Wages are up about 45% in the past four years, whereas productivity is up about 80%. Equally important, the Japanese worker is vigorous, in-

telligent, dexterous, well educated and loyal. He is not afraid of automation as he knows his job is safe due to the paternalistic company policy. Government and business cooperate to a degree that is unknown in most Western countries. The Japanese Government is probably as conservative as any in the world, without being reactionary.

### Mellowed Radical Political Opposition

There is a very vocal radical minority, the Socialists, which believes in nationalization of many basic industries and a weakening of the United States-Japanese alliance. Their strong-arm methods as demonstrated in the 1960 riots over the Mutual Security Treaty and President Eisenhower's visit were repudiated by the electorate in the next election when the Liberal-Democratic Party won about two-thirds of the seats in the legislature.

The Socialist Party has been mellowing slightly and its leader (who subsequently resigned) recently drafted a platform which had four planks:

- (1) High living standards as in the United States.
- (2) Social Security as in the U. S. S. R.
- (3) Parliamentary Democracy as in the U. K.
- (4) Peace as in the Japanese Constitution.

It will be seen that the Socialists are a bit naive, and no one in Japan seems to think they have much chance of winning a national election in the near future.

The United States has a big stake in continued prosperity in Japan. Our Far Eastern policy needs Japan as an image of what free enterprise and democracy can accomplish, as well as a counterweight to China in the balance of power.

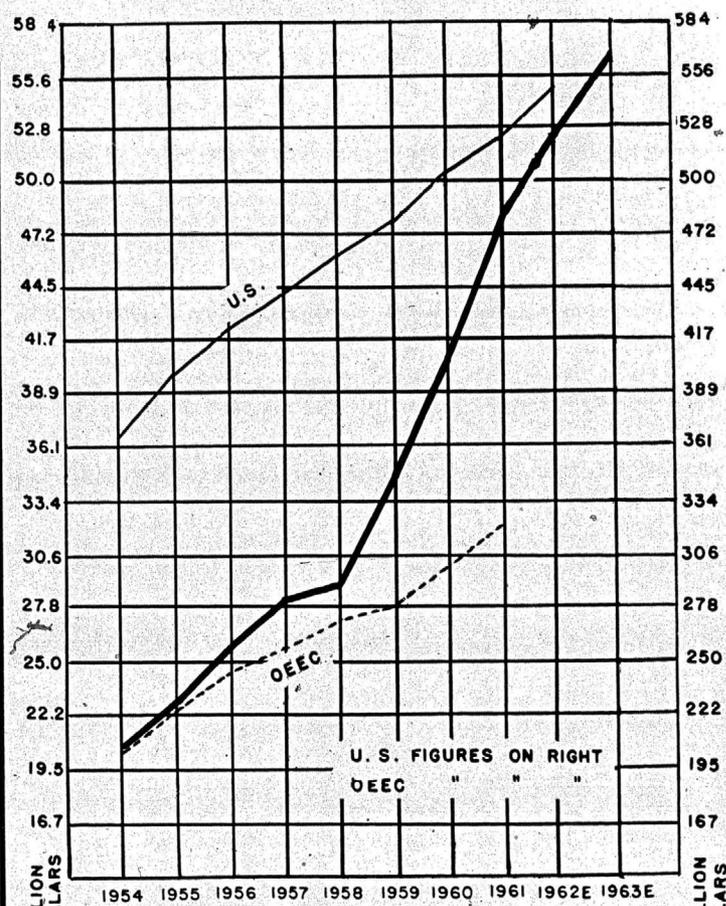
### Growth Forces Still Present

It is easy enough to catalogue the past, but how about the future? We believe that the factors which produced the rapid growth of the past are still present and will continue to stimulate economic growth in Japan, although probably one should not expect the same percentage increases as have been achieved in the recent past. However, virtually every prediction on Japan's growth in the past 15 years turned out to be too conservative. Government plans have been in almost every case exceeded. Our forecasters should study their methods.

The basic strength of Japan is its large, well-trained, hard-working labor force. The population of Japan of 95 million is about equal to that of France and West Germany together; while the Gross National Production of Japan is about one-third of the combined total of these two countries. Thus, in Japan alone among the low wage industrialized countries, there is no basic labor shortage. Germany's "miracle" ended when the supply of refugees was cut off by the Berlin wall. Japan's "miracle" continues because there is still a big labor pool in the farms and underemployment in business.

The average big industry wage in Japan is about 60 cents an hour including bonus but excluding fringe benefits which seem modest in cash cost to the companies, although valuable to the employee. In Europe the comparable wage is about 90 cents per hour, plus fringe benefits, and in the United States about \$3 per hour, plus fringe benefits. Wages are going up in Japan. Last year the net increase in the big industries was about 8% or five cents an hour. In Europe wages rose about 8% or 7 cents, and in the United States about 2% or

Japan's Gross National Product (heavy line) vis-a-vis the United States and OEEC Countries



FISCAL YEAR JAPAN ENDING MARCH FOLLOWING YEAR - SOURCE EPA  
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6 cents an hour. So the wage gap between Japan and the rest of the world is not narrowing significantly.

**Ingenious Productivity Techniques**

Productivity, on the other hand, continues to rise, although the improvement this year was modest because of the modest growth in industrial production due to the tight money policy of the government. Public services such as highways, railroads, subways, are being expanded now. Factories are being continually automated with the most modern machinery. White collar work, in which there is huge waste in Japan, is being improved with business machines. New merchandising techniques are being introduced. Managerial efficiency is being improved. One of the reasons for Matsushita Electric's much better results this year than its competitors was its assignment of responsibility of profits and capital expenditures to the various departments and the requirement that each department head show good results. Other companies in the industry are now beginning to imitate this policy. The Japanese are eager to learn and apply modern production and merchandising techniques and will buy foreign patents and know-how when it appears profitable to do so.

Mergers in Japan are actually being encouraged by the government if they are necessary for improvement in international competitiveness. The government has specified six industries where mergers may be encouraged: Ferro-alloy and steel alloy, power generation and distribution equipment, autos and tires, organic chemicals, aluminum alloy and electric wire and cable.

**Possesses Weaknesses as Well As Strengths**

Of course, the Japanese economy has many notable weaknesses as well as strengths. Japan is heavily dependent on raw material imports and would suffer if there were world shortages or price rises. The Japanese language with its thousands of characters is very difficult to use on a typewriter. Many companies have sizable short-term debts, although the banks will almost always roll them over. The seniority system in Japanese industry results in many cases in a shirking of responsibility because promotion is based on avoiding trouble rather than achieving unusual success. There is severe overcompetition in many industries because of the Japanese reluctance to allow a competitor to gain prestige. However, this competition in many cases is stimulating to greater efforts and reduced costs.

At the present time Japan is worrying about the liberalization of trade which will bring foreign competition into many industries which to date have been protected. A certain amount of import decontrol was effected in October, 1962, without noticeable ill effect on the Japanese economy. On the export side, the Japanese are actively trying to get various countries to accept more of their exports and have had some success, notably in the U. K. and Benelux countries. Japan has faced great difficulties in the past and has overcome them, and we expect that they will overcome these as well.

**What to Look for Before Investing**

One should, however, study carefully the international position of the company and industry in Japan before investing, as some

are highly competitive and others have costs and prices well above world levels. There is a tremendous quantity of information on Japanese stocks and companies, much more than in Europe and in most cases as much as is available in the United States. For example, there are four English language daily newspapers and three weekly financial publications and one monthly. Incidentally, with the increasing number of Japanese companies raising capital in the United States, we expect a

continuation of the present trend in Japan to more uniform accounting practices.

Japanese management is happy to grant interviews and welcomes foreign shareholders. They are naturally hospitable and, generally, answer most questions. However, the Japanese don't analyze stocks the way we do, and so the analyst must know what to ask for. The price earnings ratio in Japan is not given much weight in their investment decisions. The Japanese brokers will exert every

effort to provide the information an investor may want. We have as advisor The Nikko Securities Company, Ltd., who provides us with all the information we could possibly ask for.

**Periodic Capital Increase**

The most important unique factor in the Japanese stock market is the capital increase. About every two or three years Japanese companies will issue shares to their shareholders on a rights of-

*Continued on page 14*

# FOREIGN SECURITIES

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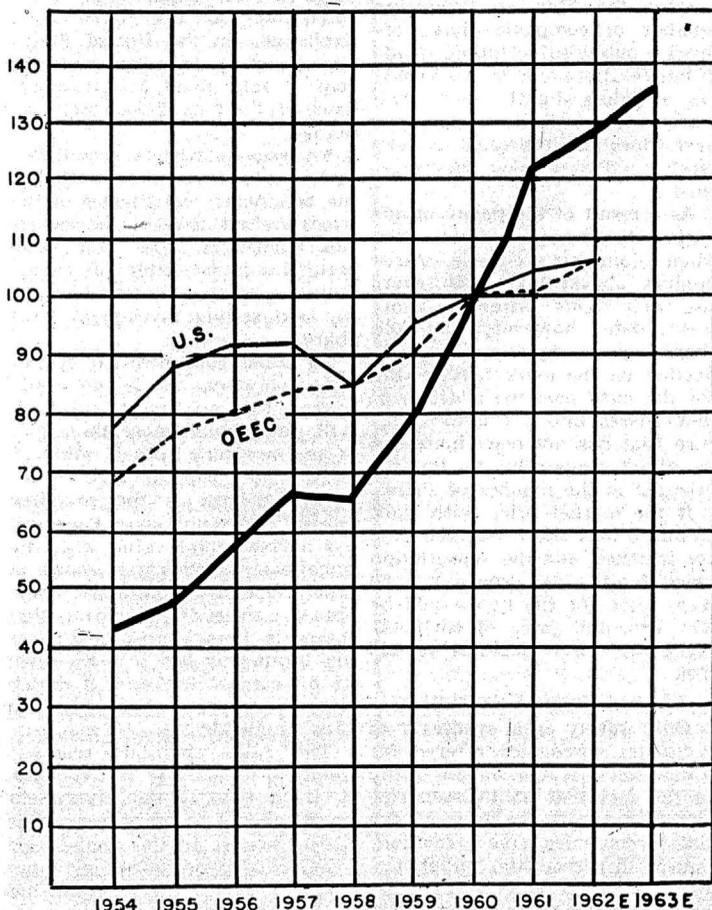
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**Japan's Industrial Production (heavy line) vis-a-vis the United States and OEEC Countries (1960=100)**



FISCAL YEAR JAPAN ENDING MARCH FOLLOWING YEAR - SOURCE MITI  
CALENDAR YEAR OTHER COUNTRIES - SOURCE IMF

# Contrast Between Securities Markets in Japan and U.S.A.

By Itsuo Minami, New York Manager,  
The Daiwa Securities Co., Ltd.

Each year more and more Americans are attracted to Japanese investments without being aware of fundamental differences which exist between Japanese and American securities and financing practices. Lucidly and to the point, Mr. Minami distinguishes corporate stocks and bonds, municipals and governments in terms of rights, pricing and dividend procedures; relative amounts relied upon for capital; and principal purchasers. Thus, for example, he points out that in Japan, hardly any preferreds are issued, no comparable market exists for warrants, convertibles were created for the American market, public subscriptions are limited, seldom are bonds privately placed, bonds are not floated through tenders, and private investors in Japan purchase just short of one-half of all new issues compared to 70% in the U. S. A.

Japanese securities markets have undergone somewhat of a metamorphosis since World War II. Structurally, they changed from a quasi-European pattern to an American one. Yet there are basic differences which American investors should know about, particularly since they are being offered more and more Japanese debt and equity issues.



Itsuo Minami

In 1962, for instance, a total of \$134,500,000 of stocks, bonds, convertible debentures, mutual funds, and notes were sold in the American market. This is a remarkable achievement when one considers that in the previous year total investment in Japanese securities by all foreign sources amounted to \$111,595,000.

#### Basic Strength of the Economy

The attraction of Japanese securities in 1962 has held despite the fact that the Japanese economy has been undergoing what

would be considered a recession in the United States. The basic strength of the Japanese economy, however, is indisputable. The growth rate is well over 6.5% a year, compared with an average growth of about 3% in this country. A recent survey among selected Japanese industries indicates the expectation of a 10% gain in earnings in the half-year ending March 31 compared to the prior six months.

Among the developments expected to bring about a rise in general business are (1) increased consumer spending, (2) larger Governmental expenditures for public works, including housing, (3) recent easing of money rates and less stringent loan policies, and (4) a resumption of inventory accumulation by industrial firms.

#### Contrasts Bond Flotations, Japan With U. S. A.

In a country as industrious and progressive as Japan, it can be expected that securities of the Central Government and local governments as well as those of the leading corporations would prove attractive to private investors. Naturally, they would also form the bulk of investments for Japanese banks, insurance com-

panies and other financial institutions.

Small Japanese municipalities do not issue bonds as is the practice in the United States. Five of the largest cities, namely Tokyo, Osaka, Nagoya, Kobe and Kyoto, are authorized to issue local government securities, but their value is quite limited and runs from \$550 million to \$830 million a year.

In the United States, debentures issued by the Government agencies bear no special guarantee of principal and interest by the Federal Government. In Japan debentures by official or semi-official agencies totaling around \$2.2 billion annually, are usually guaranteed by the Central Government. Bonds of this type far exceed local government issues in amount.

Another type of debenture peculiar to Japan is the one-year discount debentures issued by the long-term credit banks. These are being offered for sale at the rate of \$55 million or more a month through securities companies.

About 60% of the total short-term discount debentures go to private investors and the balance to various financial institutions including banks, mutual banks and savings & loan associations.

In sharp contrast, the majority of bonds which comprise the ordinary industrial bonds, local government bonds, and Government guaranteed bonds are absorbed almost entirely by the financial institutions with only about 5% purchased by private citizens.

#### Use of Convertible Bonds for U. S. A. Investors

Ordinary corporate bonds make up the bulk of industrial bonds offered in Japan. As yet there is not the range of convertible issues which are popular in the United States. However, in offers to the United States last year, four out of five bond issues were in the convertible category.

Convertibles in Japan differ from those issued in the United States in the matter of conversion

price. A bond for 1,000 Yen would be convertible into as many common shares as the par value could be divided into the face value. Assuming the par value to be 50 Yen, then 20 shares of common could be obtained. In the United States, conversion prices are set at the time of issuance, generally the market value.

#### No Preferreds or Warrants

In the field of stock issues, there are basic differences between Japanese and United States practices that should be noted. For instance, there are practically no preferred stocks issued in Japan. Also, stock purchase warrants are a factor in the market in the United States, whereas in Japan there is no comparable system for marketing warrants.

There is a system in Japan whereby certificates of subscription to new stock issues may be bought and sold during the period from ex-right date to the due date of payment of subscriptions.

#### Dividend Payment Practices

In Japan there has been the historical practice of paying dividends on newly issued common shares from the day of subscription payment. This has brought about the categorizing of "new stock" and "old stock" because of the difference in amount of dividend paid, and the new issues are listed on the stock exchange separately from the old, but only until the day of settlement of accounts of the company. Immediately thereafter the "new stock," in effect, becomes "old stock."

In regard to issue price, new Japanese stocks are customarily allotted to shareholders at par value, (mostly 50 Yen). This differs from the practice in the West where stocks are usually issued at market prices. The Japanese Commercial Code prohibits the issuance of stocks at prices lower than par value, and there has never been an instance of allotment of a stock at a higher price to existing shareholders.

Since the War, an increasing number of companies have offered a public subscription, in addition to allotments to stockholders, at prices slightly lower than market value. Such stock, however, does not represent a very large portion of new shares issued.

As a result of the policy of adhering to the par value price when allotments are made, shareholders almost invariably exercise their rights. After the allotment date, however, the "old shares" go ex-rights and begin to decline on the market, reflecting for the most part the addition of new shares into a capital structure that has not been increased in direct proportion to the increment in the number of shares.

If the market price with right to buy a new share was 200 Yen, for instance, and the subscription price for the new share was 50 Yen, price for the two would be 250 Yen, and price of each ex-right old share declines to 125 Yen.

#### Limited Public Subscription

Only rarely is a syndicate of securities companies offered for a new stock issue in Japan, owing to the fact that public subscriptions are limited. Most of the listed companies have a relationship with a securities underwriting firm who will handle that portion of the new issue earmarked for public subscription. If needed, there will be auxiliary participation by other securities companies.

When it comes to the issuance of bonds, flotations are made entirely on the market. There is no preferential allotment to existing bondholders.

A flotation of ordinary industrial bonds in Japan is seldom made in the form of private placement. The number of authorized underwriters of bonds is limited, with the bulk going to the four largest, among whom is The Daiwa Securities Co., Ltd. About 80% of all bond issues are underwritten by the "big four," and the balance by 47 smaller firms. It is pointed out that the division of bond placements is nothing more than a reflection of the actual capabilities of the respective securities companies to handle the business.

#### Tenders Not Used for Bonds

The practice in the United States of floating bond issues through tenders is not practicable in Japan, and is therefore not used.

In the United States life insurance companies are the principal purchasers of new issues of corporate bonds, while commercial banks are substantial buyers of local government bonds. In Japan, the major purchasers of corporate bonds are city and local banks. Together, the city and local banks absorb nearly 80% of all newly issued corporate bonds. City banks also buy some 90% of local government bonds.

As for capital shares, private investors in Japan purchase a little under 50% of all new issues as compared with 70% in the United States. The remainder is taken up mostly by financial institutions and industrial corporations.

#### Investment Trust Growth

The investment trust securities market in Japan is patterned after that in the United States. Its growth has been tremendous since World War II, and it is an important factor in the economy of the country. The investment trusts control about 14% of all listed stocks on the Tokyo Stock Exchange. In the United States investment trusts or mutual funds control only about 5% of stocks listed on the New York Stock Exchange.

An issue market is established in Japan for investment trusts but the beneficiary certificates of the trusts are not listed on the securities exchanges. The four large securities underwriters in Japan, however, make a market by buying and selling investment trust shares.

To avoid concentration of any one company, it is generally agreed that an investment trust will not include more than 20% of any one stock in their holdings.

The most popular type of investment trust is the so-called semi-closed or unit class. Each unit has a fixed total value with the beneficiary certificates issued at a set price. New units are available in a series at regular monthly intervals. These semi-closed trusts are limited by law to a life span of 5 years at the end of which time the buyer receives his cash plus dividends.

The fully open-end trust is identical to those in this country. A third type is the investment trust holding corporate and public utility bonds. In the semi-closed type, new subscriptions may not be accepted once the trust has gotten under way.

A predecessor to The Daiwa Securities Co., Ltd., organized one of the first investment trusts in Japan in 1937.

## Japanese Securities

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- Japanese Stock Record (Monthly)
- Outlook on Japanese Economy (Quarterly)

# Encouraging Outlook For Japan's Steel Industry

By Shige Kawata, President, Nippon Kokan K.K., Tokyo

**Encouraging outlook for the Japanese steel industry and steel stocks is advanced notwithstanding today's relatively depressed steel situation. Moderate, balanced growth of the economy and, concomitantly, of steel is forecast for near-term. Long-run projection foresees rise from present annual steel output of 27,500,000 tons to 42,800,000 tons by 1967 and 45,000,000 tons by 1970. Mr. Kawata anticipates his company, for example, will more than double its output in the same period.**

Why should any American investor be interested at this time in the Japanese steel industry? Why—in view of the fact that productive capacity exceeds demand, stockpiles of manufactured but unsold steel remain high, voluntary curtailment of production is the order of the day, and the formulation of price agreements has become inevitable? Why should he buy Japanese steel stock now that it is selling at par or a point or so below?



Shige Kawata

Depressing though this situation might appear to the investor, the outlook for Japan's steel industry is, on the contrary, encouraging.

Japan is now in the final stage of an orderly, rational economic readjustment, accomplished within a remarkably short time and with repercussions felt but slightly, if at all, by the average citizen.

No immediate, spectacular upsurge of economic activity is expected, but there is evidence of moderate, balanced growth ahead. The steel industry, because of its monumental nature, will take time, of course, to regain its former momentum. Recovery, however, is practically inevitable inasmuch as any economic growth as extensive as that envisioned for Japan will inevitably call for greatly increased quantities of steel.

### More Steel Needed

The per capita consumption of steel in Japan is only 40% of that in the United States and still considerably lower than that of the economically advanced countries of Europe.

The Japanese people, enjoying greater personal income than ever before, continue to show an insatiable desire for the durable consumer goods that constitute higher living standards—goods calling for considerable amounts of steel.

Japan's steel producing facilities, in general, are equal to the best in the world, and the industry has little to fear from foreign competition. In fact, there are now only four special steel products for which import into Japan requires a specific foreign exchange allocation. These are charcoal iron, hollow drill steel, alloy tool steel and free-cutting steel.

Many other industries in Japan, however, are not yet fully equipped to meet the rigors of free trade. The survival of these industries, mostly of a secondary nature and consisting largely of medium-sized and small enterprises, will depend to a considerable extent upon plant improve-

ment, which in turn will increase the need for steel.

Another substantial indication of a growing demand for steel in Japan is the Government's plan, incorporated in the current budget, for a greatly expanded public works program. Japan has a serious shortage of public highways, housing, water supply and sewage facilities, port accommodations and power plants. Civil engineering projects such as these are all highly dependent upon steel.

Steel exports are also expected to increase, but not inordinately. In view of keep international competition, Japanese steelmakers realize that it will take considerable effort on their part to continue exporting between 10 and 15% of their total output.

### Prospects

Recently the Japanese steel industry has been producing steel at the rate of 27,500,000 tons a

year. The Government's original income-doubling goal calls for an annual production of 45,000,000 tons by 1970. A recent survey by the iron and steel industry indicates a probable annual production of 42,800,000 tons by 1967, roughly a 60% increase over 1962. Production by 1970 may well reach 48,000,000 tons.

### Leading Producer

Nippon Kokan was founded in 1912. Current capitalization is at 57,288,600,000 Yen (\$159,135,000). The company has 224,198 stockholders, the average owning 3,407 shares. It has 34,225 employees, 26,350 of whom are engaged in actual production. The average employee is 34 years old and has been with the company for over 11 years. Present facilities cover 1,600 acres.

Nippon Kokan is one of Japan's "Big Three" steelmakers, it ranks 57th on Fortune Magazine's list of the world's largest companies outside the U. S.

Ceaseless efforts to reduce production costs have paid off well for Nippon Kokan. Productivity in 1951 amounted to only 43 tons per year per worker; today it amounts to 124 tons. While productivity increased 288%, wages increased 214%.

Cost consciousness plays an important part in Nippon Kokan's operations, but the company's pre-eminent position is due primarily to the development of new and better steel products. These are often the joint result of Nippon Kokan's own research activities

and the introduction and adaptation of foreign technological processes.

Long Japan's largest manufacturer of steel pipe, Nippon Kokan in 1961 commenced production of large diameter welded steel pipe, employing one of the largest "O" presses in the world. The company now produces some 5,000 to 6,000 tons of large diameter pipe, in lengths of up to 40 feet, monthly. International customers for these special pipe sizes include Aramco, Caltex, Shell, Esso and Tidewater.

Nippon Kokan's new electrolytic tinning facilities are the result of a technological agreement with U. S. Steel Corporation, the first occasion on which "Big Steel" has collaborated with a foreign producer in the installation of one of its processes.

A new product developed by Nippon Kokan's own research laboratories and now in production is a low-cost, low-carbon alloy possessing all the excellent qualities of more costly silicon types. This alloy is proving particularly suitable in the mass production of household appliances that are used intermittently but require frequent and rapid magnetization and demagnetization of motor cores.

A Nippon Kokan subsidiary has developed, after years of research and the successful operation of a pilot plant, a new method of using Japan's low quality phosphorus ore to produce large-crystal gypsum, a product previously imported.

Other Nippon Kokan subsidiaries specialize in the manufacture of secondary steel products such as piling, highway guard-rails, welded shapes, deck plates, pipe scaffolding, prefabricated houses, snowslide prevention devices, steel furniture, and a host of other items.

Activities of Nippon Kokan's Shipbuilding Division reflect a similar concern for employing the latest technological advances. Delivered in 1962 was the 70,000 DWT SS San Juan Pioneer, the world's largest dual-purpose bulk carrier. Built partially of high-tensile steel, the Pioneer can carry full loads of either oil or iron ore, or a mixed cargo of both. Dredgers built at Nippon Kokan's Tsurumi shipyard are today powered by free-piston engines, permitting trouble-free, vibrationless operation on low-cost fuel oil.

Nippon Kokan recently commenced construction of the world's first catamaran (double hulled) motor vehicle ferry, the result of the extensive successful operation of a smaller, passenger catamaran ferry. The new car ferry will accommodate 13 large buses and 500 passengers.

Nippon Kokan's long-range plans currently call for increasing its annual output to 7,200,000 tons by 1970, more than double its 1961 output of 3,300,000 tons. This figure includes an anticipated production of 3,800,000 tons at its new 1,794-acre Fukuyama Works, construction of which has already commenced.

*Dillon, Read & Co. Inc.*

*Investment Securities*

# Why Foreign Investment In Japan Is Increasing

By Naomichi Toyama, Senior Managing Director, The Nikko Securities Company, Ltd., Tokyo, Japan

Reasons cited for Japan's attraction to U. S. and European investors—as well as that country's remarkably fast rising small investor class—deal with both the discouraging and encouraging factors shaping the economy's and principal industries' trend. Despite Japan's phenomenal growth and investment appeal, reflected in the quantitative increase of owner capital, the over-all percentage of equity financing has declined. The most serious problem holding back Japan's continued economic development is the shortage of working capital. To overcome reliance upon short-term loans and to attract large supply of capital available here, major firms are planning to float more permanent financing in the U. S. A. They are buoyed by the excellent response to relatively recent flotation of four ADR's, three convertibles, and the Japan Fund. Helpful, too, has been the steady reduction to restrictions over capital outflow to the point where they no longer prove hindering, and the increased knowledge about Japanese securities and their performance prospects.

More remarkable than Japan's unprecedented, phenomenal economic growth during the last few years has been the increase in investment in Japanese securities by foreigners.

Extraordinary capital gains have been recorded in some instances and 12% cash dividends have not been uncommon.

There are no restrictions on the immediate remittance of dividends in foreign currencies, and the holding period required to repatriate foreign capital invested in stocks has been steadily reduced until it is now six months. This period dovetails nicely with the tax regulations on capital gains of a number of countries, including the United States. Indications at present suggest that the six-month holding period will be removed in the near future.

Providing added assurance to the foreign investor has been the favorable reaction of the two large groups of American investment analysts who visited Japan in 1962.

## Foreign Interest Amazing

The increase of foreign investment in Japan during 1962 was truly noteworthy. Purchases by foreigners through regular securities markets last year are estimated to total approximately \$82,000,000, 70% above the figure for 1961. These purchases approximately equal the total amount so invested during the entire previous 12 years, or ever since the enactment of the Foreign Investment Law of 1950.

Also significant is the fact that last year, for the first time, market purchases of all Japanese securities by foreigners exceeded, by a ratio of six to four, the acquisition of Japanese stock by foreign investors for management rights purposes.

It is also interesting to note that as of the end of fiscal 1961 (March 1962) foreigners represented only 0.33% of the total number of holders of Japanese stock. Including corporations, foreigners owned 1.66% of the total stock issued by all large Japanese enterprises.

Foreign investment in Japan has been increasing not only quantitatively, but is also showing a widely expanding field of interest. At first such basic industries as steel and electrical manufacturing attracted most attention

from abroad. Now of growing interest to foreign investors are shares in the amusement, banking, non-life insurance, department store, food processing, and tourist industries.

## Honeymoon Over?

The average Japanese whose personal income has continued to rise is hardly aware of the fact that the country is now completing a recessionary cycle. Yet it must be admitted frankly that the nation's economy a year ago came dangerously close to the brink of disaster.

Japan's balance of international payments at that time showed an unfavorable trend that threatened to worsen. This was due largely to the extensive import of machinery, know-how, and raw materials—all closely related to the country's almost hectic economic development.

Although the steps taken over a year ago to alleviate this threatening situation seemed at first to be slow in taking effect, there has been a gradual and accumulative improvement in the nation's economy. Today, even the most conservative authorities admit that stability has been regained. They are confident that there will be a definite, positive upswing in economic activity toward the end of the current fiscal year.

Among the steps taken to stabilize the economy has been the enforcement of a tight-money policy, now already relaxed, as well as buying operations on the part of the Bank of Japan, governmental "administrative guidance" which, interestingly, has particular significance in Japan, and the voluntary industry-wide curtailment of production and plant expansion.

But the fact remains that sales have been sluggish in some major industries, with profit margins reduced accordingly. In March, when most large firms close their semi-annual accounts, it seems inevitable that some—but by no means as many as might be expected—will have to reduce, temporarily, their usual liberal dividends.

There is, however, a general feeling that sales in general for the current term may be up perhaps 2% over the last half year, and that earnings may even show as much as a 4% increase.

Most likely to report setbacks are firms in the following fields: casting and ordinary steel, dairying, oils and fats, machine tools, synthetic cleansers, and refractories.

## The Road Back

On the encouraging side, prospects are bright for a slow but steadily improving export market, an increasing domestic demand for durable consumer goods, and greatly expanded expenditures on public works.

The roadbuilding program alone calls for increasing highway construction expenditures from the present 2% of the gross national product to 4%. In its long-range program, the Government envisions the spending of ¥15,600,000,000 (\$43,334,000) for this purpose between now and 1980.

## A Most Serious Problem

A most serious problem that must be faced in assuring the con-

tinued economic development of Japan is the shortage of working capital.

It is true that the number of shares listed on the Tokyo Stock Exchange has multiplied more than ten-fold in the last ten years and that at the end of fiscal 1961 Japan's major establishments had outstanding 56,840,236,000 shares of stock, 37.2% more than at the end of the previous year.

These stock increases, however, have proved entirely inadequate in providing the funds necessary for industry. At present the over-all percentage of owned capital in Japanese firms is considerably lower than in prewar days, when the percentage was comparable to the average in other industrial countries.

Incidentally, it is of interest to note that 94.87% of all holders of Japanese stock are what might be called small holders, each owning less than 5,000 shares—evidence of the widespread interest in investment which now extends to approximately one of every 6.5 households. On the other hand, it should also be noted that corporations hold 52.50% of the shares, and that large owners, those with 5,000 or more shares, own 72.11% of the total.

## Threat of Hot Money

The shortage of working capital has resulted, inevitably, in resorting to short-term loans. Interest rates in Japan, consequently, are high, presenting a particular inducement for hot-money investment. In November, 1962, for instance, the Japanese interest rate stood at 6.57%, while that of the United Kingdom was 4.50; France, 3.50; the U. S. and Germany, 3.00.

As a result, there has been a considerable influx of short-term capital from abroad. This will probably continue for the foreseeable future, in view of the fact, for example, that in 1963, \$60,000,000 worth of bonds floated abroad must be retired.

Fortunately, short-term loans have not as yet had any serious repercussions on the economy. There is, moreover, a general movement here to reduce interest rates to the level of other industrialized countries and to negotiate the issuing of long-term government-guaranteed bonds abroad, such as was successfully accomplished last year in West Germany by the City and Prefecture of Osaka.

## European Money Market

European investors have to date purchased more Japanese bonds than American investors, a trend expected to continue. In fact, with the growing labor shortage in Europe, a shrinking profit ratio, and a slacking off of exports, Japanese stocks as well as bonds will have an increasing attraction for European investors.

As a matter of fact, the first investment trust outside of Japan that was based entirely on Japanese securities is the Anglo-Nippon Trust, established in November, 1961.

Also indicative of the growing European interest in Japanese securities is the pending flotation of European Depositary Receipts on the London market by Honda Motors of Japan. Other similar EDR's are now under consideration.

Just as Japan's securities market is increasingly international, the nation's securities houses have also acquired international status. Nikko Securities Company participated in the unique International Growth Fund established in 1962 in Geneva, Switzerland. The IGF portfolio consists entirely of investment trust shares of free-world nations, including those of Nikko Securities in Japan. In addition, Nikko's Vice-President Moriatsu Minato serves on IGF's five-man Advisory Committee.

Despite this growing European interest, however, the larger amounts of investment capital available in America indicate that Japan's best source of funds will continue to be the U. S.

To date, ADR's of four major Japanese firms have been marketed successfully in the U. S., including a \$7,000,000 issue of Honda Motors, in which Nikko served as a principal underwriter.

Also in recent months three Japanese firms have successfully issued convertible debentures in the U. S., and others are planning to do likewise.

## The Japan Fund

Another particularly significant event in 1962 was the launching of the Japan Fund in the U. S. This is a closed-end investment company concentrating on the common stocks of well-established Japanese companies considered to be the least susceptible to recession pressures.

The Japan Fund is headed by Robert L. Garner, former President of the International Finance Corporation, 1956-1961, and Vice-President of the International Bank for Reconstruction and Development, 1947-1956.

The Nikko Securities Company, Ltd., of Japan, was instrumental in the establishment of the Fund and now serves as investment advisor—the first time any Japanese securities house has served a foreign investment organization in this capacity. Five of the Fund's 15 directors are Japanese.

The Japan Fund operates according to three basic policies:

- (1) Not to hold more than 10% of the outstanding securities of any class of any one issuer;
- (2) Not to invest more than 5% of the total assets in the securities of any one issuer;
- (3) Not to concentrate more than 25% of the total assets in any one industry.

Those funds not invested in stocks are held in interest-bearing bank deposits in Tokyo and in U. S. Treasury bills.

It is very much to the credit of the Fund that, despite its inauguration during a recession period in both Japan and the United States, the net worth of its assets increased 11.7% between April 19, 1962, when the Fund commenced operations, and mid-March, 1963.

The Nikko Securities Company advocates the complete liberalization of all restrictions on international capital transactions. It welcomes an increase in the amount of foreign control capital invested in Japan in order to strengthen the country's international competitiveness. It looks forward confidently to the investment of \$100,000,000 in foreign capital in Japan during fiscal 1963 and double this amount in fiscal 1964.



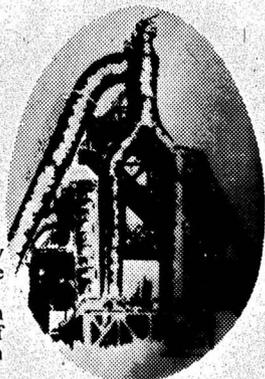
Naomichi Toyama

## Promoting the Continued Growth of Japanese Industry

Japan's remarkable economic growth is partly due to the capital supplied to industries by the Long-Term Credit Bank of Japan. Since its establishment, the bank has been making long-term credit to various kinds of enterprises by the funds raised through issuance of bank debentures.

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# ADRs and the Investor

By Lawrence L. Carter, Assistant Vice-President, Irving Trust Co.,  
New York City

Officer of bank which has long been a principal factor in issuance of American Depositary Receipts pertaining to common stock of Japanese and other foreign corporations, sets forth their advantages to the individual investor as well as the corporation whose stock represents the underlying securities. Mr. Carter points out two uses of ADR's: one for stock previously issued and outstanding and the other for newly issued stock. The latter type, the author notes, must be registered with the Securities and Exchange Commission in the same full disclosure manner required in the case of stock issued by domestic corporations. Existence of the ADR's relieves the investor of many of the problems he would encounter in purchasing the underlying securities on which they are based.

In essence the American Depositary Plan is a banking service arrangement originated and carried on primarily to facilitate the purchase, holding or sale of the shares or stock of foreign corporations by American investors through the issuance of ADRs (sometimes referred to as American or New York shares) representing the holder's right, title and interest in the underlying deposited foreign securities. A major purpose is to facilitate investment in such securities by the share-owning public through the creation of a free trading market here as in the case of domestic equities. Technical difficulties attending the possession of foreign securities are removed and dividends are disbursed in U. S. dollars.

Under the older forms of Depositary Plan originated in the twenties before the advent of the Securities Act of 1933, the American Share Receipts were generated by the deposit with selected banks here of blocks of foreign stocks by investment houses acting as "managers." The current trend, however, is for the foreign corporations themselves to arrange with a bank or trust company in the United States, acting as Depositary, to issue American Depositary Receipts against the continuing lodgment of varying amounts of shares or stock purchased for the account of American investors.

## Advantages of ADR's

For the American investor, the Depositary arrangement removes the risks, delays, inconvenience and expenses inherent in dealing with the actual foreign securities and the hesitation and uncertainty arising from the differences between American and foreign forms, customs and varying financial and corporate practices. For example:

As in the case of domestic securities, ADRs are issued in customary transferable and registered form. Transfer of title is a matter of only a day or two with payment of relatively nominal Federal and State stamp taxes, whereas the transfer of the underlying foreign security would be a much more costly and protracted procedure, frequently involving legal and technical requirements unfamiliar to investors here.

Dividends on the American Shares, resulting from the collection and conversion of the foreign currency dividends on the underlying deposited securities, are paid by check in U. S. dollars sent to the stockholder, his nominee, bank or broker at the address of record. As the holder of foreign shares, the American investor would receive his dividends in the form of foreign currency checks or, if the

securities were in bearer form, as dividend coupons to be deposited with a bank or broker for collection abroad and payment of the customary commissions.

## Depositary Bank's Role

As holders of ADRs, American investors receive by mail from the Depositary any and all notices of corporate actions and meetings as well as copies of financial and related reports made available by the foreign corporation. As holders of the foreign securities (usually kept here in bearer form or registered in domestic nominee name), they must watch financial publications (in many instances not readily available) for notices of corporate meetings, activities, dividend declarations and the like. Thus the Depositary performs for the American investor in foreign securities functions which he would find difficult or impossible to undertake himself.

The Depositary bank not only issues ADR's against the deposit of the foreign shares and acts as transfer and dividend disbursing agent respecting the outstanding American Shares, it also accepts the surrender of ADR's for cancellation against the sale, release and delivery of the equivalent underlying foreign shares, thus facilitating arbitrage in the security. In this connection it becomes apparent that any investment in ADR's also involves a position in foreign exchange even though the American Shares are bought and sold for U. S. dollars.

For the corporation, the Depositary Plan opens up new markets and trading facilities here not possible with the securities in their original form because of difficulties such as those indicated above. It also makes possible listings on the New York or other Stock Exchanges with the advantages of widely publicized "auction" buying and selling. With full registration under the Securities Act of 1933 and Securities Exchange Act of 1934, our capital markets also are made available for stock subscriptions, secondary distributions and public offerings.

## Some Salient Points

A few salient points respecting the requirements for the development of an effective Depositary relationship are given below:

(1) American Shares issued in accordance with the terms of an approved Deposit Agreement against the deposit of already outstanding and publicly held foreign shares may be registered with our Securities and Exchange Commission under the Securities Act of 1933 on Form S-12. The procedure is very simple and the registration fee is nominal. Under this form of Depositary Plan, originated by Irving Trust Company and launched in 1955, the

ADR itself constitutes the Prospectus.

It should be emphasized that with an S-12 Registration, ADR's may represent only previously issued and publicly held outstanding foreign shares having a pre-existing market in the United States and an exemption under Section 4(1) of the Securities Act. The S-12 Registration may not be used to create a market here nor to effect a secondary distribution.

When new capital is sought here by the foreign corporation, as in the case of public offerings and subscriptions, it must meet the same full disclosure registration requirements as a domestic company, whether or not the new shares are represented by ADR's.

## Stock Exchange Listing Option

(2) A Stock Exchange listing of the American Shares is not required. If such a listing, however, should become feasible and is decided upon, registration under the Securities Exchange Act of 1934 would be required and the filing of comprehensive and detailed financial reports would be necessary as in the case of domestic corporations.

(3) American Shares registered under the Securities Act of 1933 on Form S-12 are issued against

outstanding, fully paid and non-assessable stock as already noted. In accordance with the requirements of our Federal Securities and Exchange Commission, the corporation itself (including those subject to its control) undertakes not to deposit stock against the issuance of American Shares unless such stock be fully registered under the '33 Act for purposes of public offering and sale in the United States.

(4) Under the terms of the Registration Statement and Deposit Agreement, the corporation also undertakes to make available to the Depositary for distribution to the American shareholders all reports and communications generally made available to the holders of the underlying securities.

(5) The Deposit Agreement and related documents should be reviewed and approved by local and United States counsel for the corporation. These documents now have been well standardized.

(6) Fees of the Depositary banks for the transfer of American Shares, for the maintenance of American shareholder accounts, for the disbursement of dividends, handling of stock bonuses and subscriptions, distribution of annual reports and related services

are equivalent to those charged domestic corporations for Transfer and Dividend Disbursing Agency services.

(7) Arrangements also can be made under which the American investors assume charges such as those indicated and the foreign corporation is not a party to the Deposit Agreement. It should be pointed out, however, that the charging of fees and expenses to the American investors, particularly with respect to the disbursing of dividends and related services, may deter active trading and make possible the duplication of Depositary facilities by other banks with a resultant confused market situation and unsatisfactory stockholder relations. Furthermore, should the ADR's be listed on the New York Stock Exchange, transfer, dividend disbursing and other agency fees would have to be assumed by the foreign corporation.

In order to make possible an adequate number of American shareholder accounts and volume of trading, the shares of the foreign corporation should be of interest to leading security houses here sufficient to attract their active support and sponsorship. The initiative in this respect should be taken by the corporation.

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# Opportunities in Japanese Equities for U. S. Investors

Continued from page 9

Moreover, the Japanese, anticipating American buying, have been buying themselves and prices have actually risen more than the so-called popular stocks. Most companies in Japan which are not regulated are currently evaluated at about the world level of price earnings ratios and yields. For example, Japan Fund's non-regulated investments have an average price earnings ratio of about 19, and yield about 3%. However, these companies have shown an earnings growth of about 30% compounded average in the past four years, and even this year the average earnings increase was about 20%. This was well above the general industry average in Japan which was virtually unchanged this year. We would expect some earnings gain for 1963 for general industry and a substantial earnings recovery in 1964. The companies owned in Japan Fund should do better than the average. Otherwise, we will probably switch to the companies whose earnings progress is above average, always considering relative evaluation.

We believe that the American interest in investment in Japan will increase, particularly now that the Japanese Government has announced its intention to remove all restrictions on repatriation of capital. Income has always been freely remitted, but we expect that the government will soon permit complete freedom of most capital transactions. In mid-1962, they reduced the two-year holding period to six months.

### Relative Cheapness of Japanese Stocks

There are many Japanese stocks which are very cheap relative to international investment standards. I refer principally to the regulated industries, banks, insurance companies, and public utilities, which are not popular with the individual investor in Japan (yield 4-8%; P/E 4-10). We expect quite an active market in many of these in the United States when, as currently expected, the existing six-month restriction on capital repatriation is removed, and their prices should tend to approach world levels. The Japan Fund put about 30% of its assets in this particular group on this premise. There has already been modest American buying and we expect more.

Moreover, the Japanese, anticipating American buying, have been buying themselves and prices have actually risen more than the so-called popular stocks. Most companies in Japan which are not regulated are currently evaluated at about the world level of price earnings ratios and yields. For example, Japan Fund's non-regulated investments have an average price earnings ratio of about 19, and yield about 3%. However, these companies have shown an earnings growth of about 30% compounded average in the past four years, and even this year the average earnings increase was about 20%. This was well above the general industry average in Japan which was virtually unchanged this year. We would expect some earnings gain for 1963 for general industry and a substantial earnings recovery in 1964. The companies owned in Japan Fund should do better than the average. Otherwise, we will probably switch to the companies whose earnings progress is above average, always considering relative evaluation.

Recovery Expected by Mid-1963  
In mid-1961 the Japanese Government became alarmed at the unfavorable balance of payments and declining gold and foreign exchange reserves resulting from an excess of imports over exports. Money was tightened and within six months the balance of payments turned to a surplus due primarily to the inflow of short-term capital attracted by the high money rates. In mid-1962 the balance of trade turned to a surplus because of the incentive given to exports and the decline in imports because of the slow-

down in growth of industrial production. Gross National Product, however, throughout this period ran about 5 to 10% above the prior year due to consumer spending, public works and a modest increase in consumer prices. The Japanese Government is budgeting a 6.5% Gross National Product increase for the fiscal year ending March 31, 1963, above the comparable period of 1962. It is budgeting an 8.1% increase for the period ending March, 1964, and predicts that industrial production, which has been stable for about a year, will begin to rise again in mid-1963.

Money was eased dramatically starting in October 1962, and the government is continuing a policy of active ease.

A third lowering of the discount rate was announced March 19 and my personal guess is that the economy may start recovering before the middle of 1963 if it has not already begun to improve. Industrial production actually rose 2.8% seasonally adjusted in January 1963, over December, 1962, and department store sales and

machinery orders picked up. Many commodity prices are up sharply from their October 1962 lows.

### Stock Market Drop No Worse Than Here

The Tokyo stock market as measured by the 225 stock average (sometimes called Dow-Jones Average) is currently at a recovery high for the past 12 months, although still 18% below the July, 1961 high. We were rather impressed with the resistance to decline of the Tokyo market, in which there is so much public participation in the face of the complete turn-around in sentiment between the over-optimism of mid-1961 and the bearish pressures of 1962. The 33% maximum decline was no worse than declines in Europe and the United States which were supposed to be less vulnerable, due to institutional support and in the United States easy money. The recovery of the Japanese market from the low has been about 25%, which is among the best.

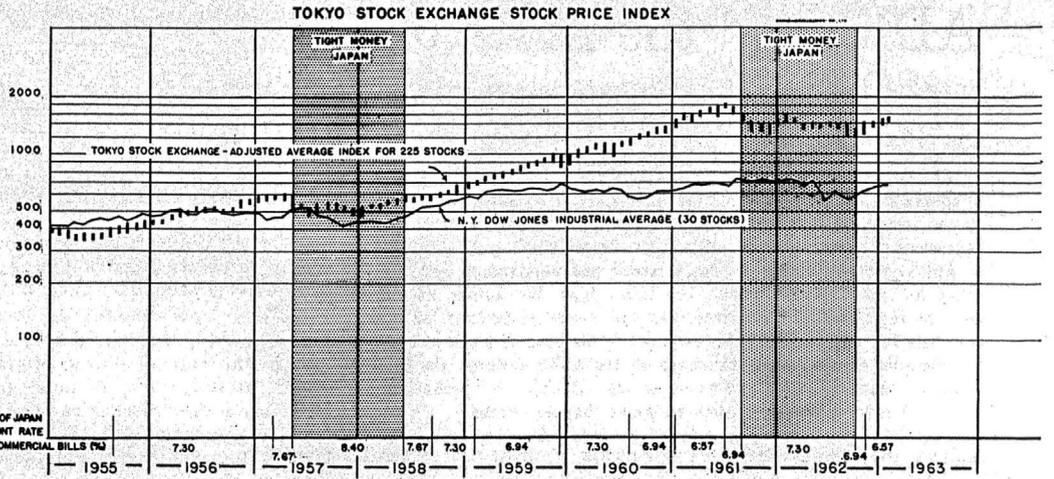
The Japan Fund has shown its ability to take advantage of the opportunities in the Japanese market. With asset value currently at \$12.63 (March 19, 1963), the Fund's portfolio is up 12.5% over cost. This performance is better than that of most of the funds we know of in the world, including most growth stock funds. We have also done better than all seven major open-end

investment trusts in Japan whose average portfolio gain during this period was about 7%. These comparisons, of course, were obtained only in the period since the commencement of the Japan Fund's operations on April 19, 1962, and are not necessarily indicative of the future performance of The Japan Fund or other funds.

We believe we have a good portfolio to participate in the future growth of the Japanese economy and stock market. We plan to keep flexible so as to take advantage of opportunities. On the basis of our experience so far, we hope also to provide a fair yield, including tax credits, as well as capital appreciation.

### Says Bull Market Now Exists

Of course, one predicts market trends at considerable risk, but I am personally convinced that Japan is now in a bull market. Each time in the past 15 years that the government has relaxed credit restrictions, there has been a major bull market. Last time (see chart) prices went up over 200% from 1959 to 1961. Of course, conditions are very different now and the magnitude of any rise might be much less. However, over the long run, I don't see how one can help but be an optimist. Professor Samuelson of M.I.T. has said that the Japanese yen is potentially the strongest currency in the world. I feel the same way about the Japanese stock market.



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# Airline's Spectacular Growth Reflects Japan's Resurgence

By Yukichi Abe, New York District Manager, Japan Air Lines

One of the few international airlines to show a profit for fiscal 1962 has been a profit-maker since 1956. Japan Airline Co., Ltd., came into legal existence in Oct. 1, 1953, capitalized at \$5.6 million, and started its first trans-Pacific flights in February, 1954. JAL wiped out its initial two-year deficit by March, 1958; flies to all principal parts of the world; increased its revenue last year 39.7% to \$69.9 billion compared to the prior year; obtained the first private commercial bank loan guaranteed by our EXIMBK, and had doubled its capitalization by 1961. The company's New York manager reports here on JAL's unusual success.

Eleven years ago, Japan Air Lines was a limited domestic carrier, operating in Japan under a charter agreement with a United States airline. Today, JAL is one of the world's better known global jet airlines, with service from its Tokyo base across the Pacific, over the North Pole to Europe, and via Southeast Asia and the Middle East to Europe.



Yukichi Abe

The spectacular growth of the airline in that period is one of the remarkable success stories of postwar Japan.

Japan Air Lines made its modest beginning Aug. 1, 1951, capitalized at 100,000,000 Yen (approximately \$278,000 at the exchange rate of 360 Yen to \$1). Because the Peace Treaty and the Administrative Agreement under the security pact between Japan and the United States did not come into force until April 28, 1952, an operating agreement with Northwest Airlines was arranged. Thus JAL aircraft—three Martin 202's and a Douglas DC-4—flying between Tokyo and other cities in Japan, were manned and maintained by Americans.

#### Legal Birth in October, 1953

The present Japan Air Lines Company, Ltd. came into being through a law enacted by the Japanese Diet Oct. 1, 1953. This action was taken to authorize the government's capital participation in the airline to enable it to purchase overwater aircraft and start overseas operations. Equipment, facilities and personnel of the former company were taken over by the new firm. The new company was capitalized at two billion Yen (\$5,555,556), of which the Government of Japan invested half.

The new company was awarded traffic rights to California and to Hong Kong, with the first of its trans-Pacific fleet of Douglas DC-6B's JAL opened twice-a-week service between San Francisco and Tokyo, via Honolulu, in February, 1954.

Service became daily in 1958 when a fleet of DC-7C Super Couriers was added to the DC-6B fleet. Los Angeles was added as a second West Coast port of call in 1959. During this period, JAL routes had been extended also to Okinawa, Hong Kong, Bangkok, Singapore and Taipei.

JAL entered the jet age in 1960, with its first fleet of DC-8 jets purchased from the Douglas Aircraft Company. These went into operation on trans-Pacific routes immediately with all-Japanese crews specially trained for the new era in aviation.

After yearly increases, capitalization of the company in 1961 reached 10,903,000,000 Yen (\$30,308,000) of which 6,500,000,000 Yen (\$18,060,000) was invested by the Japanese Government. The organization of the company calls for eventual full ownership by private investors but private capital had not been readily available in JAL's early years or during its greatest period of jet acquisition.

The transition to all-jet operations on international routes was completed in October, 1961, with the addition of three Convair 880M jet for the Southeast Asia routes. The same year, in cooperation with Air France, JAL commenced trans-Polar service from Tokyo to Copenhagen, London and Paris.

#### Obtains Ex-Im-Bk Backed Private Bank Loan

For expansion of the Tokyo-Hong Kong-Bangkok route along the "Silk Road" into Europe via India in 1962, JAL acquired two more Convair 880M's. Loans for these planes—and a fifth DC8—were made by a commercial bank in New York, under guarantee by the Export-Import Bank of Washington. It was the first guarantee ever granted to a private company in Japan for a commercial bank loan. JAL's previous equipment purchases were financed directly by the Export-Import Bank.

In addition to Calcutta, Karachi, Kuwait, Cairo, Rome and Frankfurt along the "Silk Road," JAL inaugurated service to Djakarta on the Southeast Asia routes in 1962.

Route extensions, continued growth of air traffic within Japan, and increased frequency on international routes have required continual additions to JAL's aircraft fleet. In addition to the five DC-8's and five Convair 880M jets now in service, JAL will add two turbofan DC-8's and three Convair 880M's in the Spring and Summer of 1963. These planes will enable JAL to raise trans-Pacific frequency to an all-time high of 11 flights per week and increase jet service on domestic runs.

JAL's piston fleet includes eight DC-6B's, three DC-7's in domestic service, and a DC-7F all-cargo plane in trans-Pacific service. JAL's DC-4's, once the backbone of the domestic fleet, have been

used only for nights since the middle of 1962. In 1963 they will be eliminated altogether from passenger service.

Completion of JAL's plans for around-the-world service and stepped-up frequency on existing routes will require still more jet aircraft in 1964.

#### Remarkable Operating Profit

Despite the financial strains of rapid expansion in highly competitive market, JAL has shown an operating profit each year

since the fiscal year ending in March, 1956. Accumulated deficits from the first two years of operation were recovered by March, 1958. Dividends were paid to non-government shareholders for the fiscal years ending March 31, 1959, 1960 and 1961. Although no dividend was paid for the fiscal year ending in 1962, JAL was one of the few international carriers to show a profit. Revenues for the fiscal year reached \$69,862,861, a 39.7% increase over the preceding year. The purchase of aircraft,

opening of new offices and inauguration of new routes pushed expenditures to \$69,532,617. For the calendar year just ended, JAL flew 190,000 international passengers and 943,108,000 revenue passenger kilometers. Domestically, JAL flew 1,181,200 revenue passengers and 849,592,000 revenue passenger kilometers. In addition to greater frequency of operation, JAL's expansion plans for 1963 include inauguration of service to Seoul, Korea.

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## INVESTING IN JAPAN -A LOOK AHEAD

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# Japanese Electrical Firm Outpaces Nation's Growth

By Fumio Iwashita, President, Tokyo Shibaura Electric Co., Ltd., Tokyo, Japan

Indicative of Japan's remarkably growing economy is the rise of one of the world's largest electrical firms — Tokyo Shibaura Electric Co., Ltd. It generates electricity, manufactures consumer and industrial electric equipment, exports and in some areas faces keen import competition, and has successfully raised permanent capital here as recently as Dec. 31, 1962 in the amount of \$20 million in convertible debentures. The head of the company accounts for his stewardship and reasons for optimism about the firm's prospects.

Japan's gross national product is estimated to have increased a remarkable 72% during the last five years. Moreover, during this same period the sales of the Tokyo Shibaura Electric Co., Ltd., in turn, have increased not just 72%, but an astonishing 172% instead.

Toshiba (the trade name of this firm — a household word in Japan) produces electric and electronic consumer appliances and products; heavy duty electrical equipment; lamps, tubes and semi-conductors—in all, over 6,000 different items.

Its sales of consumer appliances and products in 1962 amounted to 110,117 million Yen (\$306 million), an increase of 189% over 1958. Heavy duty equipment sales totaled 77,607 million Yen (\$216 million), marking up a five-year increase of 102%. Lamps, tubes and semi-conductors, in turn, brought in 23,518 million Yen (\$65 million) worth of business, 101% more than five years previous.

#### Among the Greatest

These sales figures, measuring the company's stature, are reflected in Toshiba's relative standing among the world's great-

est enterprises outside the United States in the annual ratings of "Fortune" magazine. In 1958, Toshiba ranked 87th; in 1962 it was in 29th place.

The firm was established 88 years ago and now the parent company has a paid-up capital of approximately 69,300 million Yen (\$192.5 million). Counting its 74 subsidiaries, the total capitalization amounts to 84,000 million Yen (\$233 million), making this the largest single manufacturing complex in Asia.

Toshiba's various factories have an aggregate manufacturing floor space of approximately 21,747,000 square feet. The company has some 85,000 regular full-time employees and approximately 22,000 temporary full-time employees. For research and development alone it has about 3,200 persons on its payroll, of whom 1,300 are graduate engineers and scientists.

#### Emphasis on Research

Total expenditures for research and development in 1962 amounted to 7,658 million Yen (\$21.3 million) representing 3% of the company's net sales. About one-fourth of this was for basic research.

In 1961 its Central Research Laboratory in Kawasaki, containing 470,000 square feet of floor space, was completed. This laboratory is devoted to research in such fields as solid state and applied physics, metallurgy, organic and inorganic chemistry, electronics, mechanical engineering,

missiles, space instrumentation, automation and atomic power.

In addition, the company conducts product research and development, closely coordinated with its manufacturing operations, in laboratories occupying 600,000 square feet of floor space in its plants.

Toshiba is Japan's largest manufacturer of fluorescent and incandescent lamps, semi-conductors, receiving tubes, cathode ray tubes and refrigerators. It is also Japan's second biggest producer of electric fans, TV and radio sets, and the third largest manufacturer of washing machines and standard three-phase motors. The company, alone, produces 20% of all the light and heavy electrical equipment manufactured in Japan.

Experienced in meeting competition, Toshiba does not expect that the recent trade liberalization of Japan will seriously affect its business. Already practically everything that Toshiba sells has been liberalized except for steam turbines of over 200,000 KV capacity and heavy duty circuit breakers. In the field of heavy industrial equipment the chief threat of foreign competition lies in the more favorable deferred payment arrangements offered by overseas competitors.

Due to the still relatively low per capita consumption of electricity in Japan and the rapidly increasing personal income of the Japanese people, Toshiba has been busy for the most part in supplying the domestic market.

#### International Connections

Toshiba exports, however, are gradually increasing. In 1958, 4% of its sales were foreign, but by 1962 the percentage rose to 8%. Last year the best export items were electric railway cars, radios, heavy electrical equipment and receiving tubes. Its best overseas customers were Argentina, Mexico, the United States, India and Formosa.

The international nature of Toshiba is also indicated in the increasing number of foreign stockholders. Out of a total of 380,000, over 2,300 are now foreign investors. Last year, for example, when its stock was placed on the U. S. market in the form of American depository receipts (ADR's) the entire issue was purchased immediately.

Internationally, Toshiba's technical assistance agreements with 16 foreign manufacturers in the U. S. and Europe nicely augment the considerable know-how it has accumulated through its own efforts.

Among the important foreign firms with which such relations are maintained are the following: RCA, N. V. Philips' Gloeilampenfabrieken, the Western Electric Co. and, most extensively of all, the General Electric Co. Toshiba holds 3,832 Japanese patents and 45 foreign patents, 12 of which are U. S. patents. It also has pending applications for 2,874 Japanese and 151 foreign patents, including 56 in the U. S.

Toshiba's incessant efforts to develop new products and discover new processes is illustrated by its forming in 1958, along with other Japanese companies, the

Nippon Atomic Industry Group Co., Ltd., in which its equity interest is 26.7%. This subsidiary, which is using facilities leased by Toshiba and a training reactor that Toshiba built, is carrying on basic research in the peaceful uses of atomic energy on behalf of the member companies.

#### Constant Growth

Among the outstanding characteristics of the Tokyo Shibaura Electric Co. has been its constant growth. During the five years ending Sept. 30, 1962, the company spent for its construction and acquisition program an aggregate amount of 135,740 million Yen (\$376 million).

Last year the company invested 48,985 million Yen (\$136 million) in plant improvement during which approximately 80% of the current program was completed.

Toshiba intends to continue its all-round manufacture of electrical products ranging in size from tiny transistors to giant generators. Special attention will be given to developing the heavy electrical machinery division further, in line with growing worldwide needs.

In addition, the light electrical equipment unit, featuring com-

munications and measuring instruments, will be given the status of a separate division in keeping with its growing importance. In this regard it is of interest to note that in 1962 Japan produced 50,000 million Yen (\$139 million) more worth of electronic and communications equipment than it did the year before.

#### Encouraging Prospects

Toshiba's prospects for 1963 look good, particularly inasmuch as there is a growing need for electrical power in Japan and inasmuch as the Government, as a matter of national policy, is encouraging the development of adequate facilities.

In the matter of export trade it is expected that competition will continue to be as sharp as ever and that the developing nations will be in no better position than heretofore to increase their imports. Nevertheless, Toshiba is confident that it will be able to play its expected part in achieving the national over-all goal of increasing exports at least 10% this year. In particular it is expected that trade with the economically and culturally advanced nations of Europe will continue to expand at a moderate rate.



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# The Expanding U.S. Market For Japanese Securities

By Daniel J. Berrell

In 1962 Japanese businessmen sold more securities in the United States than those of any other foreign country. The total amount of such offerings, both public and private, was \$150,456,250, up from \$53,972,385 in 1961 and a tiny \$12,000,000 in 1957. During the period October 1957 to March 1963, a total of \$340,203,635 was raised by Japanese firms to finance a heroic expansion of the Japanese economy.

During the five and a half year period, many of the blue chip companies in Japan entered the American financial market. Well established firms such as Sony, Toshiba, Honda Motor, Hitachi, Mitsubishi Chemical and Kansai Electric have successfully raised funds to open new factories and secure new markets for Japanese products.

Even agencies of the Japanese Government, such as Japan Development Bank, Nippon Telegraph and Kokusai Denshin Denwa have met with great success in their efforts to interest the American investor.

As previously stated, 1962 was a record year for Japanese-United States financing, but 1963 has the earmarks of being even better. Already \$50,975,000 of such securities have been sold, with many other issues waiting their turn in the limelight. On Feb. 20, 1963, Mitsui & Co., Inc., registered with the SEC an issue of \$10,000,000 of convertible debentures due 1978 and 125,000 American Depositary Shares. The offering is expected to be made in late April.

Sony Corp., also registered an issue of 300,000 ADR's for offering in early April.

It was recently reported from Tokyo that the Diet is considering the 1964 fiscal budget, which includes a provision to sell \$60,000,000 of Government Bonds and \$40,000,000 of Government guaranteed bonds in the U. S. for the fiscal year starting April 1. The two guaranteed issues are Nippon Telegraph & Telephone bonds and \$20,000,000 of City of Tokyo bonds. It was also reported that the first issue of Government of Japan bonds, amounting to \$30,000,000, would be issued in May.

Here follows a list of securities sold in the United States by Japanese firms in recent years:

## 1961

### Japan Development Bank

\$20,000,000 of 5%-6% guaranteed external loan bonds due Sept. 15, 1964-76 were offered at par and accrued interest on Oct. 3, 1961 by First Boston Corp.; Dillon, Read & Co., Inc., and Smith, Barney & Co., Inc., New York.

### Kawasaki Steel Corp.

\$4,000,000 of 7½% notes due 1970 were sold privately to institutional investors on Jan. 20, 1961 by First Boston Corp., New York.

### Mitsubishi Chemical Industries Ltd.

\$4,425,000 of guaranteed dollar promissory notes due Oct. 1, 1971

and 2,047,385 shares of capital stock were placed privately on Oct. 3, 1961 by Kidder, Peabody & Co., Inc., New York.

### Nippon Telegraph & Telephone Corp.

\$15,000,000 of 6% bonds due April 15, 1976 were offered publicly on May 3, 1961, at 95½% by Dillon, Read & Co., Inc.; First Boston Corp., and Smith, Barney & Co., New York.

\$5,000,000 of 5%, 5½% and 5¼% bonds due April 15, 1964-66, were offered on May 3, 1961 at par by Dillon, Read & Co., Inc.; First Boston Corp., and Smith, Barney & Co., New York.

### Sony Corp.

200,000 American Depositary Shares (\$3,500,000) were offered on June 6, 1961 at \$17.50 per ADS by Smith, Barney & Co., and The Nomura Securities Co., Ltd., New York.

## 1962

### Alaska Lumber & Pulp Co., Inc.

\$8,000,000 of first sinking fund notes, series B, due June 1977, were placed privately in July 1962 by Dillon, Read & Co., Inc., New York.

### Hitachi Ltd.

\$16,500,000 of 6½% convertible debentures due Sept. 30, 1977 were placed privately with institutional investors on Sept. 12, 1962 by Dillon, Read & Co., Inc., New York.

### Honda Motor Co., Ltd.

450,000 American Depositary Receipts (\$7,031,250) were offered at \$15.625 per ADR on Dec. 19, 1962 by Goldman, Sachs & Co., New York.

### Japan Development Bank

\$17,500,000 of 6% guaranteed external loan bonds due May 15, 1977 were offered at 96% and accrued interest on May 15, 1962 by First Boston Corp.; Dillon, Read & Co., Inc., and Smith, Barney & Co., Inc., New York.

### Japan Fund, Inc.

1,250,000 shares of common stock (\$15,625,000) were offered at \$12.50 per share on April 12, 1962 by Bache & Co., Paine, Webber, Jackson & Curtis, and The Nikko Securities Co., Ltd., New York.

### Kokusai Denshin Denwa Co., Ltd.

\$25,000,000 of 6¾% notes due June 1, 1977 were sold privately to Equitable Life Assurance Society of the United States on Sept. 13, 1962. Kidder, Peabody & Co., New York, assisted in the financing.

### Nippon Light Metal Co., Ltd.

\$3,000,000 of 7½% notes due 1977 were sold privately on Feb. 20, 1962 by Dillon, Read & Co., Inc., New York.

### Nippon Telegraph & Telephone Public Corp.

\$18,500,000 of 6% bonds due Sept. 15, 1977 were offered at 96% on Sept. 19, 1962 by Dillon, Read & Co., Inc.; First Boston Corp., and Smith, Barney & Co., New York.

### Shin Mitsubishi Heavy Industries

\$10,000,000 of 6½% convertible debentures due Sept. 30, 1977 were offered at par and accrued interest on Sept. 17, 1962 by First Boston Corp., and The Nomura Securities Co., Ltd., New York.

### Tokyo Shibaura Electric Co., Ltd.

600,000 American Depositary Shares (\$9,300,000) were offered at \$15.50 per ADS on Feb. 9, 1962 by Smith, Barney & Co., and The Nomura Securities Co., Ltd., New York.

\$20,000,000 of 6¾% convertible debentures due March 31, 1978 were offered at par on Dec. 11, 1962 by Smith, Barney & Co., Inc., and The Nomura Securities Co., Ltd., New York.

## 1963

### Japan Development Bank

\$22,500,000 of 6% guaranteed external loan bonds due Feb. 1, 1978 were offered at 96.50%, on Jan. 30, 1963 and accrued interest by First Boston Corp., Dillon, Read & Co., Inc.; Smith, Barney & Co., New York.

### Kansai Electric Power Co., Inc.

1,300,000 American Depositary Shares (\$21,775,000) were offered at \$16.75 per ADS on Mar. 13, 1963 by Merrill Lynch, Pierce, Fenner & Smith, Inc., and The Nomura Securities Co., Ltd., New York.

### Nippon Electric Co., Ltd.

400,000 American Depositary Shares (\$6,700,000) were offered at \$16.75 per ADS on Jan. 29, 1963 by First Boston Corp., and The Daiwa Securities Co., Ltd., New York.

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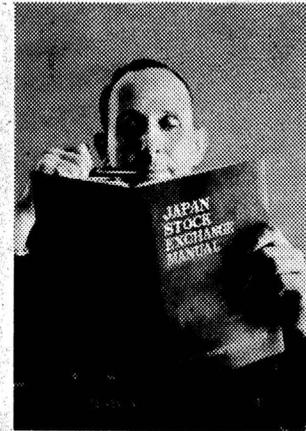
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# Impact of Foreign Capital On the Japanese Economy

Continued from page 7

Exchange Commission during the 1963 fiscal year.

The next step facing Japanese companies will be to list their ADR's on the New York Stock Exchange. This step presents a number of legal and technical problems and will require the straightening out of certain accounting difficulties, but listing on the New York Stock Exchange seems highly desirable.

## Investment Trusts

Japanese securities houses have also been active in the formation of international investment trusts, including the Anglo-Japanese Investment Trust, established in November 1961; the Japan Fund, established in April 1962; the International Investment Trust Corporation, established in June 1961 in Hong Kong; and the International Growth Trust, established in Switzerland in 1962.

Its possible effect on the Japanese stock market is hard to assess. As existing international investment trusts which include Japanese securities are of the closed-end type, repatriation of capital following cancellation presents no problems. Moreover, these investment trusts cover a wide number of issues, so that concern that they may disrupt the market through concentration on a limited number of issues appears baseless.

## Joint Ventures

One of the most important forms of foreign investment in the postwar period has been joint ventures of Japanese and foreign firms. These mutual arrangements offer the foreign investor the privilege of participating in management while providing the Japanese partner with continuous and exclusive access to highly

developed technologies rather than being limited to licensing agreements under the more customary technological assistance contracts. Because of the possibility that the Japanese participant may lose his independence in such joint ventures, however, such agreements are subject to very close scrutiny by Japanese authorities. Joint ventures have run a very broad gambit from aluminum to radio isotopes and from rubber production to thermostatic controls.

## Foreign Loans

Since the first half of 1961 when the World Bank tightened its loan conditions, Japanese business has had to rely much more heavily on loans from foreign commercial banks.

Foreign commercial loans for the period April, 1961, through March, 1962, totaled over \$370,000,000 primarily from the United States, but also from Switzerland, the United Kingdom and Belgium, roughly double the amount borrowed in the preceding fiscal year. Approximately half of these loans were obtained by companies in the petroleum and petrochemical industries; many involved special connections between the lender and the borrower, such as parent companies, affiliates, trading partners and/or suppliers. And, compared with 1960, a broader number of industrial sectors were among the borrowing firms. During this period, loans from American commercial banks showed a considerable increase. Loans obtained for working capital served chiefly to finance the larger raw material inventories required by expanding production facilities; other funds were used for the improvement of sales channels and promotion. Most of the loans were secured by

guarantees issued by Japan's foreign exchange banks; there were no mortgages or other forms of hypothecation.

Remittances of royalties, dividends, interest, and principal from foreign investment have also risen appreciably in recent years, reaching a total of \$198,263,000 during fiscal 1961.

## Japanese Investment Abroad

The inflow of foreign investment into Japan has been sizable, as the preceding paragraphs indicate. In addition, however, Japanese capital has also been moving out of the country into overseas investment. These funds have been in the form of contributions to international organizations, direct investment in overseas companies and deferred payments for exports, with the latter two showing significant increases in recent years. Since European countries grant very liberal payment conditions for exports, Japan has had to exert considerable effort to improve its export financing and agree to longer deferrals. Outstanding balances of deferred payments have totaled roughly half of Japan's overseas investment during the years since 1959. Japan's overseas investment, in order of importance, has gone to Central and South America, North America, Southeast Asia, Europe, and the Middle and Near East. Recently direct investment by private Japanese firms has risen in Europe and the Middle and Near East; deferred payments have also risen for Europe and Southeast Asia. Last year (fiscal 1961), Japan contributed \$55,000,000 to international agencies and also paid \$7,000,000 into the International Development Association (IDA).

## Influence of Foreign Capital

The influx of foreign capital has affected the Japanese economy in a number of ways, with three aspects deserving particular attention: (1) influence on the balance of payments; (2) influ-

ence on domestic enterprises; (3) influence on the domestic money market.

The introduction of foreign capital has favorable as well as unfavorable effects on the payments balance. When it flows in, it strengthens Japan's international payments position, but short-term foreign capital can pose a serious threat to balance of payments stability since it is always subject to sudden withdrawal. Large-scale foreign investment also eventually leads to large remittance of earnings and royalties for foreign technology. While well planned and economically justified foreign investment may be of great help to Japan, the ill-advised introduction of foreign capital and/or technology produces a net loss to the country.

In the immediate postwar period, Japan's balance of payments difficulties prevented large-scale capital transactions, but at present the ratio of foreign capital to national income is roughly the same as that for West Germany or Italy. If a deterioration in Japan's payments balance should cause apprehension among its foreign creditors and a resultant wide-spread exodus of foreign funds, the effect could be disastrous.

The effect of foreign capital on domestic enterprises presents a two-fold problem: first, its influence on the competitive position of Japanese corporations, and second, its effect on their independence. To date, the protectionist policies of the Government have checked penetration of the Japanese market by foreign corporations, but liberalization will gradually remove these artificial barriers. Concomitantly, Japanese enterprises will also be able to invest abroad. There will be no difficulty if both capital movements are roughly equal, but at

present, Japan is almost exclusively on the receiving end of investment from advanced industrial countries, while its own economic assistance to developing nations is still small. The uses to which foreign capital is put and the position of Japanese management vis-a-vis foreign investors are of continuing importance not only to the individual corporation but the economy as a whole.

The influence of foreign capital on the Japanese money market is both quantitative and qualitative. During the same period, short- and long-term foreign capital invested in Japan reached nearly \$2,778,000,000, or more than equal the above amount. This completely upset official efforts for centralized control of the capital market and made its regulation largely ineffective. On the other hand, stable low-interest foreign funds contributed greatly to the growth of Japan's economy.

This points to the qualitative problem involved in the introduction of foreign capital. Japanese interest rates are high, so there is a danger that interest rates for foreign capital may be fixed not on the basis of prevailing rates abroad, but on domestic rates. Likewise, they may disregard the customary spread between long- and short-term interest rates. Other qualitative problems include issuing conditions for foreign bonds, including costs and timing, and the purposes for which foreign funds are borrowed.

The above represent a few of the aspects which should not be overlooked in assessing the contribution foreign capital has made and is making to Japan's economy. That foreign capital has made a vital contribution can not be gainsaid. Yet, Japan's utilization of foreign capital as it emerges into a highly industrialized society still requires intelligent and flexible controls.

## Sound Financial Policies Key to Japan's Rapid Growth

Continued from page 5

in recent years. Investment trust funds have become popular among the people and individual stockholdings are on the increase. But the bond market is not yet large enough to supply funds to the industry and we hope that it develops further in the future. In supplementing the capital market, consequently, the commercial banks supply equipment funds as well as ordinary working funds. In addition, three private banks specialize in long-term funds financing.

## Government Financial Institutions

Another aspect of Japan's industrial financial system is that the Government financial institutions play an important role therein. Their loans cover about 10% of the total supply of equipment funds. But, more important than the above figure is the fact that they are to make long-term loans taking into consideration efficient allocation of funds among industries and regions. As a matter of fact, their loanable funds do not come from inflationary monetary sources, but rather from Postal Savings and the like in which individual savings are absorbed.

The introduction of foreign capital obviously not only eased the shortage of domestic funds but helped to balance the nation's external payments. It was surely one of the factors that contributed to national economic growth.

The commercial banks are still in a position of the so-called "over-loans". Facing a bulky demand for money from industry, they could not help extending credits which exceeded their money on deposit and resorted considerably to loans from the Bank of Japan. In this situation, efforts are being made and appropriate measures are being discussed among the circles concerned to further improve the financial conditions in Japan; namely, to improve the over-loan situation of the commercial banks, develop the capital market further, and then facilitate industries' procurement of long-term funds, and strengthen the capital structure of private enterprises.

## IV

### Role of Government Financial Institutions

The Government financial institutions in Japan were established to supplement the activities of private financial institutions, by

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supplying long-term funds to private enterprises. They carry out their lending activities, in taking into account the Government policy.

The Government's financial and industrial policy aims at strengthening the foundation of the national economy, coordinating the development among industries and regions and equalizing the balance of payments. The Government financial institutions have made loans so far mainly to strengthen the important basic industries, support small or medium size enterprises, promote regional development, and modernize agriculture and fisheries.

The Japan Development Bank is covering the broadest scope of activities among the Government financial institutions in Japan. It has made loans for basic industries, regional development and depressed industries, and has been contributing to the development of Japan's economy. The Bank's outstanding balance of loans now amounts to over \$2 billion and its equity capital stands at \$750 million.

Furthermore, the Bank has acted as a medium for obtaining foreign capital on a long-term basis for selected sectors of Japanese industry for development purposes, in cases where it is considered that such foreign capital cannot be obtained through ordinary private channels. The World Bank loans to Japanese private enterprises have been made entirely through the Bank. The Export-Import Bank of Washington has made loans to Japanese companies, of which a large amount of loans were guaranteed by the Bank. And, the Bank succeeded in issuing its external loans bonds three times in the United States totaling \$60 million for its sources of funds. We are indeed satisfied with its success as it indicates American and European investors' confidence in the Bank as well as in Japan.

As the Government program on the liberalization of trade and foreign exchanges proceeds, the restrictions on capital transactions are expected to be lifted gradually. The importation of stable foreign capital will be thus encouraged more than before. At the same time it should be noted that Japan is making efforts within her means for extending assistance to the less-developed countries in cooperation with the United States and the European nations. For this purpose, the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund are carrying out their lending operations more actively than before.

## V

### Conclusion

Japan's economy will be influenced by the liberalization of trade and foreign exchanges now going on. Nevertheless, Japan has great possibility of maintaining a high economic growth compared with that of foreign countries. And private enterprises are also expected to develop rapidly.

International capital transactions are becoming active year by year. We certainly believe that Japan has many attractions for foreign investors as she not only is one of the industrial countries but has a great possibility of rapid economic growth.

# Japan: The Growth Economy

Continued from page 3

rehabilitate them and to supply the forces in Korea. The country rapidly revived and by 1951 Japan was again a major contender in the world market. Capital accumulation by inflationary means also stimulated the postwar economy. The wholesale price index rose more than 20-fold from 1946 to 1952.

### Exports Doubled in Six Years

Japanese exports rose from \$2 billion in 1955 to \$4.2 billion in 1961. As compared with 1934-36, Japan's exports to North America had increased in importance, while those to Asia declined, largely because of the absence of a Mainland China market. However, exports to underdeveloped areas all over the world also increased substantially. But as these areas develop over time, they will have less need of Japan's exports of light industrial goods and a greater need for heavy industrial and chemical goods which now account for less than half of Japan's exports of manufactured goods. A significant portion of the domestic investment in Japan in 1960 and 1961 was in recognition of this need to shift their export emphasis towards heavy industrial and chemical goods in the future. The plan is to double exports over the ten-year period to 1970. At the same time, imports rose from \$2.5 billion in 1955 to \$5.8 billion in 1961, and the 1970 import target is \$8.1 billion. A basic aim is a favorable balance of trade and a much more rapid growth of exports than imports.

### Slowed Exports Hurt

During 1961 industrial production rose sharply in Japan, as did the cost of living, both generated by the intense domestic demand for investment goods and high imports. However, unlike the previous years this was not accompanied by a substantial rise in exports. This partly reflected a recession in the United States (25% of Japan's total export market in 1961) and partly by a failure of a rise of exports to primary producing countries. A balance of payments deficit developed. There was a deficit of \$976 million on account of goods and services and private transfers compared with a surplus of \$168 million in 1960 and \$393 million in 1959. Net official reserves declined \$400 million in 1961 after having increased by \$500 million in 1960. Measures were introduced to curb domestic expansion and expenditures. The discount rate was raised and reserve requirements and importers' advance deposit requirements were raised. In order to bridge the period until these measures could affect the balance of payments, the Japanese borrowed \$200 million from the United States commercial banks in November, 1961 and \$125 million in January, 1962. In addition they entered into a standby arrangement with the International Monetary Fund in January, 1962 for \$305 million.

However, in spite of the worsening of the balance of payments, Japan began accelerating its program of liberalization of trade, and the prospect of increased foreign competition proved a stimulus to further investments in the modernization of plant and equipment. The adjustments proved constructive and by early 1962 the

balance of payments showed a surplus due primarily to an inflow of capital attracted by high money rates. By mid-1962 the balance of trade turned favorable due to reduced imports by industry and an expansion of exports. The Japanese Government therefore relaxed its tight money policy in late 1962 by purchasing treasury bills in the open market and lowering the rediscount rate, all with an expectation of stimulating the recovery in business activity. A further cut in the discount rate was made on March 20.

### The Capital Market

Gross fixed investment in Japan from 1954 to 1960 was approximately \$50 billion. Of this total about two-thirds was private and one-third of the gross fixed investment was supplied by the government.

The postwar economic growth of Japan was, of course, accompanied by a high demand for capital. The demand was so great that enterprises were unable to supply all the necessary capital from inner reserves or capital increment, and they depended heavily on loans from commercial banks where the bulk of the people's savings are deposited. For although the average interest rate on commercial loans was high (about 8% in 1960) the dividend rate was significantly higher (about 14% of face value of stocks in 1959-60) and whenever business needed funds it thus resorted to commercial bank borrowing. The result was a major dependence on commercial loans or indirect investment as against direct investment. Thus in 1959 equity capital, when calculated at the prewar monetary value, amounted to only about 40% of the prewar period.

Early postwar inflation in Japan had made fixed interest-bearing bonds unwelcome. Savings not placed in the preferred commercial banks were invested in stocks as a hedge against inflation. Still, direct investment is comparatively underdeveloped when compared to indirect investment through commercial bank loans. Bank loans increased from \$6 billion in 1952 to \$28 billion in May, 1962, while securities outstanding increased from \$1.4 billion in 1952 to \$10 billion in 1962. The improvement in capitalization, that is, a trend towards more direct investment, is shown by the fact that in 1952 securities outstanding were one-quarter of indirect investment through loans, while in May, 1962 securities outstanding increased to the point where they were one-third as large as indirect investment through loans and discounts. In addition, loans and discounts increased five-fold from 1952 to 1962, but the amount of securities outstanding increased seven-fold. Nevertheless, there is still excess dependence on commercial banks for financing business. The banks are nearly always in an over-loaned position and a substantial proportion of new lending must be financed by recourse to the central bank.

While direct and portfolio investment by foreigners in Japan was small in 1960, it rose to \$61 million and \$72 million, respectively, in 1961. The stimulus creating a strong investment incentive was the shortening of the waiting period for the repatriation

of foreign capital to six months. Current indications suggest that the six-month holding will be removed in the near future.

In addition, the restriction on the transfer of yen funds held by foreign residents was eased and cash dividends and interest are now freely converted into United States dollars and repatriated at the exchange rate prevailing at the time of repatriation. (Since 1949 the yen has been stabilized at 360 to the dollar.)

### Conclusion

The rate of Japan's industrial growth in recent years has surpassed that of any other industrialized country of the Free World. Gross national product increased 74% from 1957 to 1961, national income increased 70% at current prices during the same period and 58% at constant prices. The percentage of gross domestic investment to gross national product averaged an extraordinarily high 35% from 1957 to 1961. During the same period exports and imports each increased about \$1.5 billion.

One continuing problem is the balance of payments. Prosperity at home and high imports of capital goods increase balance of pay-

ments deficits and thus usually lead to restrictive monetary and fiscal policy, while the appearance of a surplus in the balance of payments is generally an indication of a relaxation in monetary policy. Japan requires additional capital to modernize its productive facilities, and an increased inflow of foreign investment would make possible increased productivity as well as a probable reduction of the too high dependence of Japanese enterprise on commercial bank loans. Any resulting improvement in Japan's balance of payments position would inject a needed stability into the economy and would perhaps make possible a greatly needed expansion in the domestic consumer market for consumer durable goods.

The outlook for world trade in the years ahead is bright, and Japan should continue to play a significant, and perhaps increasing, role. Since her growth has been spurred by the export sectors in the economy, these dynamic sources should continue to supply the motivating force for still greater expansion. If, in addition, trade barriers discriminating against Japanese goods could be further modified, the potential expansion could well compare with the past decade's record.

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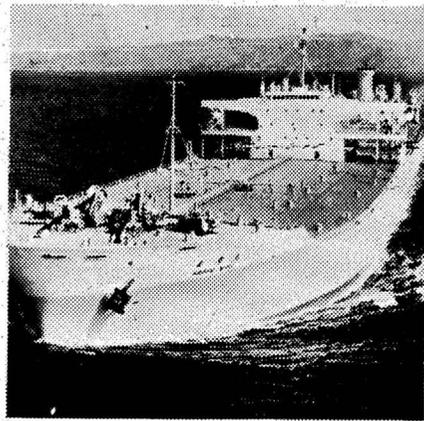
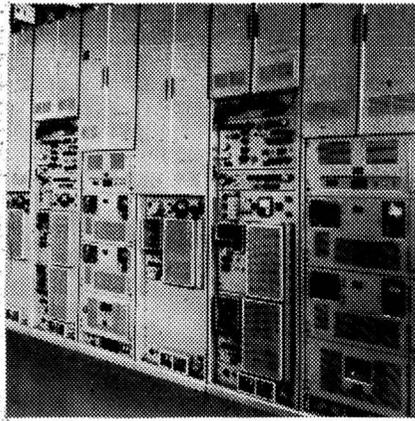
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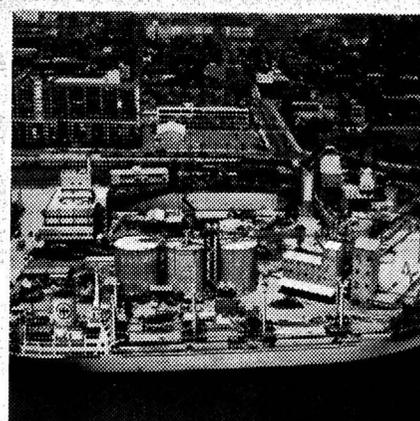
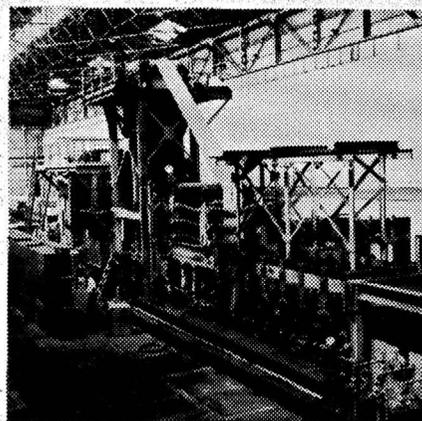
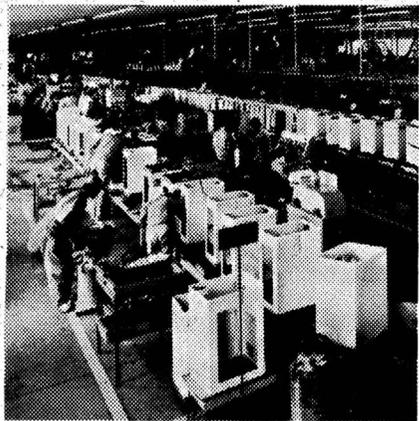
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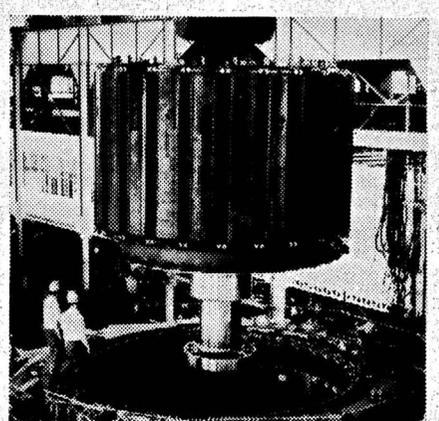
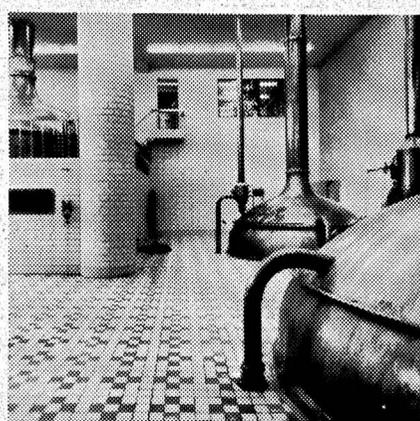
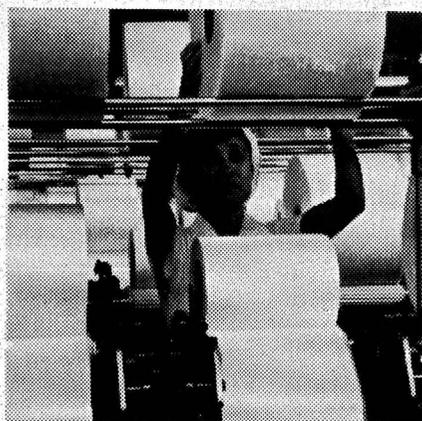
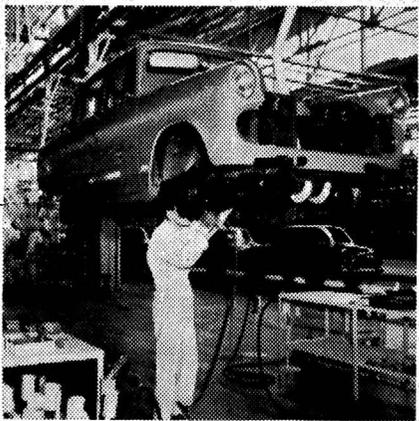
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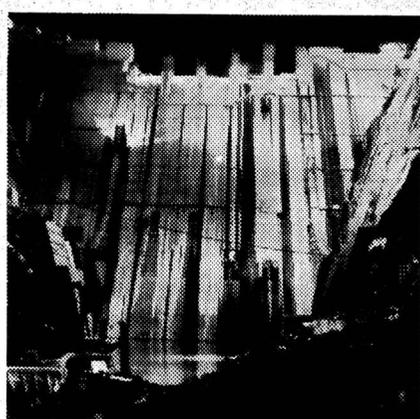
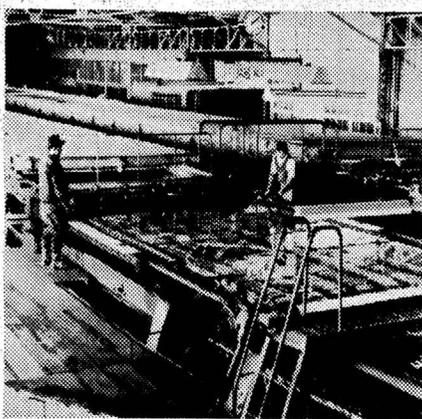
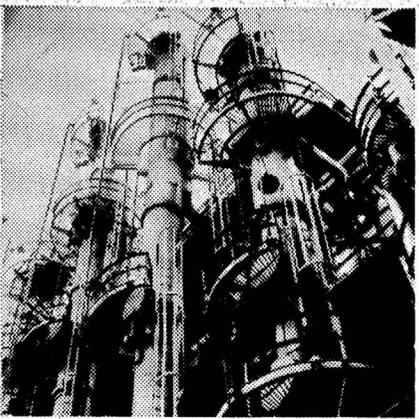
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