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# Japan Report

(FOUO 34/80)

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## JAPAN REPORT

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POLITICAL AND SOCIOLOGICAL

THREE GUIDEPOSTS FOR 1981

Tokyo BUSINESS JAPAN in English Nov 80 pp 26-28

[Article by Hokaji Mino, Visiting Scholar, Harvard University; Former Editor-in-Chief, Business JAPAN]

[Text]

WITH only the month of December remaining, the year 1980 is about to come to an end. In this first year in what is certain to be a decade of uncertainty, there have been various conflicting developments in Japan. Now, what sort of year will 1981 turn out to be? This month's Special Report deals with the expected developments in the political, government and business fields in 1981.

In the political area, power-consolidating moves are expected in anticipation of Prime Minister Zenko Suzuki's departure from office; in the bureaucratic world, only slight signs of change have appeared in the pyramid-shaped seniority structure, and attention will be focused for the time being on shifts among high-level personnel in the Ministry of Finance, the elite among the elites. And in the economic arena a sudden denomination of the yen is likely to be carried out.

The following is a report on each of the three foregoing fields.

Political Undercurrents and Nascent Movements

In 1981, continuing nascent moves are expected in political circles centering on the speculative activities — whether good or bad — of the so-called “new leaders.” With the double parliamentary elections in early 1980 providing the opportunity, young politicians began to talk about a generation change in leadership. New leaders in their fifties and sixties, such as Kiichi Miyazawa, Shintaro Abe, Noboru Takeshita, Michio Watanabe and Ichiro Nakagawa, came into the limelight. But with the establishment of the Suzuki administration, led by 69-year-old Zenko Suzuki, talk of a younger generation taking over the leadership rapidly withered.

Debate and activity over the issue, however, have not altogether disappeared. They have instead submerged — silently and deeply — and are steadily building in strength. What is most heartening to the new leaders is the support being provided by the mass communications media. For

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some reason, Japanese journalistic circles tend to give unstinting praise to any politician who is young. Especially, whenever there is continuing political confusion and instability, they unfailingly criticize the "control by elders" and call for a "rejuvenation of the political world" and a "reform of politics."

The fact that there is no talk now of yielding the leadership to a younger man is entirely due to the absence for the time being of political confusion and uncertainty following the Liberal Democratic Party's (LDP) winning of a stable majority in the recent double elections of the lower and upper houses of the Diet. But the Suzuki administration could very well commit a blunder. Even if it does not, moves will be started in anticipation of Suzuki's leaving office when his term as LDP president expires in the autumn of 1982. Such a development will be the greatest concern of conservative politicians in 1981.

As for Suzuki himself, he definitely has Miyazawa in mind as his successor. He appointed Miyazawa to the post of Chief Cabinet Secretary because he wanted him to gain experience as the "Obanto," or general manager, of the government in coordinating affairs between the government and the opposition parties, and to establish a record as heir to the leadership of the Suzuki (former Ohira) faction.

In view of this, it is expected that Foreign Minister Masayoshi Ito and Miyazawa will next year and thereafter battle to consolidate their positions as heir candidates to the LDP presidency. So far, however, there has never been an instance of leaders from the same faction (in this case, Ohira, Suzuki and Miyazawa) occupying the post of prime minister three times in a row. And Miyazawa, of course, has a big handicap which accounts for his continuing lack of influence.

This situation, naturally, provides Abe with a prime opportunity. Eventually, he will surely seek to gain the leadership of the Fukuda faction. In that event, it is doubtful whether the whole Fukuda faction will unite behind him, and the opposition of the elders can, of course, be expected.

The Fukuda faction is a complex gathering together of various groups, including the former Kishi faction, the Shuzan-kai members of the former Sato faction and the followers of Takeo Fukuda himself. It is greatly different from the Tanaka faction known as the "Tanaka Corps." Thus, the year 1981 will be one of trial for Abe who will have to round up the Fukuda faction by controlling the various intrafactional groups and seek to make the faction, which has managed to return to the mainstream, the axis of the conservative structure.

The so-called new leaders mentioned as candidates for the next LDP presidency - Takeshita, Watanabe and Nakagawa - are currently running at an equally sluggish pace. Takeshita has a powerful rival within the Tanaka faction in Ganri Yamashita, who is steadily distinguishing himself, while Watanabe and Nakagawa are mutually holding each other back. Like Nakagawa, Watanabe is also trying desperately to form his own faction. By utilizing his position as Finance Minister to the full, he will be kept busy next year consolidating his foothold.

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Toshio Komoto and Yasuhiro Nakasone are now in the shadow of these new leaders. Are they out of the running altogether? In this writer's opinion, no; the chance of one of them becoming the next prime minister is extremely good. The biggest reason is that the Japanese traditionally reject mere "rejuvenation." Also, historically, unfavorable events have taken place around those who became prime minister on the basis of "youth" or "freshness."

For instance, from the time of the rebellion of army officers on February 26, 1936 up to the outbreak of the Pacific War in December 1941, there were seven prime ministers whose average age was 59 at the time they formed their cabinet. The youngest at 54 was Fumimaro Konoye followed by Hideki Tojo (56) and Koki Hirota (58).

What happened to Japan under these "young" prime ministers? As is well known, the military rode roughshod over parliamentary government and Japan followed the road to destruction. Even in recent years, when Kakuei Tanaka became prime minister, the youngest in the postwar period and the second youngest in the history of the present Showa Era (1926 - ), feverish land speculation swept the nation which also suffered from spiraling prices and money politics. Let it be pointed out that unlike athletes, politicians need not necessarily be young.

In that respect, the chances of Komoto, who is the same age as Suzuki, are good. Compared to Komoto, however, Nakasone is still young - not much different from the aforementioned young leaders - and one of the most influential men along with Miki, Tanaka, and Fukuda. If he can manage to recover his credibility next year, that is, to get rid of his "weathercock" image, he is the man who harbors the greatest possibility of becoming the next LDP president.

## Developments in Bureaucratic Circles

Around this time of the year, young people aspiring to become high-level government officials in the future are being hired. The job market for this year's spring college graduates is a seller's market, a condition that has not been seen in recent years. Bulletin boards in university placement offices carry long lists of job offers. Whether a seller's or buyer's market, however, the door to jobs in the central government leading to high-level bureaucratic positions in the future is as hard as ever to enter. First of all, one has to pass the higher civil service examination for public servants. Next, one's school grades must be outstanding. And, with rare exceptions, one must have graduated from the political department of the College of Law of Tokyo University. Graduates of Kyoto, Osaka and prefectural state universities as well as of famous private universities, such as Waseda and Keio, also enter the ministries, but the mainstream of upper grade bureaucrats are overwhelming from Tokyo University's College of Law.

This trend remained unchanged during this fall. Another trend that continues is that outstanding graduates of Tokyo University's College of Law either stay on as assistants or seek economic-related bureaucratic jobs with the Ministry of Finance (MOF) or the Ministry of International Trade and Industry (MITI). The department in charge of hiring

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young, aspiring bureaucrats is the Minister's Secretariat. In the case of MOF, it is the Secretarial Section and the Secretariat's Documents Section; in the case of MITI, the Secretariat's General Affairs Section and its Secretarial Section.

In the bureaucratic world, it takes a long time before one comes to occupy an important post after entering a ministry at the age of 22 or 23. It is only after about 30 years that one becomes a bureau director. But this position is held briefly, for only about two years. And even if one is fortunate enough to rise to the highest government position of vice-minister, having been selected from among colleagues who entered the ministry at the same time, the job can be held for only about two years. This is because others are eagerly waiting to fill the position. If the vice-minister should cling to his office, he will be severely criticized which will not be to his interest in the future.

Those who are judged not to be of vice-minister caliber are encouraged to resign after serving as section chief or bureau director and placed in jobs in private companies which deal with the ministry concerned. This method of getting rid of officials is called "weeding." Since high-grade government officials lead what might be called a long "underground life" and a short "above ground life," they are often compared to the cicada.

For a government official, it is not the work but the post that counts. It is not that there is a post because of the work but that there is a post which carries with it work. By looking at one's predecessors, one knows exactly what the subsequent posts will be. Unlike the smaller private sector firms, there is no possibility of being promoted over the heads of others.

A somewhat new trend, however, has emerged in the 1980s. Minoru Nagaoka, former Vice-Minister of Finance, stated this spring that, although there is no retirement age for government officials, he wished to see a system established under which vice-ministers and bureau directors could work at the ministry until the age of 60. It was not that he wanted to ignore the seniority system and adopt a selection system based on ability, but he was in favor of extending the life of top officials after they had "surfaced." Not wishing to be misunderstood — that is, to have been personally motivated — he quickly left the ministry at the age of 56, expressing the desire to teach at some university. Since the fall of this year, he has been a guest professor at Josai University in Saitama Prefecture where he is lecturing on the science of finance.

The Ministry of Foreign Affairs is exceptional among Japan's central ministries in that it has not a single vice-minister or bureau director over 60 years of age. This is why Nagaoka's remark struck the ministries and agencies like a tsunami, a tidal wave. Younger officials reacted sharply: "It's fine for vice-ministers and bureau directors, but what about those waiting to be promoted?" And, "Extending the retirement age goes against the proposed administrative reforms."

It is only at such times that officials seem to raise their voice concerning administrative reform.

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The Nagaoka concept, however, did not mean that a system should be established whereby everyone could work up to the age of 60; Nagaoka's hope was that people with the drive and ability could remain at the ministry as long as possible. Such a system would lead to improvements in administrative service and serve the interests of the people. Moreover, it would destroy the pyramid-shaped seniority structure and perhaps make it possible to introduce the Western-style principle of giving prime consideration to ability. It was definitely a brave proposal.

There is nothing wrong with the proposal itself. But when it comes to the possibility of its realization, most people think it is unlikely. The attitude of MITI officials is that it is entirely out of the question. According to them, it would be better to carry out changes; they claim that short periods of service, as up to now, by vice-ministers and bureau directors produce greater vitality in the bureaucratic organization. This would seem to indicate that MITI officials still have no trouble in finding lush jobs after leaving the ministry. In fact, among the young applicants wishing to enter MITI, some are said to declare frankly during the job interview that they want to join the ministry because it has more post-retirement job connections than other ministries.

In any event, whether the Nagaoka concept materializes or not will depend on the Ministry of Finance's personnel appointments following the end of the regular Diet session in July 1981. All the ministries and agencies are watching developments with tremendous interest and concern.

## Denomination Moves in 1981

About a decade has already elapsed since the Finance Ministry started studying the problem of denomination. The government is believed secretly to be timing its implementation for around 1981, and it most likely will be announced without advance notice. If news of its implementation should leak beforehand, the announcement will probably be postponed because it will create unnecessary confusion and friction in the Japanese economy.

Talk of denomination, like the Olympic Games, arises every four years and then fades away. However, at the time of the Moscow Olympics, there was no mention of it; instead, there was a loud chorus of voices calling for fiscal reconstruction. As a result of the Finance Ministry's manipulation of public opinion, the people's concern is now concentrated on the issue of a choice between measures for government fiscal reconstruction and tax increases. It has completely obscured the subject of denomination, which provides a good opportunity for its implementation.

The denomination which the government is aiming to implement in 1981 will involve a change in the name of the currency from yen to, say "ryo" or "koku," both names of old monetary units. At the same time, the new currency will be given a purchasing power 100 or 150 times greater than the present yen, which will mean that 1 koku will have the same purchasing power as 1,000 yen. Furthermore, the Finance Ministry is planning to issue the new currency gradually and issue new and old currencies simultaneously.



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over a lengthy period. The two currencies will be in circulation together. A precedent is the denomination carried out by France in 1960. Other countries that followed this pattern are West Germany (1954), China (1955) and the Soviet Union (1961).

Among all the currencies of the major countries, only the yen and the Italian lira are of three digits in their rate of exchange with the U.S. dollar. On this point, they deviate widely from the international norm with respect to currency. For this reason, there is considerable international interest as to which country - Japan or Italy - will be the first to denominate.

The yen, the basic currency unit of Japan, was decided as a result of the promulgation of the new currency ordinance enacted in 1871. One yen was held to have a value equivalent to 1,500 mg of pure gold. But in 1879, the Currency Law was promulgated and the yen's value was halved to the equivalent of 750 mg of pure gold. Japan adopted the gold standard in 1871, but the United States had already established a gold and silver standard in 1792, and the United Kingdom a gold standard in 1816.

The adoption of the gold standards of the United States and the United Kingdom only four years after the success of the revolution leading to the Meiji Reformation was a farsighted, wise decision of the Meiji government. It was evidence of Japan's serious effort to become part of the international economy. Counting from 1871, the year 1981 marks the 110th year, and today, one yen, once valued at 1,500 mg of pure gold, is virtually worthless, an aluminum coin used mainly in making change in supermarkets. Responsible for the decline in value, of course, is inflation.

Today, Japan's and West Germany's anti-inflationary measures are among the most successful in the world, but inflation has not disappeared altogether. Every year prices rise so many percent and there are many factors that will push them up even further hereafter. According to the denomination advocates led by Ichiro Hatoyama, former vice-minister of finance and present member of the House of Councillors, unless denomination is implemented now, the situation will get out of hand in the future. They even flatly declare that denomination should precede measures for fiscal reconstruction.

Although not influenced by the denomination advocates, the possibility of denomination being implemented in 1981 is being quietly talked about in political, financial and government circles. In undertaking anything new, a certain amount of confusion and friction is inevitable. Nothing can be achieved if such developments are feared. It seems to be the judgment of government leaders that the objective situation is ripening insofar as being able to suppress confusion and friction to the minimum.

And, above all, looking at the precedents of various other countries, it is a fact that denomination is easier to carry out when there is absolutely no talk about it beforehand. □

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FOREIGN MINISTER ITO HOSTS 'SOUR LUNCHEON'

Tokyo THE DAILY YOMIURI in English 23 Nov 80 p 3

[Behind the Scenes column by Minoru Hirano: "Sour Luncheon"]

[Text]

Foreign Minister Ito hosted a luncheon for the ambassadors of the nine member countries of the European Communities (EC) on November 17 prior to his forthcoming European visit on December 7. After the luncheon, one ranking Foreign Ministry official briefed the reporters as follows:

- Ito told the ambassadors that his visit to Europe would be very useful for Japan particularly in the face of the change in the US leadership.
- Ito and the ambassadors shared the view that contacts between Japan and the EC countries should be further activated not only in the economic but also in the political field.
- Among the topics discussed was the statement issued by Ito earlier in the day concerning Japan's basic policy on trade relations with the Common Market. The ambassadors highly appreciated the statement, describing it as a "good start" for the Japan-EC dialog.

If we accept this explanation at face value, we get the impression that the luncheon was held in a very friendly atmosphere, but the fact was a far cry from that. Ito, an honest man, was heard complaining as follows:

- It was bad to hold a luncheon after the statement was issued. The nine ambassadors talked only about economic problems between Japan and the EC and made no mention of political issues.
- Trade relations with the EC differ from country to country but even the envoys of countries whose trade balance with Japan is in the black criticized Japanese exports to Europe.

- When Ito said it was a politician's job not to let an economic problem grow into a political issue, one ambassador expressed objections. He was the ambassador of a country where an election is scheduled for next year.

Soured by the bitter experience at the luncheon, Ito decided to instruct the Japanese envoys to the countries which he is scheduled to visit to tell them that he wants to discuss such political topics as policies toward the Soviet Union and the Middle East situation.

The trade problem between Japan and the EC is nothing new. When Toshiwo Doko, then president of the Federation of Economic Organizations (Kaidanren), toured Europe in the autumn of 1976, he heard complaints everywhere he went. In the same year, a top EC official came to Japan to lodge a protest about the trade imbalance, but then foreign minister Ki-ichi Miyazawa turned down the protest saying that the EC was not making enough efforts to sell their goods to Japan.

A ranking Foreign Ministry official refuted the EC's censure by saying that the EC, unlike the US on which it depends for security, need not worry about retaliation from Japan and so can better scapegoat Japan and that unemployment in some EC countries is due to their policy failures and not exports from Japan but they blame Japan in consideration of domestic politics.

The statement by Ito in which he said that the EC should endeavor to correct the trade imbalance between Japan and the EC countries hammered out such position taken by Japan in an unprecedented-

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ly outspoken language. It is said that the outspokenness comes from a judgment by the Japanese Government that Japan should be frank in dealing with Europe as well because the US International Trade Commission (ITC) ruled that the decline of the US automobile industry was not caused by the increase in Japan's automobile exports to the US.

To Ito, however, it can be a cause of worry that the European criticism of Japan has flared up again before his visit to Europe. He does not desire to be exposed to complaints about economic problems on his tour as Doko was. But he must cement the ties between Japan and the EC before the birth of the Reagan administration in the US. When the Japanese Government was asked by the Carter administration to act together in taking economic sanctions against Iran and the Soviet Union, Japan replied that it would

follow Europe's action. By giving the commitment that Japan would do neither more nor less than Europe, Japan ducked Washington's pressure. Continuation of this policy will become even more important after the birth of the Reagan administration. At such a time, it is unwelcome to Tokyo that Japan-EC relations should return to what they once were—economic relations only.

This fear increased when it was reported that French President Giscard d'Estaing was planning to hold a second Guadeloupe summit of the US, Britain, France and West Germany, again without Japan, after the birth of the Reagan administration. The Foreign Ministry lost no time in placing an inquiry with Paris and was told that there was no such schedule. It is said, however, that Ito, on hearing that, said that it was premature for Japan to be off guard and he looked uneasy.

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## CURRENT STATUS, FUTURE PLAN OF AIR SELF DEFENSE FORCE

Tokyo COMLIT in English Nov 80, pp 22-24

[Article by Kensuke Ebata]

[Text]

On 14th July 1980, the first McDonnell Douglas F-15J *Eagle* was handed over to the Japanese Air Self Defense Force (JASDF) at St. Louis, Missouri, USA. The knock-down version of the F-15J had already arrived at the Mitsubishi Heavy Industries Komaki Factory, Kagamihara, Gifu-Prefecture, near Nagoya last March. The aircraft was to make a maiden flight in September, 1980.

**Introducing the F-15**

Twenty-three F-15s had been ordered in the 1978 defense budget and another 77 F-15s are to be purchased during the Japanese Self Defense Force (JSDF)'s Middle Defense Management Plan which runs from 1980 to 1984. A total of 88 F-15Js (fighter version) and 12 F-15DJs (two-seater combat trainer version) have received purchase authorization. The F-15J is a Japanese version of the F-15C and will have a data-linked system to connect with the JASDF's Semi Automatic Air Defense System, BADGE, and with the E-2C *Hawkeye* airborne early warning aircraft, to be introduced from 1983.

The McDonnell Douglas F-15 *Eagle* is apparently one of the most advanced interceptors in the world and also one of the most expensive fighters. The JASDF is the second air force which receives the F-15s outside the USA. The first is the Israeli Air Force.

Due to the constitution and the policy of the current Japanese Government, the role of the JSDF is a strictly one of defense. The Air defense of Japan is carried out by the three defense forces, the JASDF, the Japanese Ground Self Defense Force (JGSDF) and the Japanese Maritime Self Defense Force (JMSDF). The JASDF is responsible for the overall air defense, while the JGSDF and the JMSDF have the responsibility for point air defense, such as field air defense and fleet/convoy air defense. The F-15 is the fourth generation of JASDF's interceptors following the F-86F, the F-104J and the F-4EJ. The JASDF has maintained a two-interceptor policy for a long time, that is linking the F-86F/F-86D, the F-86/F-104J/F-4EJ. The last ten F-4EJs are to be delivered to the JASDF in the Financial Year 1980 and will thus form six interceptor squadrons of F-4EJs. A total of 123 F-4EJs have been purchased.

By 1985, four F-15 squadrons will be organized and one F-4EJ squadron, however, will be disbanded due to attrition. Thus, another 23 F-15s will be required to fill the gap in order to maintain a 10 interceptor squadron level. It is not certain whether the production of the F-15 will be continued or not after the hundredth aircraft is produced. If it is five, F-15 squadrons and five F-4EJ squadrons will take over the role of Japan's air defense after 1985. Aircraft industries in Japan,

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especially Mitsubishi Heavy Industries, on the other hand, consider that the next generation fighter, the F-X, can be developed by themselves, though some parts of the aircraft such as engines or FCS (fire control system) will have to be imported.

#### E-2C and Badge-X

The JASDF operates 28 radar sites, 24 in the four main islands of Japan and four in Okinawa. These were constructed by the US Armed Forces in Japan after the Second World War and handed over to the JASDF following organization of the force in 1953. The radar sites have been modified and modernized since then and connected up with the BADGE air defense network. The optimum search range of the radar installations is about 400 km with a high altitude target. In a low altitude area, e.g. under 300m, the radar stations only can cover up to 90 km. Even the 28 radar sites cannot cover the whole coast of Japan with their range. Several 'holes' will be formed as shown on figure 3. The MiG-25 *Foxbat* incident which occurred on September 1976 happened because the fighter penetrated Japan's air space through one of the holes in its air defense radar-network and was thus able to land at Hakodate Airport, Hokkaido, without alerting the JASDF's interceptors.

interceptors.

To fill these 'holes' in the radar scans, the JASDF will introduce an airborne early warning and control aircraft, the Grumman E-2C *Hawkeye*. Four E-2Cs have already been contracted for purchase under the 1979 defense budget and at least another four will be purchased in the Middle Defense Management Plan, under the 1982 defense budget. The eight E-2Cs will form two squadrons and they will be deployed in northern bases, such as Chitose Air Base (Hokkaido) and Misawa Air Base (Aomori Prefecture). Two early warning patrol points will be placed within an 8-hour patrol day. The estimated activity rate is 75% in peace time.

The first two aircraft will be delivered by the end of 1982 and the eighth E-2C will be delivered by 1985. The JASDF hopes to have 28 E-2Cs to service the seven AEW patrol points, but this will be doubtful. The E-2Cs of the JASDF will, of

course, have data-link systems with the BADGE and the next BADGE (BADGE-X) air defense systems and with the F-15s and the F-4EJs. This combination of the E-2C and the F-15 will greatly increase the air defense capability of Japan. The JASDF, however, still has several problems to solve but it plans to increase its defense capability.

Project BADGE-X is the biggest project after the F-15. The current BADGE, developed by Hughes Aircraft Corporation, was installed in 1968 and has become obsolete. A study of the BADGE-X system has already been started and the contractor will be chosen in 1981 or 1982. Several companies are bidding for the project, including some Japanese electronic companies. Meanwhile, re-equipping of the radar sites is taking place. Old two-dimensional early warning radar systems have been replaced by domestically-developed three dimensional radar. Seven F3D (Fixed three-dimensional) radar systems have been installed and two M3D (Mobile three-dimensional) radar systems have been deployed to the northern and central region air forces. The third M3D will be deployed to the western region air force this year. The modified version of the F3D, F3D Kai, has been installed in the Oomino radar site. The F3D Kai has greatly improved clutter-suppression, ECCM, target location, height measurement in a clutter condition and is easily maintained, making it one of the most advanced early warning radar systems in the world today.

The plan to improve the command and communication systems is steadily progressing. The Defense Micro-wave Communication Network connects most of the major bases and cities in Japan. A central command system to connect all the units of the JASDF is being planned to improve the C<sup>3</sup> capability, survivability and efficiency. The central system is planned to be located at the headquarters of the JASDF in Roppongi, Tokyo.

Japan's weather reconnaissance capability will be improved with the introduction of a new weather satellite data receiving system in the near future. The system will receive data from the US *Tiros* weather satellite.

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**Changing Roles of the JASDF**

The domestically developed fighter Mitsubishi F-1 expands the role of the JASDF from purely air-defense to total defense work. The F-1 is designated as a 'Support Fighter', which means actually a 'Fighter Bomber', although the capability of the F-1 cannot be compared with the F-4E *Phantom*, the *Tornado*, the F-111 or even with the *Jaguar*. The main role of the F-1 is surface to ship attack with the ASM-1B anti-ship missile developed in Japan. The ASM-1 is said to have greater capabilities than the *Martel* or the *Kormoran* ASMs. The second role of the JASDF is to provide air-support to the JGSDF units. The F-1 could be a supplementary interceptor with IR-AAMs, although its capability is limited. The production of the new FCS which controls the ASM-1B is scheduled to commence next year.

The budget to organize three F-1 squadrons has been authorized. Two of them have already deployed at Misawa Air Base while the third squadron is being organized at Tsuiki Air Base, Fukuoka Prefecture, this year. The deployment of two ET-2s, (Electronic Warfare versions of the T-2 advanced supersonic jet trainer) with each F-1 squadron in the future will increase the capability of the units. Operational tests show that the ASW-1 is a successful anti-ship missile and so production will start in 1981.

A total of 80 F-1s will be produced to form these three squadrons. It is, however, very clear that 80 F-1s cannot fulfill the ground/sea attack role of the JASDF. The F-4EJ could be a very powerful surface attack aircraft, although the air-refueling system and the bombing

computer were removed since the standardization of the F-4EJ so as 'not to create a threatening feeling to near-by countries.' To maintain the ten-interceptor squadron level and to increase the ground support capability, the service life extension program of the F-4EJ is being studied. The project is almost the same as the USAF's Aircraft Structure Integration Project (ASIP). The ASIP will be started from the financial year 1981. The improvement of the F-4EJ's capability as an interceptor is also planned. The key item of this modernization is to give a look-down capability to the FCS of the F-4EJ. The modified F-4EJ will fire the latest model of the *Sparrow* and the *Sidewinder* AAMs, AIM-7F and AIM-9L.

The JASDF currently has only one reconnaissance squadron, the 501st, at Hyakuri Air Base, Ibaragi Prefecture near Tokyo, which consists of fourteen RF-4Es. All of the RF-4Es were imported from McDonnell Douglas instead of being made under licence in Japan. The number of RF-4Es is apparently small and more reconnaissance aircrafts are needed. The production of the F/RF-4 at McDonnell Douglas has already ceased and the line in the Mitsubishi Heavy Industries Kagamihara Factory will be closed this year. The selection of a new reconnaissance aircraft will be a very difficult problems if the plan to strengthen the reconnaissance force is accepted. Two candidates are being considered, the RF-4E and the RF-15. If the former is selected, Mitsubishi Heavy Industries will have to keep their production line open for a few years, while if the latter is chosen, the JASDF will have to wait for several years until the USAF and McDonnell Douglas develop the reconnaissance version of the F-15.

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MILITARY

STATUS OF DEFENSE INDUSTRY UPDATED

Tokyo SEKAI in Japanese Aug 80 pp 92-102

[Article by Kazuo Tomiyama, Professor of Industrial Theory, Kanto Gakuin University]

[Text] Assessment of Military Expansion: How Will a Drastic Increase in Defense Spending Impact on the Defense Industry?

I. Introduction

One of the points at issue in the recent defense debate is the question of the limit on defense spending. The rate of Japan's defense spending to the gross national product [GNP] was 2 percent in 1951 and 1952, but it declined to 1 percent from 1953 to 1966, and to less than 1 percent after 1967. There are some who argue that these statistics indicate a long-term decline in the rate of defense spending. However, during the 14 years from 1967 to 1980, there was no noticeable fluctuation.

It is by no means easy to determine a proper framework for defense spending. Because the concept of GNP has inherently no direct relation to defense, it would be rather unproductive to attempt any abstract discussion on the limits of defense spending on the mere dimension of a certain ratio to the GNP.

We have repeatedly discussed this problem and have stressed the seriousness of raising the present rate, which is under 1 percent of the GNP. (See "Japan's Defense Industry" by Kazuo Tomiyama, TOYO KEIZAI SHIMPOSHA, 1979. Furthermore, the scope of military spending differs between Japan and the NATO countries. If we calculate according to the NATO formula, Japan's rate would be 0.5-0.6 percent higher, or about 1.5 percent of the GNP.) However, there is a deep-rooted demand for a drastic increase in Japan's military spending. Admittedly, the ratio of its defense spending to the GNP is low. Among the nations whose per capita GNP is over 3,000 dollars, Japan, Iceland and Luxembourg spend less than 1 percent for defense. Austria, Finland, New Zealand and Switzerland spend between 1-2 percent. Australia, Canada, France, Kuwait, Norway, Belgium, Denmark, West Germany, the Netherlands, Sweden and the Arab Emirates spend between 2-5 percent. The United States, East Germany, Qatar and Great Britain spend between 5-10 percent of the GNP. While the per capita GNP of a number of Middle East and East European nations is under 3,000 dollars, many of them have a high rate of military spending. (The Soviet Union and Israel spend more than 10 percent,

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while Bulgaria, Czechoslovakia, Libya, Hungary and Poland spend between 5-10 percent.)

Such international comparisons form one of the bases for the argument that Japan's ceiling should be raised. Therefore, we shall hypothesize an increase in Japan's defense spending limit to the level of 2-5 percent, in line with that of the advanced European nations, and examine its effect on Japan's defense industry. Although the scope of the impact will clearly not be confined to the defense industry, we shall limit our comments to this particular aspect of the issue. We shall first examine the potential range of defense industry production within the present framework of defense spending. We shall then examine the trial balance of a step-by-step buildup in defense industry production to 2.5 percent of the GNP, and finally study the mass procurement of military equipment. The results will show a major impact on (1) the conditions of defense industry production and enterprises; (2) the nature of military equipment; (3) the methods of securing personnel; and (4) finances.

## II. Potential at 1 Percent Rate of the GNP

We shall first examine the defense production potential within the present framework of defense spending, and the extent of possible expansion. In other words, we shall attempt to see how the 0.9 percent ceiling is being implemented, and the extent of defense industry production possible under an additional 0.1 percent.

Personnel costs make up the biggest item of expenditure among defense-related costs. Expenditures for food provisions and other consumer goods are also considerably high, resulting in the allocation of only about one-fourth of the total defense budget to "frontal equipment." Admittedly, there has been a severe fluctuation concerning this item (which those affiliated with the defense industry call "capital expenditures," but which is actually a sum total of military equipment purchase costs) during the past 5 or 6 years, and for this reason there has been a frequent demand that the defense industry raise and stabilize the rate of capital expenditures. The absolute amount of capital expenditures during the present fiscal year is about 550 billion yen. However, in order to study the relationship between the Defense Agency's procurement volume and the supplying contractors, it would be convenient to use the procurement statistics provided by the Central Procurement Office. A look at the figures for FY-79 shows 10,643 procurement items totaling 645.2 billion yen. The reason why capital expenditures exceed this figure is because the procurement of military supplies, textile goods and fuels is included.

These items are procured not only in Japan, but also from abroad (imported chiefly from the United States). The ratio recently has been overwhelmingly in favor of domestic orders, with home-produced arms and equipment making up most of the procurement items. Table 1 shows the recent status of procurement.



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Table 1 - Trend of Central Procurement Office Orders (Unit: 1 million yen)

	(A) (Total)	(B) (Domestic)	(B)(A)x100 (Ratio)	(C) (Imports incl. FMS)	(C)(A)x100 (Import Ratio)
1975	372,567	355,453	95.4	17,114	4.6
1976	406,878	389,021	95.6	17,857	4.4
1977	454,660	426,862	93.9	27,798	6.1
1978	637,685	529,602	83.1	108,803	16.9
1979	645,170	537,673	83.3	107,497	16.7
1980 (Estimate)	933,857	822,871	88.1	110,986	11.9

Until 1977, the rate of domestic procurement was far in excess of 90 percent. The reason why imports reached the high level of 100 billion yen after 1978 is attributed to the induction of the F-15, P-3C and the E-2C. Included in imports (108.1 billion yen) for FY-78 were FMS orders worth 98.1 billion yen. Included in the breakdown of large orders in excess of 1 billion yen each were F-15 related purchases from the U.S. Air Force Dept worth some 41 billion yen, P-3C related purchases from the U.S. Navy Dept worth approximately 23.5 billion yen, and missile-related orders also from the Navy Dept worth about 19.7 billion yen. These alone totaled more than 84 billion yen. It was a similar situation in FY-79, with a large order for E-2C related procurement worth 36.4 billion yen. With the F-15 and the P-3C slated to be domestically produced under license, it is expected that, despite the continuing import of related parts, the rate of imports will again decline. As a result, approximately 90 percent of the Defense Agency's procurement will be supplied through domestic production, which should be considered to represent the scale of Japan's defense industry production.

Fortunately, the export of arms, which becomes an issue whenever the defense industry is discussed, is quite negligible in Japan's case, and the defense industry specializes in supplying domestic demand.

Another noteworthy point in the foregoing table is the large increase in "total procurement" which indicates a growth of exactly 2.5 times in this fiscal year compared to FY-75. While a nominal growth is indicated, 2.5 times in only 5 years is still quite remarkable. Of course, we should not forget that there is sometimes a delay of several years between the points of procurement contract and delivery, resulting in a different index from that of actual defense production.

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Table 2 - Trial Balance of Costs in Mid-Term Operations Estimate (Real)/  
Defense-Related Expenditures (Unit: 100 million yen)

(Year)	(1979)	(1980)	(1981)	(1982)	(1983)	(1984)	(1980-84)
GNP (10 billion yen)	23,200	24,530	25,940	27,430	29,010	30,680	
Compared to previous year (%)	(6.3)	(5.75)	(5.75)	(5.75)	(5.75)	(5.75)	
(1) Raise rate to 1% of GNP in 1984	-	22,607	24,400	26,336	28,425	30,680	132,448
		(7.93)	(7.93)	(7.93)	(7.93)	(7.93)	
(2) Retain present rate to GNP at 0.9028%	20,945	22,149	23,423	24,770	26,193	27,700	124,235
		(5.75)	(5.75)	(5.75)	(5.75)	(5.75)	
(3) Set present rate at 1% of GNP	-	24,350	25,940	27,430	29,010	30,680	137,590
		(17.12)	(5.75)	(5.75)	(5.75)	(5.75)	

The "mid-term operations estimate," drafted in July of last year by the Defense Agency, is merely data for the agency's internal use. Nonetheless, industrial circles are strongly demanding its implementation and, since the United States is urging Japan to "accomplish the goal as early as possible," it has received public attention as the de facto "5th defense buildup plan." (The "directive of April 1977 concerning the drafting of various defense plans" forms the basis for the "mid-term operations estimate.")

If the rate of capital expenditures is raised to 30 percent, and the ceiling for defense spending to 1 percent of the GNP, in accordance with the demand and trial balance by the defense production committee of the Japan Federation of Economic Organizations (KEIDANREN), the defense industry would be capable of achieving the high mid-term growth of 10-15 percent. This is viewed as confirming, in terms of content, the arms procurement figures indicated in the "mid-term operations estimate."

Meanwhile, last May, the Defense Agency submitted "supplemental data" on the "mid-term operations estimate" to the national Diet (Lower House special committee on national security and the Cabinet committee). This "supplemental data" contains little that is new pertaining to the nature of arms and equipment, but the trial balance of costs involved is worth noting. Regarding the economic growth rate, the trial balance adopts a "basic concept for a 7-year plan for the new economic society" (January 1977). Concerning defense spending, it hypothesizes 3 concepts (See Table 2) as follows: (1) the case of raising the limit to 1 percent of the GNP in FY-84; (2) the case of moving forward at the present rate to the GNP (0.9028 percent); and (3) the case of setting the ceiling at 1 percent of the GNP from 1980. The procurement costs for frontal equipment total 2,700-2,800 billion yen. The breakdown includes: approximately 769-790 billion yen for the Ground Self-Defense Force; approximately 1,080-1,120 billion yen for the Maritime Self-Defense Force; and approximately 860-890 billion yen for the Air Self-Defense Force.

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Assuming that the relative size of defense spending moves ahead at the status quo rate (See case 2), it is clear from these data that the procurement of frontal equipment might be achieved. The comparison between the cumulative total of defense costs (1980-84) and costs for frontal equipment, according to the "mid-term operations estimate," is as follows:

Case 1: 20.4-21.1 percent  
Case 2: 21.7-22.5 percent  
Case 3: 19.6-20.4 percent

The "7-year plan for a new economic society" appears to have already faded. But if the concept of a 5 percent level of growth in relation to the GNP, which was envisaged in the plan, is not revised downward, the figures for procurement it contains are well within the range of attainment, judging from the above comparisons. The intent of the industrial community to stabilize the rate of capital expenditures at a high level is indeed related to this fact.

It is the trend of personnel costs which impacts negatively on the rate of capital expenditures. Moreover, it is not the regular payroll, but retirement payments, which constitute the chief threat. Many fluid elements are involved, and the year-to-year fluctuations cannot be easily understood by outsiders.

Nonetheless, it is actually possible to consider the following process with regard to personnel costs (especially general salaries). That is, in the real world, the nominal GNP increases ahead of the real GNP as commodity prices increase. Of course, wages naturally increase also, but the recent trend indicates that the rate of wage increases generally coincides with the rise of consumer prices. Therefore, there is very little change in real wages, but the share of wages (personnel costs) in defense spending is becoming relatively smaller. In order that wages continue to maintain a certain rate, wages must increase in proportion to the multiplied sum of the real growth rate by the commodity price rise rate (that is, the nominal GNP growth rate). Beginning with the FY-79 budget, the arms procurement rate has risen upwards in contrast to the slowdown in the rise rate of personnel costs. Also, regarding retirement payments which we said involved numerous fluid elements--aside from year-to-year changes--a decline in the long range wage rate would probably result in a relative decline in the pension rate.

Under such considerations, it would be quite possible to procure arms contemplated under the "mid-term operations estimate," even within the present limit of defense spending. As for the rumored speedup of the attainment period (the shortening of the 5-year plan to 4 years is said to be under consideration), it is not by any means impossible to build a full array of equipment itself, since the ratio in the aforementioned between the cumulative total defense spending (1980-83) and the volume of frontal equipment is 25.3-26.2 percent in case number 3, and 26.5-27.5 percent in case number 2.

It must be emphasized that, in absolute terms, Japan's present defense spending is quite large.

### III. Defense Spending on a Par with Europe

Next, we shall hypothesize raising Japan's defense spending to the level of Europe's advanced industrial nations, and examine its effect on industry.

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What is at issue today is not the absolute amount of defense spending, but its ratio to the GNP. Therefore, the point of issue is whether the costs are relatively large in comparison to the scale of the economy. From the standpoint of absolute amounts, Japan's defense spending is one of the world's largest. The reason for this phenomenon is Japan's economic scale, which is roughly twice as large as Europe's most advanced industrial nations. If Japan's rate of defense spending to its GNP is raised to 2 percent, its scale would be fifth in the world after the Soviet Union, the United States, China and West Germany. If the rate is raised to 3 percent, Japan would be fourth and closely approach China, which is third. If the rate is raised to 4 percent, Japan would follow closely on the heels of the Soviet Union and the United States. Therefore, to argue for a drastic rise in the rate to the GNP would mean to seek expenditures at a rate of defense spending equal to West Germany and China.

However, while making an issue of the scale of defense spending, we are unable to work with any specific situation in concrete terms. We shall therefore conduct our study on the basis of existing trial balances. In our treatment here, we have used materials from our previous article in this magazine concerning the special issue on "Japan's Defense Industry," which was published in the magazine SHUKAN DIAMOND of 22 March 80, particularly on "A Trial Balance: How Much Do We Need for Self-Defense? Choices between 0.9-2.7 Percent of the GNP." Of course, we shall take up in this article the subject of planned equipment which we omitted in our previous article. This trial balance hypothesizes the "estimated Soviet strength in an attack on Japan," and it poses the question, "What would happen if Japan were to equip itself with arms equal in quality and quantity to the powerful Soviet armed forces?" Let us analyze its content.

"First, the ground forces. Instead of increasing the ground personnel, the cannons, antitank weapons and antiair missiles for each division would be doubled in strength, while the tanks would be quadrupled to 266 units. In the case of armored divisions, 325 tanks would be deployed. In other words, the Ground Self-Defense Force's present deployment of some 800 tanks must be increased to 3,000-5,000 units.

"Moreover, if the Soviet's most advanced T-72 tanks are activated, the Japan-produced model 74 tank, the pride of the Self-Defense Forces, would be no match for them. There would be no alternative than to develop or import a new tank model.

"Next, the air force. It is necessary to equip the air force with 504 air defense fighters, 144 support fighters and 30 AEW's (Advance Early Warning planes), modernize the BADGE (Base Air Defense Ground Environment) system and to bolster the air defense bases and defense capability. The air defense fighters mentioned here consist of the new F-15 Eagle class, while the support fighters are of the home-produced F-1 class. Incidentally, the present holdings of the Air Self-Defense Force include 335 defense fighters (98 F-4J's, 150 F-104J's and 87 outdated F-86F's) and 27 F-1 support fighters. The manpower of the ASDF also requires drastic improvement in quality and strength.

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"Next, the maritime force. Japan's naval forces consist of 3 small carriers equipped respectively with 12 V-STOL (vertical takeoff and landing) planes, 27 missile carrying submarines, 9 destroyers carrying antisub helicopters, 17 missile-carrying destroyers, 53 destroyers, 30 defense escort ships and 40 high-speed patrol boats.

"The Air Self-Defense Force requires 80 P3C Orion antisub patrol planes, 18 P51 antisub flying boats, 220 antisub helicopters and V-STOL's for small carriers. The trial plan also calls for the possible deployment of regular carriers of the 50,000-60,000 'Midway' class (U.S.).

"Incidentally, present holdings include 14 submarines, 31 destroyers (various types), frigates (15 defense escort ships), 110 antisub patrol planes (including the outdated P2J's) and 18 antisub patrol flying boats. The naval manpower needs to be tripled and the air force capability must be modernized."

We have taken a good deal of space in introducing the trial balance of arms and equipment. If we compare it with the "mid-term operations estimate," there is clearly a wide gap, quantitatively and qualitatively. The costs involved in the modernizing process would be enormous.

"How much will all this equipment for the defense system cost? Assuming that the real annual rate of economic growth is 5 percent, and if the present rate of 0.9 percent of the GNP for defense spending is increased by 0.2 percent annually, it is claimed that the estimated defense buildup could be achieved within 9-10 years. According to this calculation, 9 years later in FY-88, Japan's GNP will rise to 366.1 trillion yen, and its defense spending will rise to 2.7 percent of the GNP (2.5 percent) or 9.15 trillion yen. In real terms, this is 4 times the FY-80 budget, 1.6 times West Germany's defense spending for FY-79, and 1/3 of the FY-79 defense budget of the United States."

This ends the explanation carried in the magazine SHUKAN DIAMOND. We will summarize it in Table 3 and add a few comments.

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Table 3 - Comparisons of Defense Spending

(FY)	(At rate of 0.2% increase annually)		(At present level of spending)		(At 1% of GNP)		
	(GNP) (trillion yen)	(Rate to GNP) (%)	(Defense costs) (100,000 yen)	(Rate to GNP) (%)	(Defense costs) (100,000 yen)	(Rate to GNP) (%)	(Defense costs) (100,000 yen)
55	248	0.9	22,300	0.9	22,300	0.90	22,300
56	260	1.1	28,600	0.9	23,400	0.92	23,900
57	273	1.3	35,500	0.9	24,600	0.94	25,100
58	287	1.5	43,000	0.9	25,800	0.95	27,300
59	301	1.7	51,200	0.9	27,100	0.97	29,200
60	316	1.9	60,000	0.9	28,400	0.99	31,300
61	332	2.1	66,400	0.9	29,900	1.00	33,200
62	349	2.3	80,200	0.9	31,400	1.00	34,900
63	366	2.5	91,500	0.9	32,900	1.00	36,600
	2,732	1.75	478,700	0.9	245,800	0.97	263,800

(Note: Estimates by writer)

If we add the defense spending up to FY-88, when the aforementioned defense-related equipment is considered to reach its full complement, it will total 47.87 trillion yen. The difference between the hypothetical situation, wherein the rate of defense spending to the GNP continues at the present level with little fluctuation, is as much as 23.29 trillion yen. Even the difference, if we hypothesize a mid-term increase to 1 percent of the GNP, will be 21.49 trillion yen. A main portion of this difference will be allocated to the procurement of weapons. Moreover, most of it will be procured at home and the scale of Japan's defense industry will be literally incomparably larger. What we have examined here is a mere trial balance. Although it purports to raise the level of defense spending in relation to the GNP step-by-step, until it reaches 2.5 percent in FY-88, the weighted averaged rate to the GNP during the period 1980-88 would be 1.75 percent. In order to raise the rate to an equal level with Europe, it must be understood that there will be instances when it will exceed the scale of the trial balance which we have just examined. Be that as it may, in order to realize this trial balance, Japan's productivity of frontal equipment must be considerably expanded.

Taking tanks as an example, the present rate of production is 60 units annually (it was 48 units until last year). According to the trial balance, 2,200-4,200 units will be procured by 1988. This means an annual rate of 244-467 units, or 5 to 10 times the production scale until last year. Moreover, the aim is to procure new-model tanks (the successor to the model 74 tank is under development, but it is expected to take another 6 years for completion). The same situation applies to various types of aircraft, ships and missiles, and it is clear that all main equipment will reach the level of several trillion yen in cumulative production costs during the period.

Naturally, the drastic expansion of defense spending will thus result in a sharp growth of the defense industry. However, it will not only bring quantitative

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growth of the defense industry, but will inevitably impact heavily on every sector of the economy.

Of course, there will be economic merits resulting from the growth of the defense industry. There is the effect on the people's economy as a whole (although it is often difficult to measure) through its role in monopolizing one sector of demand. Also, it often plays a large role towards the progress of scientific and industrial technology. Of course, it cannot always be said that military technology in Japan's case is among the most advanced technologies. Conversely, there are not a few aspects which may be considered as demerits.

IV. Consequences of a Drastic Expansion of Defense Industry Production

(1) Transformation of Defense Industry Enterprises

The rapid expansion of defense industry production has the potential of altering the nature of industry and enterprises in many aspects. The scale of Japan's industrial production is quite large, while the size of its defense industrial production could be said to be insignificant (the ratio is 0.2-0.3 percent). Of course, this is from a macroscopic viewpoint, and in certain industries (aircraft manufacturing, for example) defense industry production still plays a large role. A similar situation applies with regard to enterprises. The expansion of the defense industry signifies the general expansion of industries and enterprises, which depend heavily on defense industry production.

Using the management of farms as a corollary, we once remarked that the status of Japan's defense industry was like a secondary side business. The reason is because the share of defense industry production among the enterprise's total sales is not very large. That situation has not changed today. Among the enterprises (contractors) which rank at the top in annual sales to the Defense Agency, most have total sales worth between several hundred billion to several trillion yen. (See Table 4.) Therefore, practically all of them are enterprises whose defense production remains at a share of several percent or less. A rapid expansion of defense production will cause this situation to change, whereby certain industries and enterprises will no longer be able to do without it. We can point out a number of such examples in the European countries and the United States. Regardless of how large the enterprises, the possibility arises of certain industrial sectors and workshops becoming unable to ignore defense production.

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Table 4-- Procurement Record of Top 20 Contractors  
(Unit: 100 million yen)

(Ranking)	(Contractor)	(Amount)	(Share)
<u>Fiscal 77</u>			
1.	Mitsubishi Heavy Industries	973.7	21.6
2.	Kawasaki Heavy Industries	395.6	8.6
3.	Ishikawajima Harima H Indust	364.5	8.1
4.	Mitsubishi Electric Corp	349.0	7.7
5.	Toshiba Corp	127.3	2.8
6.	Sumitomo Heavy Machinery	116.7	2.6
7.	Nippon Electric	105.2	2.3
8.	Shin Meiwa Industry	88.8	2.0
9.	Komatsu Ltd	83.8	1.9
10.	Mitsui Shipbuilding	65.0	1.4
11.	Hitachi Ltd	64.0	1.4
12.	Nippon Oil	60.9	1.3
13.	Fuji Heavy Industries	56.6	1.3
14.	Japan Steel Works	52.6	1.2
15.	Shimadzu Seisakusho	50.8	1.1
16.	Nissan Motor	44.8	1.0
17.	Nippon Koki Kogyo	44.3	1.0
18.	Oki Electric	43.6	1.0
19.	Tokyo Keiki	35.9	0.8
20.	Hitachi Shipbuilding	<u>34.5</u>	<u>0.8</u>
(Total, including others)		4,516.6	100.0
<u>Fiscal 78</u>			
1.	Mitsubishi Heavy Industries	1,529.6	24.0
2.	Ishikawajima Harima H Indust	538.4	8.4
3.	Mitsubishi Electric Corp	523.2	8.2
4.	Kawasaki Heavy Industries	403.0	6.3
5.	Toshiba Corp	173.7	2.7
6.	Hitachi Shipbuilding	144.6	2.3
7.	Nippon Electric	116.9	1.8
8.	Shin Meiwa Industry	96.1	1.5
9.	Komatsu Ltd	84.3	1.3
10.	Japan Steel Works	82.9	1.3
11.	Hitachi Ltd	68.2	1.1
12.	Tokyo Keiki	67.2	1.1
13.	Shimadzu Seisakusho	63.6	1.0
14.	Daikin Kogyo	60.0	0.9
15.	Oki Electric	58.3	0.9
16.	Fuji Heavy Industries	55.2	0.9
17.	Nippon Oil	53.8	0.8
18.	Nissan Motor	52.8	0.8
19.	Nippon Koki Kogyo	43.8	0.7
20.	Maruzen Oil	<u>31.6</u>	<u>0.5</u>
(Total, including others)		6,376.9	100.0



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(Ranking)	(Contractor)	(Amount)	(Share)
<u>Fiscal 79</u>			
1.	Mitsubishi Heavy Industries	969.3	15.0
2.	Mitsubishi Electric Corp	539.6	8.4
3.	Kawasaki Heavy Industries	495.5	7.7
4.	Ishikawajima Harima H Indust	399.0	6.2
5.	Toshiba Corp	181.9	2.8
6.	Nippon Electric	166.4	2.6
7.	Nippon Kokan	165.8	2.6
8.	Mitsui Shipbuilding	136.7	2.1
9.	Komatsu Ltd	102.9	1.6
10.	Nippon Oil	88.6	1.4
11.	Oki Electric	85.6	1.3
12.	Japan Steel Works	81.5	1.3
13.	Fujitsu	76.6	1.2
14.	C. Itoh Aviation	73.0	1.1
15.	Sumitomo Heavy Machinery	71.5	1.1
16.	Fuji Heavy Industries	67.1	1.0
17.	Shin Meiwa Industry	67.1	1.0
18.	Hitachi Shipbuilding	67.0	1.0
19.	Fuji Electric Machinery	58.5	0.9
20.	Nissan Motor	57.9	0.9
	(Total, including others)	6,451.7	100.0

Once such a change in makeup occurs, defense production becomes built in as an indispensable sector of the industry or enterprise, and it then becomes vital to maintain it. When the annual defense production amounts to orders worth several trillion yen, many of these industries or enterprises would no longer be able to avoid such a change.

Let us take a look at several hypothetical examples of procurement figures for main equipment. Since a single model 74 tank is worth some 300 million yen, an order of 4,200 units would easily exceed 1 trillion yen, or top 100 billion yen annually. The suppliers are Mitsubishi Heavy Industries for the chassis and Japan Steel Works for the tank gun. As for aircraft, 1 unit of the F-1 is worth some 11 billion yen, so 117 planes would cost approximately 130 billion yen (supplied by Mitsubishi Heavy Industries). With the F-15 costing 8 billion yen per unit, 500 planes would cost approximately 4 trillion yen (the airframe by Mitsubishi Heavy Industries and the engine by Ishikawajima Harima). As for ships, they would vary according to size. A submarine would be worth some 16 billion yen (including batteries), and a defense escort ship would cost about 13 billion yen. Therefore, the procurement cost for submarines would come to about 200 billion yen, and similarly about 200 billion yen for defense escort ships.

Assuming that the rate to the GNP is 2.5 percent at this point in time, the total defense spending would be 6.2 trillion yen, and the procurement of arms would total some 4.5 trillion yen. Since at least 4 trillion yen could be considered to be orders for the machine manufacturing industry in a broad sense, defense production would become deeply rooted within the machine manufacturing industry; broaden the

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industrial base, including the makers of related parts; result in a linkup with the materials industries, such as the steel industry, the nonferrous metal industry and the chemical industry; and structurally envelop the defense industry as one of its sectors. In the end, it cannot but transform the nation's industrial structure, alter the nature of its reproduction system and also impact on the economic growth rate. It could be said that, when the rate to the GNP rises above a certain limit, its industrial significance assumes a different qualitative aspect.

## (2) From Defensive Weapons to Aggressive Weapons

When the procurement for equipment exceeds a certain level, the nature of the equipment also undergoes an important change. The reason is, naturally, because there is a limit to frontal equipment required for "purely defensive purposes," and an increase in the procurement volume increases the temptation to acquire more aggressive equipment. We must not overlook the fact that, included in the aforementioned trial balance were missile-carrying destroyers and regular aircraft carriers. It is also well known that the function and nature of aircraft carriers can be completely altered by adding midair fueling systems. The transformation of procurement arms from a defensive role to an aggressive role inevitably occurs with the increase in procurement spending above a certain level.

Another important point is, that the futility in stockpiling enormous amounts of conventional weapons results in the danger of aspiring towards weapons more powerful than conventional types. There is a deep-rooted opinion abroad that, eventually, Japan will also arm itself with nuclear weapons. Recently, in Japan, also there have been advocates of nuclear arms. It must not be forgotten that the rapid growth of arms procurement entails the strong possibility of fostering such a trend.

## (3) Securing Personnel

The qualitative improvement and quantitative growth of equipment, resulting from an increase in defense spending, pose a number of problems concerning the securing of personnel. For the function of a given equipment to be fully demonstrated, there must be a proper balance in the relationship between the equipment and its accompanying expendables (between firearms and ammunition; between vehicles and fuel, etc.). Naturally, adequate consideration must be paid at the respective stages of production and procurement. However, what is more important...the education and training of the personnel handling the equipment, and the protection of the personnel in charge of safeguarding and repairing them, must be secured.

As the equipment becomes more modernized, a certain number of trained personnel for its handling and protection becomes increasingly indispensable. Aircraft is a typical example. Therefore, as the equipment becomes more abundant, the average quality of the personnel using it must become higher. There was a period when aircraft technicians (pilots and ground crews) were transferred en masse from the Self-Defense Forces to private enterprise, and it signifies the extremely important role of human resources.

The rapid expansion of equipment requires the securing of personnel to cope with the situation, but it is clear that the mere increase of authorized Self-Defense

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personnel would not suffice. The reason the "quality" of SDF personnel becomes a public issue is because of a few who commit criminal acts. But a more basic and important point is, it is difficult under the present recruitment system to recruit an adequate number of personnel able to cope with new equipment. It may be said, therefore, that some method, whereby young and outstanding men can be secured, is indispensable for any buildup of arms procurement. Any marked increase in defense spending is thus tied to a "study of the draft system," and the social and cultural price to be paid is indeed high.

## (4) Financial Pressures

A drastic increase in defense spending becomes a pressure factor on finances. Especially in times like the recent low-growth period of the economy, natural revenues from taxes tend to drop on the one hand, and, as the weight of increased expenditures becomes greater on the other hand, the hardening of finances and a dearth of revenue sources result. An increase in defense spending under such conditions would naturally apply pressure upon the other areas of expenditure, unless revenue sources are built up through such means as the issuing of national bonds.

The rate of defense expenditures within the general accounting is 5.24 percent for this year's budget. Although the defense spending in relation to the GNP is generally stable at this time, the rate within the general accounting is lower. This is because the growth of the general account is greater than the growth of the GNP, and the cost of government is relatively higher.

The share of 5.24 percent within the general accounting indicates that, if the defense spending in relation to the GNP is raised to 1.72 percent, it would be exactly 10 percent of the budget. As we have seen in the previous trial balance, if the rate to the GNP is raised to 2.5 percent, it would be 14.6 percent of the budget. This would be an extremely heavy burden under the present financial conditions. Nonetheless, it is difficult to specify what other areas would be pressured by it as a result.

The issuance of national bonds would also serve to heighten the dependence of finances as a whole on national bonds, and, in the long run, public bond issues would apply pressures on finances and impact on other sectors of the people's livelihood and the economy through commodity price fluctuations.

Our explanations so far have made it clear that, increasing the rate of defense spending to the European level is bound to raise various problems. When we are asked about Japan's role as a member of the international community, we do not consider our reply to be, "To not spend less than 1 percent, but on an equal level with Europe, for example." The reason we would not answer thus is because it would not indicate any sort of concept or doctrine. In form, it would be catering to the United States and imitating Europe. In terms of content, it would mean the mere procurement and arraying of mainline equipment.

Both the United States and China--Japan's chief adversaries during World War II--are now applauding the buildup of Japan's arms. However, now is the time for us to review our defense ideology. There is no necessity to share in the Pacific Basin cooperation concept, which is a Pacific version of NATO.

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The positions of the United States as the leader of "free world nations," of the land-connected European nations, and of Japan, are inherently different. There should be self-reflection on the part of Japan, as one of the chief perpetrators of the second world war. It should have a unique position as a nation which received the baptism of the atomic bomb. There should be greater debate by the entire nation on various dimensions, independently and uninfluenced by outsiders. A sharp buildup in defense spending without going through such a process would be a waste of national funds and fraught with dangers.

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ECONOMIC

AFTER ITC RULING: U.S.-JAPAN AUTO DISPUTE ANALYZED

Tokyo MAINICHI DAILY NEWS in English 21, 22, 23, Nov 80

[Three part series: "After ITC Ruling"]

[21 Nov 80, p 5]

[Article by Soji Teramura]

[Text]

*Editor's Note: The recent ruling handed down by the U.S. International Trade Commission that Japanese cars imported into the American market are not injuring the U.S. car industry and that, therefore, the U.S. government should not take restrictive measures against auto imports from Japan must have been nothing but good news to Japanese car producers. On hearing the ruling, however, Japanese car industry circles as well as the Ministry of International Trade and Industry stopped short of expressing feelings of joy.*

*They were rather cool in their reaction to the ITC decision, simply commenting that the ruling was just one step on the long road towards settlement of the car trade issue.*

*They were well aware that knotty problems lie ahead despite the ITC ruling in their favor. Here follows a three-installment series consisting of reports from Mainichi correspondents in Washington, Bonn and Tokyo, unveiling the*

*seeds of the auto trade war which might break out at any moment between Japan and the U.S., or Japan and West European countries, if something goes wrong in handling the trade issues.*

WASHINGTON — Commissioner Michael J. Calhoun, independent Republican, who gave the first "not guilty" vote at the decision-making ballot of the U.S. International Trade Commission (ITC) on Nov. 10, said that it was embarrassing that foreign automakers had shown so little prudence and sensitivity toward the American automotive industry, which is trapped in the recession.

The commissioner made the remark at the end of his explanation as to why he cast a "not guilty" vote. It is highly unusual for a judge to give such an explanation.

**Not Legally, But...**

His explanation, however, implied that imported automobiles are not the main

cause of recent unemployment and record financial losses in the U.S. auto industry from the legal viewpoint; but that in actuality they are.

Had this view prevailed, the ITC commissioners would have given a five-to-zero decision — the Japanese side would have lost the case.

In this sense, the ITC decision could be interpreted as having given a nominal victory to the Japanese automakers.

In looking back on the 18-month bilateral automotive "war," no other expression would be more apt than to say that the goddess of fortune has sided with the Japanese automakers for the past three years. This was amply demonstrated by the fact that the Japanese auto export growth had coincide exactly with external events.

The first stroke of luck came in April 1977 when President Carter laid down the fuel efficiency regulation as part of his energy policy.

The second lucky event was in late 1978 when the Islamic

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revolution led by Ayatollah Khomeini occurred and brought into being the second oil crisis.

The third stroke of luck was the resurgence of inflation in the U.S. last year.

The fourth was the defeat of President Carter and the victory of Ronald Reagan, who upholds liberal trade, in the latest U.S. presidential election.

During this period, the market share of Japanese-made passenger cars in the U.S. rose from 9.3 percent in 1976 to 16.6 percent in 1979 and to 21.4 percent (up to October) this year. This phenomenal growth did not occur in such nonauto-producing regions as Africa and Latin America but in the U.S., where the automotive industry is a national industry and 200 million motor vehicles are on the road.

#### Very Fortunate

The Japanese automakers have been very fortunate because exogenous factors such as the energy crisis, the Iranian revolution, and the OPEC markups had done more for the Japanese auto sales than the indisputable quality of the Japanese cars and Japanese export efforts.

ITC Commissioner Paula Stern, Democrat, said that it was beyond the capability of the ITC to discuss the automotive policy as a national industry by taking into account all the elements such as internal and external politics, economy, energy and technology.

This remark tacitly acknowledged that the Trade Act of 1974 can no longer determine the culprit of the injuries a U.S. industry suffered.

A double stroke of luck came at the end. In spite of the high level of politicization of the automotive issue during the

presidential campaign period, the ITC decision making was deferred until after the election, and President Carter who clearly leaned towards import restrictions, was defeated.

The ITC turned down the presidential request to move up the decision-making day to before election day, showing its independence from the administration.

But it would be too naive to believe that the five commissioners were completely uninfluenced by the historic defeat of an incumbent president in making the decision, which required both legal and political judgments.

In response to the ITC decision, the Japanese automakers said that it was a victory for free trade and that it would be beneficial to American consumers. However, the Japanese automakers' judgment appears to be premature.

Douglas Fraser, president of the United Auto Workers Union, and Philip Caldwell, chairman of Ford Motor Co., who staunchly advocate import restrictions, have taken prompt steps to prepare for the next round.

There is a strong chance that congressmen will sponsor bills to empower the president to negotiate exclusively with Japan on the curtailment of Japanese car imports to the U.S., and to require foreign automakers with a certain market share in the U.S. to make investments in the American market.

In the House and Senate elections which were concurrently held with the presidential election all the automotive congressmen from Michigan and Ohio states were returned. These congressmen pressed President Carter to impose import restrictions on

Japanese-made cars before the election. The ITC decision will hardly dissipate their energy.

The congressional pressure will constitute the touchstone for President-elect Ronald Reagan. The president-elect has at least three choices.

- The Reagan administration may avoid taking protectionist measures at the start and wait for economic recovery by bolstering fiscal and monetary policies.

- If the above measures fail to dissipate the congressional pressure, the administration may maneuver to concentrate the frustration of protectionists on Japanese auto imports for the legislation of a restrictive act and upon passage of the bill enforce the restrictions on the Japanese-made cars and thus contain the spread of protectionism.

This scenario was implemented by the then President Richard Nixon at the time of the U.S.-Japan textile "war."

- If the administration is prevented from implementing the second scenario, it may well divert congressional dissatisfaction with Japan onto other planes — especially onto the defense of Japan, Japan's Achilles' Heel: to press Japan to make a defense buildup.

Which option will be taken by the Reagan administration depends upon the speed of the American economic recovery and the sales of American-made automobiles.

Thus, the Japanese car import issue will be the touchstone of the president-elect's free-trade motto. The Japanese automakers, on the other hand, would be better advised to recognize the good fortune that has been pushing up the popularity of Japanese-made cars on the American market and refrain from falling into insensitive export practices.

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[22 Nov 80]

[Article by Kenichi Kono]

[Text] BONN — "To buy Japanese-made cars is tantamount to depriving our fellow Germans of their jobs," reads a poster put up by an automobile dealer in a small town in West Germany.

Another dealer selling Japanese-made automobiles in the same town filed a strong protest with the other dealer for interfering with its business and demanded the immediate removal of the poster.

This conflict over the sale of Japanese-made automobiles was referred to the judicial court.

This short anecdote, being talked about in Bonn at present, reflects symbolically how deeply the European countries are concerned about the fast-expanding Japanese automobile exports to Europe, especially to EC countries.

The anecdote involves mixed feelings of surprise that a small island country in the East has been producing higher quality goods with technology topping European standards and apprehension that there might someday be an "alien conquest" economically.

#### Examples

In the United Kingdom, voices are being heard among high British government officials rueing the existence of the deficit-ridden giant — BL (formerly British Leyland).

It is expected that the British government will have to increase relief expenditures from its state budget, estimated to BL, which is expected to incur an additional deficit of £400 million this year.

Italy is troubled by the sales slump of its largest automobile manufacturers — Fiat, which had a deficit amounting to 103.7 million lire (about \$1.13 billion) in the January-September period this year.

In the face of such a huge deficit, the danger to the existence of the automobile manufacturing industry itself has begun to be discussed in Italy.

In France, major automobile manufacturers such as Peugeot and its sister company Turbo, as well as the governmental Renault, are mapping out separate programs for personnel cuts in line with their production curtailment schemes.

Nor is West Germany, the country which is the most competitive in European automobile production, an exception.

Taking the top automobile manufacturer, Volkswagen, as an example, it has suffered from a sharp reduction of sales since this April against the background of the overall decline of domestic demand in West Germany.

A Volkswagen factory in West Germany has a large backlog of the latest model Audi 80 type.

Meanwhile, Japanese-made automobiles are surging at top speed in sales in European countries.

Particularly in West Germany, the market share of Japanese-made cars has been expanding at an astonishing rate — from 0.05 percent in 1970 to 3.7 percent in 1978 and to 5.6 percent in 1979.

It is forecast that the share will go over the 10 percent level this year.

In reflection of the widespread popularity of Japanese-made automobiles in the European market, a Japanese automaker staff member stationed in West Germany said it would take three months on average, or even six months, depending on the model, for European customers to obtain a Japanese car after placing an order with car dealers.

The superiority of Japanese automobiles over the European makes in fuel-efficiency, price, and minimum amount of trouble are behind their mounting popularity both in the United States and Europe.

But, under the situation in which unemployment in the EC is coming to over 6 million and even West Germany, boasting of its strongest economy, is suffering from a deficit in the nation's international balance of payments, the economic theory of "the weakest goes to the wall" is not always tolerated unanimously among EC countries.

In the market share, even Japan's No. 1 automobile manufacturer Toyota and No. 2 Nissan are both ranked lower than such European manufacturers as Renault and Fiat.

In spite of this fact, excessively rapid sales expansion, together with the phenomenon that as many as nine Japanese automobile manufacturers are competing in the European market, are causing big repercussion against Japanese cars.

ITC's ruling that Japanese car exports to the United States is not the cause of Detroit's

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problem has been welcomed by some European automobile manufacturers who believe that the possibility of Japan shifting its export drive from the American market to the European market has shrunk.

#### Stricter Attitudes

It is considered inevitable, however, that from now on the attitude of EC countries toward Japanese car exports to the EC will become stricter than before.

This is because EC leaders interpret the rapidly expanding automobile imports from Japan as signifying worsening international payments of the member countries. This year's EC deficit vis-a-vis Japan is being estimated at \$10 billion, a 50 percent increase over last year.

Secondly, the EC leaders regard the Japanese automobile import issue as a "showdown" for the future trade strategy between EC and Japan.

Anxious about a technology gap between Japan and the EC in the area of advanced technology relating to computers, some EC officials said the major trade friction bound to come after automobile problems will be in the computer field.

No matter in what way the Japanese side may react to the EC apprehension, the EC side is certain to regard the automobile import problem as a "touchstone" to forecast long-range Japan-EC relations, rather than as a simple trading issue.

In consideration of this growing apprehension, there is

no doubt that the automobile issue will be taken up as the biggest item of the agenda at the forthcoming EC foreign minister level council on Nov. 24, 25 at Brussels.

The council is certain to draft some kind of stricter-than-ever trade strategy against Japan.

Spearheading this strategy, high-ranking officials of seven automobile manufacturers in the EC visited Japan recently.

T. Schmuecker, president of Volkswagen, said that he pays respect to Japan's achievement but, at the same time, Japan should realize that sparks may fall upon itself if it goes to excess.

He went on to say that this is because Japan cannot live without markets for the export of its products while both the United States and Europe can go without the Japanese market.

[23 Nov 80, p 5]

[Text]

Why were Japanese car industry circles and Ministry of International Trade and Industry officials not unreservedly pleased at the news that the U.S. International Trade Commission (ITC) had given a ruling in favor of the Japanese auto industry, rejecting the complaint that Japanese cars imported into the United States had been injuring the American car industry?

The reaction of Japanese automakers to the ITC decision was a blend of concealed joy and coolness. There were three reasons behind this complicated response.

#### Causes For Concern

The first was concern among Japanese car manufacturers and MITI officials that sen-

timent might be growing on Capitol Hill in support of legislation to curb auto imports from Japan, even though the ITC had given a ruling to put an end to the dispute.

The second concern stemmed from reports that apprehension has been increasing in Europe about a possible fast increase in Japanese car shipments there, and this phenomenon might cause trouble in the future.

The third concern, probably the biggest of the three, arose out of the suspicion that American automakers, although slow in recovering from business slumps, might grow steadily to become a threat to the Japanese car industry.

Some MITI officials and automaker executives said they rather wish the ITC's ruling had been the other way round. If the ITC had ruled that Japan's auto exports were hurting the American car industry, they said, "there might have been a chance for Japanese automakers to face less severe import cutbacks than could be expected hereafter."

However, because of the ITC's ruling rejecting import restrictions, "I fear," a car company executive remarked, "that U.S. congressmen with interests in the auto industry might push harder for legislation to kick our cars out of the American market."

Meanwhile, the Japanese auto industry is worried about

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their sour relations with European countries, which may overshadow the future of Japan's auto trade with them.

Before the ITC ruling, major European auto makers were standing on the same side as Japanese car makers vis-a-vis the American market. The Europeans as the market remained open. But with regard to the sales competition on the European must have felt relief at the ITC's ruling, as the U.S. market remained open. But with regard to the sales competition on the European market, which Japanese cars are rapidly flooding, the European automakers are looking at the Japanese makers as rivals.

Up to September this year, Japanese car exports to the EC member nations reached 668,050 units. The export volume impressively rose 24.9 percent in comparison with the same period of 1979. Against this background top executives of Japanese and European car producers such as Fiat, Renault and the U.K.'s BL met in Tokyo last week. Before the meeting, Takashi Ishihara, president of Nissan Motor Co., was afraid that European automakers would be "very tough" on Japan's car exports.

A more serious concern, however, comes from the possibility of an offense launched by American car manufacturers, according to Japanese auto industry sources. They are afraid that there might be a greater impact on their future business from the influence of improving business of American car manufacturers.

Says Shigenobu Yamamoto, vice president of Toyota Motor Co.: "Although the Japanese car industry does well now in sales in the world markets, you cannot tell at all whether or not this trend will definitely continue three years from now."

### Cut-Throat Rivalry

General Motors and Ford are now enthusiastic about building strongholds in the small car market, said Yamamoto. "What you can say with confidence is that there will be cut-throat competition in the near future between car manufacturers of Europe, Japan and the U.S."

What is startling Japanese automakers is the huge amount of funds the American "Big Three" have been pouring into the development of subcompact cars.

The huge amount of money invested in car production is large enough to frighten Japanese car manufacturers, as their funds are far below that level. Even the money spent by Toyota, the nation's biggest automaker, on technological innovation, is considerably less than one-eighth of the above amount.

Japanese automakers acknowledge that signs have already begun to emerge that their market share in the U.S. has been gradually eroded by American automakers.

In October, the share of Japanese car sales fell to the lowest level so far this year, moving down to 16.7 percent. Behind this drop, government officials think, is the impact of the fourth price markup of Japanese-made cars this year made as part of the attempt to dampen U.S.-Japan auto trade friction.

Humming sales of an array of new small cars marketed recently by American makers are believed to be a much greater factor in the drop than the price markup.

Looking back at past developments some officials hold that it was the United Auto Workers (UAW) union who started the recent car war, but behind them were American car manufacturers actually

engineering the time-consuming U.S.-Japan auto trade war.

This speculation is based on the suspicion that the American car manufacturers were engaged in covert maneuvering in a bid to dominate small car markets throughout the world.

"The stubborn American demand for Japanese auto assembly on American soil is one example," one official maintained.

"The Japanese undertaking of auto production in America would mean that they would have to shoulder costlier payrolls for American workers. Another fact is that American auto workers are less skilled than the Japanese.

"The result is clear. The Japanese auto makers having their production plants in America would be forced to market more expensive and inferior quality cars than those they are making at home."

Tadaaki Yukawa, Nissan's senior researcher for overseas markets, had consistently contended that ITC would be sure to deliver a ruling against import restrictions.

He based this prediction on the fact that the business fall-off of American automakers has bottomed out, and the U.S. economy is picking up.

"Apparently, the adoption of any preventive steps against imported Japanese autos will mean swimming against the tide of the age," commented Yukawa.

Minister of International Trade and Industry Rokusuke Tanaka called the ITC ruling "fair" and evidence of the American sound sense. The ITC's ruling seems to lend support to the pet phrase of Japanese automakers that "only superior cars meeting user's needs can win good sales records."

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By raising high the banner of this motto Japanese car manufacturers may remain competitive on the global market as in the past.

But this depends on how the world map of car industry competition develops henceforth.

Severe sales competition has already stirred up a mood of protectionism in a number of countries, and car business is likely to be facing a rough road from now on. Thus, it seems inevitable that the Japanese car industry will eventually be forced to give second thoughts to its stance on free competition.

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ECONOMIC

ROUGH GOING FOR U.S.-JAPAN NTT NEGOTIATIONS

Tokyo BUSINESS JAPAN in English Nov 80 pp 29-30

[Article by Hokaji Mino, Visiting Scholar, Harvard University, Former Editor-in-Chief, Business JAPAN]

[Text]

THE procurement of materials by the state-run Nippon Telegraph and Telephone Public Corporation (NTT) has become an area of trade friction between Japan and the United States rivaling the issue of Japan's car exports. Hopes that U.S.-Japan negotiations on the procurement issue would bring about a settlement as early as October 1980 have now been set aside, and the chances of reaching a settlement by the end of the year appear dim. There is growing suspicion on the Japanese side of the negotiating table that, judging from the American attitude toward the talks, the U.S. side is not seriously working toward reaching a conclusion to the negotiations.

Following the postponement of the anticipated October agreement in the U.S.-Japan NTT procurement negotiations, the Foreign Ministry entered a new round of policy formation led by the government foreign trade representative Saburo Okita, who returned from the United States Oct. 8. The Foreign Ministry maintained its stance of seeking a settlement of the issue by the end of the year, but the United States would not budge on its hardline position that all NTT equipment procurement contracts should be open to competitive bidding. The ministry initially believed the U.S. side had indicated considerable understanding toward the "three level system" for NTT equipment procurement as presented by Okita during high level talks with U.S. trade representative Reubin Askew at the beginning of September. They consequently were under the impression that a substantive agreement was within reach when Okita met Askew in the United States on Oct. 3. This became the basis of the opinion that the U.S.-Japan negotiations could be brought to a conclusion in October.

What does the "three level system" signify? The three categories are as follows:

1. The first category includes those materials such as storage batteries, electric poles, steel pipes and circuitry equipment which are offered on the general market and which meet standard requirements as set by Japan Industrial Standards (JIS). These products would be open to competitive bidding based on the General Agreement of Tariffs and Trade (GATT) code on government procurement.

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2. Consisting of telecommunications equipment and specific measuring instruments such as teletype and facsimile which are on the general market and can be utilized with some degree of remodeling. Procurement of such materials would be by optional contracting, with intent of purchase made public to domestic and foreign producers and impartial screening of those makers trying to sell their products.

These optional contracts would differ from similar contracts NTT has heretofore tied with producers designated by the public corporation in that by publicizing purchases NTT would be seeking sales openly from both domestic and foreign producers before deciding on a designated maker. In addition, NTT would give a detailed explanation to those makers which, under screening, had been excluded from the designated list of contractors.

3. Consisting of high technology equipment such as telephone receivers, electric switchboards and microwave equipment which is not available on the general market and which requires further research and development. NTT would seek participation from the maker at the research and development level, and would open procurement contracts to those companies which have jointly developed new products and helped perfect superior telecommunications equipment.

This is the "three level system" as proposed by the Japanese. Japan's aim throughout in devising this system has been to procure with the utmost efficiency high quality facilities, equipment and materials.

When the sixth working level talks were held in Tokyo from Aug. 4, the U.S. side insisted that categories two and three as indicated in the "three level system" proposed by Japan covered articles in which procurement was possible under the GATT government procurement code. However, the Japanese countered that this argument disregarded the realities of electric communications equipment procurement. The assertions of the two sides ran along a parallel course.

The GATT code on government procurement sets down standards which ignore quality control and give total emphasis to price competition. In this respect, Japan's assertion is that public corporations like NTT should recognize highly efficient goods available on the general market that belong to the first category, but that the GATT code does not apply to articles covered by categories two and three.

It is correct to say that even if a company provides detailed specifications when bidding for high technology equipment contracts, there are no guarantees it will be able to come up with a high quality product. Considerable knowhow and outstanding quality control technology are important factors. Especially for those materials belonging to the third category, by means of joint research and development we can promote the accumulation of manufacturing knowhow, the establishment of quality control methods, and the formation of specialized lines of production. From this interrelationship, the smooth supply of high quality materials becomes possible.

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It is indisputable that the American side showed considerable understanding toward this "three level system" proposed by Japan when Askew and Okita held talks in New York at the beginning of September. Thus emerged the supposition among the Japanese that an agreement would be reached in October, and repeated consultations were held in Japan under the direction of Foreign Minister Masayoshi Ito and Okita. Among the policy decisions made at this time was one to expand the scale of those materials subject to open bidding in accordance with the GATT government procurement code from \$600 million to \$1.5 billion.

However, the United States obtained the details of the new Japanese proposal in advance and rejected it forthright with the statement that "we will not be able to convince the American people with this." The U.S. side both proposed that negotiations be reopened after the U.S. presidential elections in November and repeated their demand that all NTT purchases be opened to bidding. The opinion that the U.S.-Japan negotiations could be concluded in October consequently all too quickly disappeared.

The greatest point of dissatisfaction among the Japanese was that the United States to the very end persisted only in advocating complete open bidding, without coming up with any concrete counter-proposal to Japan's "three level system." There thus emerged within the Japanese government the suspicion that the United States has yet to form a consensus concerning the U.S.-Japan negotiations on NTT materials procurement. Further, some questioned that the U.S. side was seriously interested in bringing a successful conclusion to the negotiations.

Actually, the Japanese side had begun to harbor these doubts from some time before. The direct springboard for this was the fifth round of working level consultations held in Washington last June. At these talks the U.S. trade representative replaced every member of the negotiating team with the exception of deputy representative Hornatz, setting the talks back to the situation even prior to the June 1979 Ushiba-Strauss agreement. This agreement stated that the two sides would seek a method of procurement based on the situation in the electrical communications industry and the mutual interests of the two countries.

In actuality, directly following this agreement, from the first working level talks held in July 1979 through the fourth round of talks in February 1980, the negotiations made progress along the lines set by the Ushiba-Strauss agreement. As a result, both the United States and Japan deepened their understanding about the realities of electrical communications equipment procurement and approached the stage where they could begin to hammer out a concrete plan for materials procurement based on this understanding. This progress continued until May 1980 when the process was completely reversed at the fifth round of talks.

This abrupt change in the attitude of the American side was indicative of the fact that the government, Congress and industry within the United States has still been unable to reach a consensus regarding the problem of NTT

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materials procurement. According to information gathered by the Japanese, the failure of the United States to reach a consensus on the issue was the major reason the U.S.-Japan negotiations were unable to proceed in a consistent fashion.

Chief Cabinet Secretary Kiichi Miyazawa often urged Trade Representative Okita to "carefully observe in your high-level talks with Askew what he is thinking and whether he is trying in good faith to reach a settlement in the negotiations, and make your decisions based upon these observations." Miyazawa's advice here indicates the distrust held concerning the U.S. attitudes toward the negotiations and the underlying desire of the Japanese government, in consideration of U.S.-Japan relations, to settle the issue as quickly as possible. Whatever the future judgments of Okita, it is conceivable that the U.S.-Japan negotiations will again develop in a different direction before the issue is resolved. □

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ECONOMIC

KEIDANREN FAVORS AIRCRAFT PRODUCTION COMMITTEE

OW201343 Tokyo JIJI in English 1231 GMT 20 Nov 80

[Text] Tokyo, Nov. 20 (JIJI Press)--The Federation of Economic Organizations (Keidanren), Japan's powerful business body, is reacting positively to a proposal that it establish a committee to help foster the nation's aircraft industry, according to informed sources.

Moves to set up such panel are gaining momentum mainly among Japanese aircraft manufacturers, which believe a powerful private body is necessary to push Japan's large-scale aircraft project in the 1980s.

At present, there is the Society of Japanese Aerospace Companies as a trade association of the aircraft industry. But it is said to be not powerful enough for high-level negotiations with the government for obtaining its aid.

Therefore, the industry wants Keidanren to establish a committee on aircraft manufacture as a parallel body to its existing committee on production of defense equipment.

In Keidanren, aircraft business has been covered by the committee on defense production.

But an industry leader recently said that Keidanren should establish a separate committee on aircraft production, now that agreement is being forged between the public and private sectors to bring up civil aircraft production as a "frontier industry."

So far, Japan's aircraft makers have relied on orders from the defense agency for the most part.

But the share of civil planes in their output is deemed likely to climb rapidly in the years to come, since Japan is proceeding with two big projects--development of the next-generation commercial jetliner, codenamed "YXX," and of a jet engine for civil aircraft both with foreign manufacturers--in addition to the production of a new wide-bodied airbus with the United States and Italy.

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But the Japanese manufacturers face the difficulty of raising massive funds for the development projects.

Observers said that without government assistance, such ventures cannot go into full swing owing to great risks involved.

Therefore, the industry is all the more eager to have a powerful committee for obtaining government aid to the projects.

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ECONOMIC

NEW FOREIGN EXCHANGE LAW VIEWED

OW210234 Tokyo THE JAPAN TIMES in English 20 Nov 80 p 12

[Editorial: "The New Foreign Exchange Law"]

[Text] The revised version of the foreign exchange and foreign trade control law, incorporating what is now known as the foreign investment law, is to take effect on December 1. The new legislation, which passed the Diet last December, marks a capital transactions, trade and investment.

The basic problem in the current foreign exchange law, as it is called for short, is that it is restrictive in nature. This is because the law was enacted in 1949, when the Japanese economy required much protection. The same is true of the investment law, which went into effect in 1950. Now this "negative" character has been changed. Henceforth, restrictive or prohibitive measures will apply only in cases of "emergency."

It is the first time that both laws have been revised fundamentally, in the sense that the principle of restriction has been changed to that of liberalization. In practice, however, various liberalization measures have been taken so far in line with Japan's economic development and the changes in the international economic situation. Now that Japan is committed to freer external transactions both in name and substance, such measures will be further promoted.

In the area of capital transactions, for example, official approval will be required only in "special" cases. Three cases are mentioned in the new law. They are: (1) when the yen rate has sharply fluctuated, (2) when it has become difficult to maintain equilibrium in the balance of payments, and (3) when massive movements of money between Japan and foreign countries threatens to adversely affect the domestic financial and capital markets.

A foreign exchange council, to be established shortly, will determine whether specific transactions should be approved in these cases. Orders or recommendations will be issued accordingly to alter or cancel "undesirable" deals. In order to live up to the stated principle of liberalization, however, the council needs to make certain that such emergency restrictions or injunctions are limited to the minimum.

In the area of foreign trade, export and import procedures will be simplified. In the case of imports, the present procedure requires notification through

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foreign exchange banks, covering about 700,000 contracts a year or 90 percent of total imports. The prior approval system, which currently applies to 5,000 cases a year, will also be abolished.

In the field of inward direct investment, the relaxation of the restrictions on foreign stock ownership in Japanese corporations is particularly significant in view of the recent upsurge of foreign investors' interest in Japanese shares and the increasing "internationalization" of Japanese firms.

At present, ownership by a single investor is limited to 10 percent, and that by two or more investors by 25 percent. In the case of companies in sensitive fields, such as electric power, banking and shipping, the limit is 15 percent. Stock acquisition exceeding any of these limits is not allowed unless the investor or investors concerned have the consent of the company involved.

Obviously, these restrictions are imposed in order to prevent the takeover of domestic enterprises by foreign investors, whether they be individuals or organizations.

Under the new law the 10 percent limit for single investors will remain. The 25 percent limit will also continue, but it will apply only to designated companies, such as oil companies, in which collective foreign ownership is said to have reached 50 percent. In other cases, foreign investors will be free to acquire as many shares as they want, without obtaining the consent of the firms involved.

Again, special cases requiring approval will be considered by the foreign exchange council on the basis of guidelines now being worked out. In this case, too, the council needs to minimize restrictions by limiting its orders or recommendations to cases, in which such action is considered absolutely necessary. In recent months, oil money has been flowing rapidly into the Japanese stock market. As a result, foreign ownerships in some well-known companies have increased noticeably. This reflects in large measure the growing confidence which overseas investors, especially those in oil-producing countries, place in the future of the Japanese economy.

The government is now in the process of designating companies, in which foreign ownership will be restricted. Such restriction is necessary for enterprises in agriculture, mining, petroleum, leather and certain other industries since heavy foreign investment in such fields could have serious impact on the domestic economy.

But this, of course, is an exception rather than the rule. The thrust of liberalization in investment as well as in trade and capital transactions must be maintained steadfastly in the spirit of the new law.

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SCIENCE AND TECHNOLOGY

COAL DIRECT LIQUEFACTION PROJECT MOVING AHEAD

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 20 Oct 80 p 7

[Text] Nippon Kokan Kabushiki Kaisha and Mitsui Shipbuilding and Engineering Co., Ltd. will soon embark on the joint construction of a direct hydro-cracking method liquefaction test plant at Keihan Steel Foundry's Mizue District. This task was commissioned by the Agency of Industrial Science and Technology as one aspect of the Sunshine Plan. The scale of operation is to be 2.4 ton daily production/processing volume and it is to be completed by the end of 1981. Testing will commence in 1982. As a result of this innovation, coal liquefaction, direct hydro-cracking method research will take a giant stride forward.

With respect to coal liquefaction which is an important structural support of the Sunshine Plan, three methods are currently being researched--solvolysis liquefaction, solvent extraction liquefaction and direct hydro-cracking liquefaction. Of the three alternative methods, direct hydro-cracking method is a technique whereby coal is pulverized, solvent is added, hydrogen and catalytic agents are mixed in and heat processed under 200 atmospheric pressure and 400 Centigrade heat in the heater.

It is a technique unique to Japan. Heretofore Hokkaido Technical Industrial Testing Laboratory and Mitsui Shipbuilding and Engineering Co., Ltd. have been conducting research pertaining to plant design and so on. Now, Nippon Kokan, Asahi Chemical Industry Co., Ltd. and Hitachi Ltd. will join the project in order to strengthen it. Nippon Kokan, along with Mitsui Shipbuilding will have charge of the construction and operation of a small-scale test plant, Asahi Chemical will research catalytic agents and Hitachi Ltd. will research and develop the pressure reduction facility.

The test plant construction stage has finally been reached. The plant will consist of coal paste manufacture facility, hydro-cracking reaction tower, liquefaction petroleum separator and distillation facility. Mitsui Shipbuilding will construct the plant's main body and Nippon Kokan will handle equipment of the plant.

This year's budget includes an appropriation of 780 million yen for installation, labor costs and so on. The plant is slated for completion during the coming year. Starting in 1982, a 2-year testing period, using this plant, will begin. Paralleling this project, there is a plan to prepare for the construction of a 250 ton daily

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producing/processing capacity plant in 1973; and an eventual scheme to construct a 25,000 ton daily output operational plant is being examined as well.

Direct hydro-cracking method is a coal liquefaction technique unique to Japan. The U.S. Government is interested in it and it has reached basic agreements with the Japanese Government regarding shouldering one-fourth of the necessary cost.

As a result, the research operation focusing on the said method has steadily progressed; and now it has made a giant stride forward. This significant development has generated expectations regarding research accomplishments in the future from various sectors.

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