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JAPAN'S OCEAN SHIPPING DEVELOPMENT PROGRAM AND ITS SUBSIDY PROBLEM

by

Kenichi Masui

1) National Income Doubling Program

—Its Foreign Trade Section and Shipping Section—

The publication, in the autumn of 1960, of the Government's National Income Doubling Program (N.I.D.P.) had a remarkable influence upon disputes regarding the national shipping policy of this country, through indicating a target of the development program of Japanese merchant fleet.

N.I.D.P., which has provided a ground for economic prospects to every subsequent government planning, expects to double Japan's national income in about ten years, starting from 1960,(1) with yearly growth of 7.8%.

According to this program, Japan's foreign trade is to expand, at value basis, at yearly rate of 9.3% (exports and imports 9.3% respectively), which surpasses above-mentioned yearly growth rate of national income, though falls short of 11.9% of yearly growth of industrial production. If we calculate at weight-basis, export is to expand at yearly rate of 8%, and import at 9.9%.

Then, how is Japan's foreign trade to be geared with her shipping? Their appropriate co-ordination is indispensable for any economic project of this country, which sees a key for further expansion in the development of foreign trade, and for which, therefore, maintaining efficient and reliable ocean traffic and balanced international payments are always very important.

(a) Tonnage and trade volume

Besides aforesaid marked increase of total trade volume, N.I.D.P. assumes also the change in Japan's foreign trade structure in the coming ten years as follows; in exports, the shares, calculated in value, of machinery, metal products, and chemical products will increase respectively, whereas that of textile goods and foodstuffs will decrease. In imports, which overwhelm exports as regards volume, and therefore require more attention from the standpoint of shipping, the shares of manufactured goods including machinery, semi-manufactured goods, mineral fuels and raw materials other than fibre will increase, while that of foodstuffs and raw fibre materials will decrease considerably.

What are especially worthy of notice as regards shipping, are import of

(1) In this article fiscal year (starting April and ending March of next calender year) is adopted instead of calender year, in case not otherwise described.

coal in 1970, which will amount to five times, calculated in weight, the average of 1956–1958, import of iron ore to six times and that of petroleum to four times, respectively, involving corresponding increase of transportation demands which will require considerably expanded tonnages of bulk-carriers and tankers. Naturally there will also be a marked increase of demand, although less in significance, for general cargo ships catering for increased import of manufactured and semi-manufactured goods.

The tendency in regional structure of Japan's foreign trade has also much connection with shipping. According to N.I.D.P. transportation distance of iron ore import will be extended considerably, because iron mines in South East Asia, on which our present import mainly relies, will show a sign of gradual exaustion, and instead import from India and South American countries, and later, import from South Africa, Alaska or Soviet Union will increase. The transportation distances of coal and petroleum import will not vary appreciably. As to manufactured and semi-manufactured goods, import from nearby countries will not come out from present low level, while that from distant countries in Europe and North America will expand notably.(2) On the whole, transportation distance will be extended by an appreciable extent.

Thus, N.I.D.P concludes that trade volume will expand remarkably in the coming ten years, and that its transportation distance has, on the whole, an inclination to be extended. As the result, considerably expanded tonnage will be required in 1970 in order to carry trade goods of this country.

Then, N.I.D.P. undertakes to determine the tonnage of Japanese merchant fleet necessary in 1970. But, regarding this, there are at least three points to be considered in connection.

Firstly, though Japanese ships carry principally Japan's trade goods, they carry also foreign cargos between foreign ports. In 1960 Japanese ships carried 3.5 million tons of cargos between foreign ports, as compared with 49 million tons of Japanese trade goods transportation. N.I.D.P. anticipates that Japan's tankers and bulk-carriers will gradually retreat from such a foreign market on account of the expected briskness of Japan's import of fuels and industrial raw materials, while general cargo ships will knd a larger market between foreign ports. Though earnings got by Japanese ships from such a market will remain at a present modest level of 15% of total earnings, the tonnage engaging in this trade should also be taken into consideration.

Secondly, the efficiency of ship utilization may change appreciably, in ten years, on account of the progress of shipbuilding and ship-operating technique, and of port and loading facilities, leading to saving of tonnage required. Though an increase of one-way traffic(3) involved by specialization in ship's type may counteract the saving to some extent, N.I.D.P. assumes that, in case of general freighters, efficiency increase in ten years will be so

(2) These anticipations presume that international political situations around Japan will not change considerably in the coming ten years.

(3) Increasing imports of iron ore, Australian coal, and lumber are anticipated to be performed mostly in the form of one-way traffic, or piston-traffic, as it is called here.

adequate to offset the effect of above-mentioned extended distance of import traffic, and in case of tankers efficiency increase will lead to less degree of increase of tonnage in comparison to traffic increase.(4)

Thirdly, transportation ratio of Japan's trade goods by national flag is not always constant. N.I.D.P aims at enhancing the transportation ratio of Japan's trade goods by national flag from 51% (in 1959) to 60% (in 1970) in case of petroleum, and from 52% to 60% in case of dry cargo, of which the transportation ratio of iron ore is to remain 70%, and that of coal is to increase from 51% to 60%.(5)

Based on such considerations, tonnage of ocean-going ships necessary for this country at the midst of 1970 fiscal year is calculated as 13,350 thousand G/T—non-tanker 9,850 thousand, tanker 3,500 thousand—. The figure is 2.6 times as large as the tonnage at the midst of 1960, that is 5,104 thousand G/T, and will be realized with yearly growth rate of 9.8%, starting from the end of 1959. This growth rate corresponds almost precisely to that of import volume, calculated in weight, that is 9.9%.

(b) Tonnage and balance of international payments

The tonnage postulated in 1970 must further stand analysis from the standpoint of international payments of this country. The trade section of N.I.D.P. describes: "As our import is a primary source of material goods indispensable for our inland economic activity, unrestrained import ought to be permitted as a principle, unless it involves serious difficulties for steady development of inland economy. Therefore, plan-figures (in the program) regarding import can rather be characterized as estimation-figures of import conforming to the scale of expected inland economic activity," "while export and invisible credit accounts are required to have sufficient scales to meet payment accounts and further to contribute to gold and foreign exchange reserves." "Therefore, as regards export, a rather ambitious plan-figure, reflecting fully the aim of this program, was adopted as an objective." "The same can be said regarding invisible credit account."(6) "Above all, as regards shipping, which forms the largest single item in invisible credit accounts, rather ambitious target-figure was adopted."(7) The necessity for Japanese economy to encourage visible and invisible export is intensified on account of a dwindling inclination of special-procurement account, that is the purchase of Japanese commodities by the United States government for their armed

(4) The tonnage necessary in the midst of 1970 fiscal year was induced from following equations of regressions with base-years 1952–59
$V_e = 0.11\ (I_{jd} + E_{jd}) + 356\ (\gamma = 0.985)$
V_e = ocean-going cargo-vessel tonnage (1,000 G/T)
I_{jd} = non-tanker import cargo carried by Japan's ships (1,000 M/T)
E_{jd} = non-tanker export cargo carried by Japan's ships (1,000 M/T)
$\log V_t = 0.76 \log I_{jo} - 0.07788$
V_t = ocean-going tanker tonnage (1,000 G/T)
I_{jo} = petroleum import carried by Japan's ships (1,000 M/T)

(5) N.I.D.P. Report, p. 89.

(6) N.I.D.P. Report, p. 175.

(7) N.I.D.P. Report, p. 177.

forces stationing in Far East including Japan. But as far as international payments in ocean shipping sector of this country are concerned, it can hardly be expected to realize a favorable balance sheet, for Japan's imports, calculated in volume, are much larger (7 times larger in 1969) than its exports, and aggregate freight earned with foreign currencies from export traffic is necessarily much less, unless almost all import traffic falls into Japanese shipping companies' hands, than aggregate freight paid to foreign carriers for import traffic, though freight earned from cross trade is to be added to the former. Further, the more the share of Japanese ships in Japan's foreign trade traffic is, the more expenditures they pay (with foreign currencies) in foreign ports, like port charges, stevedoreing charges, and purchases of fuel and provision, annulling in part(8) the positive effect of expanded shipping activity of national flag. In addition, most port charges imposed in foreign ports are, with an exception of petroleum supply, expensive than that imposed in Japanese ports to the disadvantage to Japanese balance of payment.

Payment balance in shipping freight account in 1959 showed (see Table 2) a deficit of $108 million on foreign exchange formula, and payments-in-port account showed also a deficit of $40 million. In 1970 quantitative unbalancedness between export and import will further expand, and the deficit in freight account will reach $135 million, that in payment-in-port account as much as $179 million, making together $314 million,(9) which is no small

(8) The payments with foreign currency in foreign ports do not by themselves mean any deduction from the contribution of the national fleet, because these payments must be made as well with foreign currency, even when a foreign fleet carries the traffic.

(9) The payment balance in 1970 was calculated from following equations of regression, with base years 1952–59.

$$F=F_c+F_t=\frac{P_{sc}}{I_{ie}}\ (0.11\ V_c+460\ I_{ie}-405.5)+P_{so}(0.19\ V_t-91.6)$$

F=freight earned by Japan's ships.
F_c=freight earned by Japan's cargo-vessels.
F_t=freight earned by Japan's tankers.
P_{sc}=cargo-vessel freight index.
P_{so}=tanker freight index.

$$I_{ie}=\frac{F_c-F_{c3}}{F_c}$$

F_{c3}=freight earned by Japan's ships engaging in cross trade.
V_c and V_t: see foot-note (3).

$$\frac{T_{ef}+T_{if}}{P_s}=0.065\left(\frac{G_e}{P_e}+\frac{G_i}{P_i}\right)+0.386\ P_t-132.9\ (\gamma\ \text{z.xy}=0.992)$$

T_{ef}=receipt of foreign exchange regarding transportation.
T_{if}=payment of foreign exchange regarding transportation.
P_s=freight index.
G_e=receipt of foreign exchange regarding commodity trade.
G_i=payment of foreign exchange regarding commodity trade.
P_e=export commodities price index.
P_i=import commodities price index.
P_t=price term.

$$T_{ef}\cdot P_t=0.23\ F-24.4\ (\gamma=0.9905)$$

F=freight earned by Japan's ships.

$$T_{ep}/P_p=0.11\ T_{if}/P_s+0.3\ (\gamma=0.896)$$

$T_{ip}=0.15\ F$
T_{ep}=receipt of foreign exchange regarding port utilization.

sum for the Japanese economy.

Here, it should be noticed that with a program, deserving to be called ambitious, of expanding ocean-going fleet at a yearly rate of 9.8%, payment balance in shipping sector in 1970 is to show such a miserable result. If the scale of expansion be reduced, payment balance regarding shipping would be even worse. This fact requires sufficient notice, when we argue the Japan's shipping policy.

(c) Extent of necessary shipbuilding and governmental promotional measures for realizing it.

Then, what shall be the process in which Japan's merchant fleet may attain the tonnage of 13,350 G/T at the midst of 1970 fiscal year, as postulated in N.I.D.P.?

To begin with, we shall estimate the tonnage of breaking up and loss in the coming ten years. According to the program, breaking-up tonnage of ocean-going ships during the time will amount to 1,259 thousand G/T, of which non-tankers constitute 948 thousand G/T, and tankers 311 thousand G/T. Besides that, the anticipated loss of 190 thousand G/T (non-tanker 140 thousand, tanker 50 thousand) is also to be considered. Starting from the ocean-going tonnage at the midst of 1960 fiscal year, namely 5,104 thousand G/T, and considering anticipated breaking-up and loss, shipowners must build 9,695 thousand G/T—freighter 7,147 thousand, tanker 2,548 thousand G/T—in ten years, in order to reach the aforesaid target.

The planners of N.I.D.P. estimate the sum required for the building of this tonnage as 1,064 billion yen ($2,955 million), anticipating shipbuilding costs in the coming ten years as for freighter 119 thousand yen ($331) per G/T, and for tanker 84 thousand yen ($233) per G/T, in average. The sum itself may not be beyond the power of flourishing Japanese economy, but if we reflect the continuing depression of shipping companies in Japan, raising the sum for shipbuilding purpose is by no means simple for them. And with the sum which shipping, industrial or mercantile companies in this country can appropriate for the purpose, shipbuilding will remain at yearly 610 thousand G/T basis, in comparison with 970 thousand G/T postulated in the program, if we anticipate future business prospects and premise the observance of the present principle for shipping companies to build ships within the their gains before deducting depreciation.

Therefore, in order to realize the program, definite and powerful governmental measures, including subsidy, toward shipping are necessary, N.I.D.P. concludes.

The measures recommended therein are:

1) to establish an appropriate system of financing shipbuilding fund at a moderate interest-rate comparable with that imposed on foreign shipbuild-

(9) (continued.)
T_{ip}=payment of foreign exchange regarding port utilization.
P_p=deflator.

ers,[10] and to relieve Japanese shipping industry from exorbitant interest rate of more than 10% by commercial banks.

2) to adopt encouraging measures for Japanese ships engaging in cross trade, for they are disadvantaged against foreign competitors on account of some clauses of government rules.

3) to provide governmental financial aid for shipbuilding in some or other form as long as the present abnormal financial situation continues.

4) to encourage increase of bulky cargo ships as well as tankers, and especially ships for exclusive use and with high efficiency namely low cost, and, at the same time, to promote the improvement of port facilities so that they are adapted to the increased use by the ships of this type.

5) to further scrap-and-build method in order to dispel inefficient ships, which are weakening competitive power of Japanese fleet, thus hindering financial recovery of shipping companies.

6) to set up an excellent liner fleet, suited to carrying export manufactures or fit for cross trade, considering recent rapid progress in marine engine production, and also the fact that many competing maritime countries have established modern excellent fleets.

What are recommended in the program show rather broad directions of the measures to be taken, which the writer can approve on the whole. For exact judgements as to reasonabliness and effectiveness of respective measure, however, we need further to examine concrete proposals in line with these directions.

2) *Shipping Subsidy from the Viewpoint of National Economy*

The shipping section of the N.I.D.P., which we have observed in the preceding part, is certainly carefully composed and well integrated in the whole program. It succeeds in illustrating complicated quantitative relations regarding Japanese shipping in 1970, and in affording us its broad conception. Though the process to reach the postulated stage or measures to be taken for that are not explained concretely, it is not a defect of the program. As N.I.D.P. Report states, "Regarding the private sector (of the economic activity), where activities are to be expected from initiative and contrivance of private enterprises, the program confines itself mainly to make estimations, and only indispensable (governmental) measures to lead activities into desirable directions are examined",[11] The writer, therefore, has no intention to criticize the program in not concretely prescribing the measures to be taken.

(10) Besides a general disadvantage for Japanese shipbuilders on account of high interest rate level in this country, also a governmental export encouragement policy results in discriminating inland shipbuilders against foreigners. Namely, the governmental Nihon Yushutsunyu Ginko (Japan Export-Import Bank) charges an interest of 4% on the loan of building export ships, which is lower than 6.5% charged by Nihon Kaihatsu Ginko (Japan Development Bank) on shipbuilding loan to inland orderers. From 1961 on, NKG charges 5% on shipbuilding loan.

(11) N.I.D.P. Reports, p. 5.

Rather, the writer wishes, here, to examine the justification problem of governmental shipping subsidy policy, and especially to inquire in what meaning might shipping subsidy be reasonable in relation with N.I.D.P.

One of the main reasons why the writer takes up this problem is the fact that since the publication of N.I.D.P. many proposals were made, mostly from shipping circle, which stressed the urgent necessity of the governmental shipping subsidy, each referring to N.I.D.P. But, while they emphasized immediate effects of the subsidy on shipping, they did not usually discuss on justification of the proposal from the view-point of national economy. Here, the writer sees a need to reflect, anew, principles regarding shipping subsidy, and to examine the reasonableness and appropriateness of shipping subsidy with the aim of realizing the objective conceived by N.I.D.P.

According to the writer's opinion, the subsidy for an industry can be approved from the view-point of national economy in following cases:

a) An industry, in which private cost surpasses social cost, can be reasonably subsidized to the extent of the difference of both sorts of cost. In other words, an industry, a part of whose benefit is absorbed in other industries or in other sphere of economic activities, can be reasonably subsidized to the extent of the benefit thus absorbed. Even when an industry gives merely impact to another, if the impact becomes a source of future development of the other, this may also give the former industry a ground of being subsidized, though to determine the reasonable extent of subsidization is especially difficult in this case.

b) An industry of increasing return has a reason to be subsidized.(12)

c) An infant industry which will be an advantageous industry in the near future if only provisional subsidy is given, can be reasonably subsidized. Here, we can remind the old argument of protective duties.

d) An industry, which is very important for the nation and should be exempt from too strong foreign influence, can be reasonably subsidized. But, regarding this point accurate definitions are difficult, for those arguments are apt to be very subjective and often driven too far beyond the extent that the view-point of national economy justifies.

Then, by which reason, if any, should Japanese shipping industry be justified with governmental subsidy?

To begin with, we shall examine a variant of c) argument, or an argument of convalescent industry, because every proposal for shipping subsidy so far made refers to this point. According to the argument, Japan's shipping industry is still suffering from unrecovered war damages though, after the war, the industry could get extensive governmental aid as to shipbuilding, like shipbuilding loan from governmental bank or interest subsidy of the government during depression periods. Indeed Japanese merchant fleet could be reestablished, at least regarding tonnage, through these measures. But the reestablishment was performed at the expense of financial soundness of shipping companies. Enthusiasm of the management of shipping companies,

(12) Classical description regarding the point is found in Alfred Marshall's *"Principles of Economics,"* 5 ed. p. 475.

expanding their fleets, on matter how the cost was, aiming earliest recovery of the lost market, is principally responsible for the result. Since the decline of freight level in 1952, financial weakness of shipping companies in this country became very apparent, and their balance sheets aggravated abruptly. For example three biggest liner companies (Nihon Yusen, Osaka Shosen, and Mitsui Senpaku) are continuing non-dividend settling since 1952–53 up to now. With the exception of some which could allot shares during boom period of 1955–57, almost all shipping companies forgot long to pay dividends. This must be a sign that the recovery of Japanese merchant fleet is not yet complete. The argument sees here a ground of subsidy. This convalescent industry argument maintains, like infant industry argument, that, if the industry is aided, during a certain period, it will be a grown-up self-sustaining industry.

According to the writer's opinion, this argument holds true in case of Japanese shipping industry, and shipping subsidy is justifiable certainly by this reason.

But, regarding this, two conditions should be carefully examined.

Firstly, the subsidy should be given only in the case that the industry in question is expected to become self-sustained, after a certain period of subsidization. If the condition lacks, the subsidy may become permanent and loses the afore-said justification of convalescent industry argument.(13)

Then will the Japanese shipping industry really be self-sustained? The writer affirms the question, but an exact explanation of the ground of the affirmation must be deferred to future opportunity, and is displaced here by the enumeration of several elements, which, the writer thinks, influence the prospects of Japanese shipping decisively. Namely, such positive factors as rapidly expanding tendency of Japan's foreign trade, especially that of raw material import, and conspicuous development of shipbuilding industry, along with the tradition as an established maritime country, and, as negative factors, decreased trade relations, on account of political situation, between Japan and nearby countries like China and Korea, and comparatively high interest rates must be taken into consideration. On balance, however, positive elements predominate and there is good reason to believe that Japanese shipping industry will be maintained advantageously, if it can tide over present difficulties smartly, and clever shipping policy supports it afterwards.

Secondly, the subsidy should be given to the extent that the industry needs it for recovery as distinguished from growth.(14) No doubt, it is difficult to draw a demarcation line between recovery and growth. That tonnage held is not a sufficient index of the industrial recovery, speaks the existence of convalescent industry argument itself. Besides tonnage, at least comparisons of prewar and postwar financial standings of shipping companies including

(13) If Japan's shipping industry falls into this situation, the aid is not rational in the light of national economy, though it may satisfy the sentiment of justice for it is given as war-compensation.

(14) The argument is concerned with the industry as a whole. Whether a particular company can reasonably be given subsidy is not to be judged by the extent of the retardness in its recovery.

capital accumulation and depreciation of ships' price are necessary, and these comparisons show the present shipping companies have not yet recovered prewar standing.(15)

Thus, after these considerations, we can reasonably define that Japanese shipping industry is convalescent, deserving governmental subsidy for recovery. But this sort of subsidy is, after all, temporary in character.

Then, is there any ground for non-temporary subsidy for Japanese shipping? a) argument is to be considered in this connection. It is said that the development of shipping leads the development of foreign trade. The old saying "Trade follows the flag" indicate the fact. In order to promote the development of Japan's foreign trade, a lever for economic growth in this country, fostering of powerful Japanese merchant fleet, carrying trade goods economically, is very useful, and it is justifiable to subsidize shipping to the extent the traders derive benefit from utilizing ships of national flag, they say.

But theorists on shipping economics are not so friendly toward the argument. According to Prof. Sawa, a famous specialist in shipping economics, "it is a connection which every one is usually convinced that maintaining a merchant fleet promotes the development of foreign trade of the nation", but, "the reality does not always follow this connection." "If the maintenance and the reinforcement of national flag should happen to lead the development of foreign trade, it must be a special case that the freight of national flag is cheaper than that of foreign flag",(16) which is rather exceptional because foreign carriers are seeking shippers as earnestly as native carriers do. Regarding the point, western shipping economists hold also the same opinion; "Under present-day conditions, industrial and commercial development occurs with little regard to the nationality of the owners of transportation facilities." "From a purely economic standpoint, there is little to be said in behalf of a ship-subsidy policy."(17)

But the writer is willing to be more precise regarding the argument. According to the writer, competition among shipping companies is, in reality, not so perfect, especially where shipping companies of different nationalities are competing.

Prof. Predöhl points out appropriately and more realistically the connec-

(15) The writer regrets that he is not prepared now to show an overall comparison. However, a following description indicates the present financial situation of Japanese shipping companies. At the end of March, 1960, important 53 shipping companies had 100.5 billion yen of net worth in 461.3 billion yen shipping companies had 100.5 billion yen of net worth in 461.3 billion yen of aggregate appropriated capital. The sum of fixed assets was 397.3 billion yen, of which 343.7 billion yen represented ships value. The last figure implies insufficient depreciation—the existance of the difference between legally-permitted and actual depreciations—which amounts to as much as 67.5 billion yen, to be compared with their net worth.
"Kaiun Hakusho" (Shipping White-Book) (1960) p. 75-76. *"Nippon Kaiun no Genjyo"* (Present Situation of Japanese Shipping) by the Conference of Industrial Planning. (Tokyo, 1960) p. 236.

(16) Senpei Sawa *"Kaiun Riron Taikei (Systematic Shipping Theory)"* (Tokyo, 1949), p. 222 (Translation by the writer.)

(17) Abraham Bergland, *"Ocean Transportation" (New York, 1931)*, p. 380.

tion between foreign trade and shipping of a nation, describing, "the connection of industry and ocean shipping is above all the connection between export industry and liner shipping. The demand of the export industry to have always a reliable transportation instrument which corresponds to the demand of the industry for special quality and which is interested in the sale of the export industry, makes a preference of the industry for the national flag and therefore an advantage in competition for the liner shipping in the ports of the home country."(18)

If we observe real soliciting transactions of shipping companies, most liner companies offer shippers of the same country every facilities in order to get cargo from them, thus giving incentive to export trade,(19) for it is only here that the liner companies in this country are in a favourable situation as to competition for cargo, and if they lose cargo here, they are forced to compete more severely abroad to make up for the loss. Naturally, where the controlling power of conference is strong, the adaptability of liner companies for the demand of inland shippers is limited.

What is said of export trade, is applied also to import trade, at least to some extent. In addition, if an importer here happens to make a claim against a carrier, the settlement will be made more smoothly and reasonably between the parties of the same nationality.

In any case, it is not appropriate to undervalue the effect of the collaboration of the two internationally-orientated industries, namely foreign trade and shipping. But, though afore-described is the conditions that make national flag more preferable for Japanese shippers, this preference is to be manifested through competitions between shipping companies, and these are not what rationalize shipping subsidy on that reason. In this meaning the conclusion of criticism of shipping economists is reasonable.

As a ground for justifying shipping subsidy of non-temporary character, therefore, other arguments are to be sought. And another a) argument will be considered. N.I.D.P. mentions the significance of ocean shipping industry in contributing to the improvement of balance of international payments. Whether it saves foreign exchange or it earns it, it is sure that the transportation of trade goods by national flag improves payment balance of a nation. And for a nation like Japan, for which foreign trade has a primary importance, and which often suffers from unfavourable balance of trade, to maintain a reliable means of improving international payment is very important and this is a sufficient ground for advocating shipping subsidy, it is argued.

However, this argument is also not popular among shipping economists. For example, Franz Eversheim writes; "saving foreign currencies is probably

(18) Andreas Predöhl, "*Verkehrspolitik*", (Göttingen, 1958) S. 78. (translated by the writer).

(19) In fact, we find several cases in which Japan's export trade appeared to be encouraged through an opening of liner traffic by Japanese shipping companies. For example the opening of Near East liner traffic by them in 1954 was accompanied by an increase of export to relevant countries by 60% in the next year. cf. "*Boeki to Unso*" (Foreign Trade and Transportation), Tokyo, 1960, p. 10.

the most frequently mentioned economic argument today and is closely connected with the previous one (export promotion argument). The latter wishes "to increase the credit factors" of the balance of payments, the former also aims at practically the same thing all in all for it wants a reduction of the debit factors. Here too a loss in another part of the national economy is overlooked and, corresponding to the more uneconomical use of productive resources, the possibility of obtaining the same capacity from another part of the economy at less expense."(20)

But, in reality, the mechanism of national and international economy does not work so smoothly and elastically so that competitive national and international exchange system realizes constant equilibrium between trading parties. It is clear that we cannot apply directly and unreservedly the optimistic principle of comparative cost or the principle of comparative advantage, as Prof. Taussig called it,(21) to actual economic policy. Under the circumstance that foreign exchange rates do not function as making international payment easily balance, it is advantageous for a national economy to maintain an industry, which has a positive, namely improving, effect on payment balance of the country.

Especially for Japan, which has peculiar economic structure of violently increasing imports of raw materials and industrial equipment including machines in time of business expansion, the significance of maintaining and operating an excellent merchant fleet, which contributes considerably towards the saving of foreign exchange, alleviating, almost automatically, a serious effect of import increase, is unquestionable. Certainly, "freight charges...constitute items in the international account, essentially like the purchases and sales for merchandise".(22) But, foreign trade and shipping are, especially in case of Japan, complementary. This gives shipping industry a peculiar position as foreign-exchange-earning industry. Namely, while most other export industries must exploit their overseas market solely by their own efforts,(23) ocean shipping industry can follow the wake of foreign trade to expand its business.(24) Though competitions between shipping companies of different flags are not lacking, chances of the national flag to get contracts are great, as are shown by the actual figures.(25)

Thus, as far as actual economic situations of this country are concerned, an industry like shipping, having stabilizing effect upon international payments, deserves governmental subsidy by this reason, though the extent must be confined within a reasonable limit.

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(20) Franz Eversheim, *"Effects of shipping subsidization" (Bremen, 1958)*, p. 67. cf. also *"Die Subventionen der Weltschiffahrt und ihre sozialökonomischen Wirkungen"* by Friedrich P. Siegert (Berlin, 1930), p. 70.

(21) cf. F.W. Taussig, *"International Trade"*, 4 ed. (New York, 1939), p. 483, p. 480.

(22) F.W. Taussig, *"International Trade"*, p. 135.

(23) It is to be noticed that especially the commodities produced in this country are meeting discriminative import-restrictions in many countries.

(24) As to the active role of shipping toward foreign trade, in the meaning the former encourages the latter, we have observed in page 56.

(25) See shares of transport of trade goods by Japanese ships in Table 1.

Lastly, d) argument is also unoverlookable. If some international or local conflicts near this land happen, foreign ships will elude this area, and Japan will be forced upon a virtual isolation, or at least, considerable increase in freight rate will be unavoidable. Alike effects might result, as a fate of a country like Japan lying afar from industrial centers of the world, even if a conflict or tension arise in some remote places. And advance in freight will influence the payment balance of this country seriously. Therefore, it is asserted that shipping subsidy, for making shipping companies maintain sufficient tonnage, is reasonable by this reason, and can be regarded as a kind of premium of war-insurance. According to the writer, however, this argument provides only a rather vague ground, depending upon uncertain conditions, and is useful mainly in intensifying some other arguments as to shipping subsidy.

3) Conclusion and Recommendation

The writer examined above, whether the shipping subsidy is justified in view of national economy and especially in case of Japan. The result was that there are indeed certain grounds for advocating shipping subsidy in spite of the shipping economists' opinion denouncing it from the theoretical ground.

But the writer does not intend to support a shipping subsidy policy, for this country, other than a temporary measure to assist shipping reconstruction. While it is important to esteem adequately the role of shipping industry which accentuates the development of foreign trade and improves balance of international payments, and the last mentioned appears to be an enough ground justifying shipping subsidy, it is not wise for this country to adopt explicit shipping subsidy policy for a longer period. First of all, determinations as to the sum of the subsidy and the art, according to which it is apportioned among various shipping interests, are very difficult and subsidy policy itself has a danger of becoming arbitrary and corrupted. Furthermore, subsidy policy brings about disadvantages for shipping industry in two points.

Firstly, subsidy has often an unfavourable effect, on subsidized enterprises, of discouraging efforts toward rationalization of the business, and instead attaching more importance to acquire subsidy, as was found in the attitude of shipping companies in the course of government-planned shipbuilding of this country.

Secondly, explicit subsidy for ocean shipping industry here might involve unfavourable repercussions in other countries, whose shipping is competing with that of Japan, be it reproach, be it retaliation to the subsidy. If retaliated, the effect of subsidy is annulled, while the burden caused by the subsidy remains as before. And if such a train of events continues, competitive atmosphere in the world shipping will be diminished, at the expense of the efficiency of world merchant fleet. In fact, vis-à-vis an increasing tendency of shipping protectionism, even traditional shipping countries now appear to be not so sensitive as before as to a shipping promoting or defending measure, including subsidy, of other countries.

But for Japan, as one of traditional shipping countries, having confidence in competitive ability of their fleet, in the event Japanese shipping industry has totally recovered from the influence of war damage, it is clever to maintain rather a conservative, negative attitude toward shipping subsidy. Only timely subsidy for reconstructing Japanese shipping industry quickly from war damage makes an exception to the writer's general, negative view as to subsidy policy.

Above all, the subsidy must be given cautiously and smartly in order not to exceed its appropriate extent and to minimize unfavourable by-effects. Cancelling repayment of a part of governmental shipbuilding loan(26) might be certainly the cleverest method.

Besides, according to the writer's opinion, Japanese shipping industry needs, for its sound and vigorous development, following governmental promotional measures not extending to explicit subsidy, in addition to the above-mentioned measures broadly suggested in N.I.D.P. (with the reservation of interpretation as to subsidy) :—

1) to set up financial institutions for shipping and shipbuilding industry, in order to furnish adequate shipbuilding fund at moderate interest, in

Table 1 **Major indices in N.I.D.P. concerning ocean shipping.**

		Unit	1959 fiscal year	1970 fiscal year	yearly growth 1959-70
Foreign trade volume	Export	Mill. M/T	9.6	22.6	8.0%
	Import	〃	72.1	203.6	9.9
	(dry cargo)	〃	46.5	119.6	9.0
	(petroleum)	〃	25.6	84.0	11.7
Share of transport by Japanese Ships	Export	%	56.1	62.5	
	Import				
	(dry cargo)	〃	51.8	60	
	(petroleum)	〃	50.8	65	
Tonnage of ocean-going ships	Freighter	Thous. G/T	3,633	9,850	9.5
	Tanker	〃	1,152	3,500	10.6
	Total	〃	4,785	13,350	9.8
Freight revenue		$ Mill.	489.6	1,694	12.0
Share of Japanese ships in world tonnage		%	5.4	9.4	

Source : N.I.D.P. Report, p. 89 (Misprints in the Report corrected by the writer).

(26) cf. A suggestion of Sangyo Keikaku Kaigi (Conference of Industiral Planning) in a recommendation titled *"Save shipping from total destruction"*. (Tokyo, 1961).

place of financing through governmental channel.

2) to recognize liberal depreciation method in the tax law, which is suited to fluctuating shipping business.

3) to extend rapidly and energetically the capacities of port facilities,(27) and to reorganize port management system and stevedore system with the aim of enhancing efficiency.

4) to extend governmental education and training system of seamen and harbor laborers.

5) to extend lodging and entertaining overseas facilities for Japanese seamen.

6) to encourage every effort for rationalizing industrial and market structure of Japanese shipping industry, such as consolidating or organizing industrial reserve sailor system, or re-grouping of shipping companies.

Table 2 **Indices in N.I.D.P. concerning balance of international payments.**

unit: $ million

		1959 fiscal year			1970 fiscal year		
		receipt	payment	balance	receipt	payment	balance
Foreign trade formula	Freight	83.8	191.8	−108.0	365	500	−135
	Ship expenditures in port	30.6	70.8	− 40.2	75	254	−179
	Total	114.4	262.6	−148.2	440	754	−314
I. M. F. formula	Freight	200	224	− 24	613	674	− 61
	Ship expenditures in port	26	169	−143	71	576	−505
	Total	226	393	−167	684	1,250	−566

Source: N.I.D.P. Report, p. 90

(27) Port facilities including warehouses in main trade-ports in this country are poor relative to the volume of cargo handled. Herein is the cause of extraordinary congestion in trade-ports since 1961.