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Japan Report

(FOUO 38/82)

U.S.-JAPAN TRADE FRICTIONS

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COUNT-DOWN FOR FREE TRADE

Tokyo SHUKAN DAIYAMONDO in Japanese 3 Apr 82 pp 16-31

[Excerpts] Liberalization Makes Japanese Economy Strong

Upon reflection, we can observe that every time trade, or capital participation, has been opened up, the Japanese economy has grown stronger. It has been characteristic in Japan for industrial competitiveness to increase the more the market is opened. This will probably happen again. The "dramatic opening" of the Japanese market now being demanded by America may backfire and cause more trouble for America in the future.

From the first round of capital liberalization in 1967 to the fourth round in 1971, there was an excited reaction that "big American companies will land on our shores and take us over." That idea is now irrelevant. There seems to have been no "threat of foreign capital." It was pushed aside. The results were the same for subsequent liberalization of specific industries including automobiles, computers, real estate, and retailing.

Exceptional industries for which capital participation was not opened up were limited to agriculture, forestry, fishery, mining, and leather. Trade was almost completely liberalized during the 1960's. Now there are only 27 items which are still under import restrictions. America and the EC also have restricted categories and are making too much of a fuss over these few exceptional items.

The U.S. trade deficit with Japan was \$19 billion in 1981. In order to reduce the more than \$20 billion deficit in 1982, America is demanding that "stingy" Japan open up its remaining categories dramatically, even though it realizes that this will not help much.

As evidenced by the use of the adjective "dramatic," this is no longer a matter of economic rationality. It is the epitome of political irrationality.

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For example, let us consider agricultural products, an item which causes problems among all countries. A recent forecast by the U.S. Department of Agriculture showed that American exports of agricultural and food products will actually drop this year on a monetary basis. This is the first time this has occurred since 1969. The main reasons are the worldwide recession and the loss of Soviet purchasing power due to a shortage of foreign currency.

The Reagan administration has just doubled the agricultural product price support budget to \$17 billion, and the prospects for exports are bleak. The burden on government finances for protecting farmers will increase.

Furthermore, off-year elections are coming up in November. In an important agricultural country like America, the rural vote is more important than in Japan. The effects of this development will lead to reciprocity and eventually extend to Japan. The American media and government officials clearly acknowledge this concern.

Dramatic Opening Up of Information

Since the "demand for a dramatic opening of the market" is a political problem, it is always possible that once the reality is exposed, just as with a scare-crow or a mirage, the results may be disappointing.

For example, there is the problem of material purchases by the Nippon Telegraph and Telephone Public Corporation. Based on U.S.-Japanese negotiations, NTT clearly began opening up last year, and has praised its own effort as "overall liberalization." However, there are unexpectedly few offers from the United States.

Did America draw back because of the firmly rooted reputation of "purchases being made only inside the NTT family?" Or was Japan too quick to go along with American complaints which were based upon only a small amount of information. During 1981, the first year of the open system, U.S.-Japanese trade in communications equipment ended up with a large Japanese surplus.

There is a similar story in the field of banking. During U.S.-Japanese negotiations, America voiced the following criticism: "Japanese banks can buy American banks, and consolidate their base of operations. But the same action by American banks is not allowed in Japan. This is unfair." To this, the Ministry of Finance replied: "The purchase of Japanese banks by foreign banks is not prohibited by law. Furthermore, there have never been any such applications."

In this example, there was a clear error on the part of Americans, who went along with the criticism of Japan raised by ignorant amateurs, including Ambassador Mansfield. The blame for allowing such a silly mistake must partly

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be taken by the Japanese Government with its usual clumsy diplomacy and inability to give information as well as receive it. The hiring of private public relations companies, the publishing of PR publications through auxiliary organizations, and the dispatching of missions obviously designed to build up the Japanese image are examples of lack of skill in public relations. Public relations should be a "dramatic liberalization of information" and a "dramatic opening up of government offices," including administrative reform.

Reversing the Pressure Being Put on Japan

In this context, why not dramatically liberalize imports of beef, which have for many years been a symbol of isolationist import policies which are not appropriate to the world situation?

The government's response, that "liberalization of beef imports would not be sufficient to balance America's huge trade deficit of \$19 billion," hardly bears scrutiny in terms of the extremely political nature of the problem.

The same thing can be said for oranges and tobacco. Since there are deep-seated political and economic interests involved in these agricultural products, it is impossible to avoid domestic friction. There are dealers who are receiving monopolistic privileges, farmers who are being protected with aid, and legislators who are receiving votes as compensation in connection with the allocation of import restrictions. The pressure on Japan in this area will inevitably lead to the destruction of part of the postwar Japanese social structure which has been controlled by the LDP. An unexpectedly large segment of public opinion seems to think that would be all right. Now that Japan is being asked to assume an international role, it is necessary to open up the society and economy, and by doing so, make the Japanese economy even stronger.

For example, there is tobacco. Tobacco is one of the few superior products America can offer Japan. Why not let the Americans sell it freely? Some say that it will hurt more than 100,000 farm families who raise leaf tobacco. However, even though it is an agricultural product, there is no argument that it is necessary for food security. Japanese leaf tobacco is inferior in quality and productivity, and cultivation of it should gradually be reduced.

Japan is said to be strong in production technology. This is true for tobacco also. Taking the 1971 figure as 100, labor productivity in tobacco production had grown to 133.6 by 1979. This was about the same as the overall growth in manufacturing productivity (136.5), so envied by the rest of the world. The industry had the strength to challenge the major foreign tobacco companies head on. In fact, one executive of the Japan Monopoly Corporation said: "If we manufactured cigarettes using Japanese technology and labor with inexpensive American tobacco, we could make cigarettes good enough to export to the United States."

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At this point, it is necessary to develop positive ideas for taking the anti-Japanese pressure and turning it around. Japan has the strength to do that.

Beef

Trying to Avoid the Opponent

Import restrictions on beef have been in place since 1958. At that time the previous system of automatic approval was changed to a system of foreign currency allocation. The Livestock Promotion Corporation, an auxiliary organization related to the Ministry of Agriculture, Forestry, and Fishery, now stocks and releases imported beef in the name of protecting domestic cattle raisers.

The beef exporters, America, Australia, and New Zealand, are highly concerned about the Livestock Promotion Corporation because of its huge marginal profits.

The marginal profit (also known as adjusted income) is the difference between the high cost of domestic beef and the low cost, even after the payment of a 25 percent tariff, of imported beef, which is pooled by the corporation and used for the promotion of domestic beef production. The margin varies with fluctuations in the export price from the beef exporting countries, but it usually falls within the range of 200 to 400 yen per kilogram. Annually, this amounts to 30 to 35 billion yen.

Twenty years have passed since the Livestock Promotion Corporation was established. However, it is a fact that many people doubt that a strong foundation has been created for a beef production system. Of course, if beef were liberalized, most of the reasons for the existence of the Livestock Promotion Corporation would disappear.

Government negotiations with America over beef imports were scheduled for this fall, but the date has been moved up by half a year. The negotiations will be held just before the Paris summit (meeting of heads of state of the advanced nations) in June. In these negotiations, the Americans will undoubtedly use a very logical approach to demand liberalization of beef imports. In response, Japan will continue to advocate nonliberalization of beef, and it will turn into a fierce wrestling match. However, Japan will probably end up running around the ring trying to escape its opponent.

Livestock Management on the Verge of Failure

It is impossible to predict the outcome of the U.S.-Japanese negotiations over liberalization or nonliberalization of beef. What can be said at this stage, however, is that Japan does not have reasonable arguments sufficient to overcome the U.S. demands to open up the beef import market.

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One of the reasons given for the high price of Japanese beef is that the cattle here are raised on grain. There are two main ways to raise beef: the method in which the cattle are kept in a small space and fed large amounts of grain and the grazing method where they feed in an open pasture.

Even in Japan, ranches with large pastures have been created in various places throughout the archipelago. There are ranches in Wakkanai in Hokkaido of 1,000 hectares. There are also more than 1,000 ranches of various sizes in Japan which are similar to "public corporations," created with investment from the central government or the prefecture, town, or village.

These ranches are generally suffering from an accumulation of debt, and operations are on the verge of failure. One could explain this situation as simply a result of mistaken policies for promotion of beef cattle production, and that would be the end of it. However, if the applications of the marginal profits and subsidies were discovered, it would probably stir up a great deal of controversy.

There are now 360,000 farm households raising beef cattle. However, the "public corporation" ranches and the agricultural cooperative system raise the banner of protest against beef import liberalization more than do the individual farm households. The liberalization of beef imports would let out the "pus" accumulated in the system over the years.

The idea that the cost of raising beef cattle is necessarily high in a small country is no longer convincing. This can be seen by observing a New Zealand ranch. New Zealand is an island country just like Japan with lots of steep mountains. Pastures were developed in those areas to create fine ranches. The public corporation ranches mentioned above caused the farm families who raised cattle to see "visions" of ranches like those in New Zealand, which are known as the most advanced in the world. The central and local governments created livestock cultivation areas with everything from the beef cattle to physical plant and sold sections at a low price similar to that a white collar worker would pay for a cooperative apartment. However, this project has many problems and is likely to end up like a drawing of food that looks good but cannot be eaten.

The liberalization of beef imports would be likely to affect farmers who raise dairy bulls, which are thought of as a byproduct of dairy farming. The price system for dairy bulls in the market is related to the distribution of imported beef. That is because the quality of the meat is about the same. If beef is liberalized, farmers who raise dairy bulls will have to change their business or create a demand for veal. They must somehow find a new field which is not in competition with imported meat.

Also, the liberalization of beef would contribute to improvement of the strange and complicated beef distribution system. Imported beef is known as a special

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interests substance, distributed to the ordinary consumers only after passing through the hands of special organizations and dealers. The liberalization of beef imports would undoubtedly be strong medicine that would clear away the deep mist which has enveloped this business for so long.

The liberalization of beef would be a windfall for the Japan Food Service Chain Association which is made up of 200 large food and beverage businesses. Hotels and school food programs are included in the business categories which receive imported beef, but the restaurant business is excluded.

Therefore, the association has had the goal of being admitted to this category for a number of years and has taken serious action toward that end. The restaurant business consumes 70 percent of all imported beef, so there is a large demand. In 1980, restaurant and catering businesses accounted for 27 percent of beef consumption.

Also the liberalization of beef imports would probably be good medicine for reviving meat retailers who are struggling for survival. This is because most small butcher shops have relied on large ham companies for their supply of beef since 1955. They have had to accept a combined supply of processed meat products and raw meat. Because of this, the profits of the small retailers have been decreasing year by year, and they have begun going out of business one after the other.

At the same time, beef, chiefly imported, now makes up more than half of the sales of the large ham companies. The Japan Ham and Sausage Industry Cooperative Association, made up of the large ham companies, is one of the organizations which receives an allotment from the small amount of imported meat.

From this point of view, the liberalization of beef imports actually would have many advantages, not just the negative aspects of a general downfall of all cattle raisers claimed by the legislators who are backed by livestock interests and agriculture cooperative representatives.

The American demand for the opening of the beef import market has the strength to remove the disguises from Japan's useless policies for protecting cattle raisers. That is because of the information on the Japanese market collected by America over many years.

Citrus Fruit

Unknown Ties to Special Interests

If orange imports are liberalized, the Ministry of Agriculture, Forestry, and Fishery and the agricultural cooperatives say that it will cause the bankruptcy of 300,000 farm families who grow mandarin oranges. However, it cannot be

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denied that in the background there is a feverish attempt to protect the interests of certain orange importers which make huge profits from orange imports and are known to have special political connections.

There are 100 orange importers in Japan. Last year 72,000 tons of oranges were imported; 60 percent of this amount was handled by the big four--Fujii Osami Trading Company, Nishimoto Trading Company, Small Trading Company, and Kanematsu Goshu--a completely oligopolistic situation. The representative member of the group, Fujii Osamu, has tremendous earnings.

The president of the company, Kazuo Fujii, is also president of the Japan Citrus Import Association. He is close to Iwao Yamaguchi, executive managing director of the Central Committee of the National Federation of Agricultural Cooperatives, and the cutting edge of protest against orange liberalization.

Fujii has carried on continuous protest actions since last year. At the U.S.-Japan agricultural product negotiations in 1978, an import timetable was set for 82,000 tons of orange imports by 1982. Then, during talks between Prime Minister Suzuki and President Reagan last year, America made a renewed demand for expansion of orange imports.

Why Stop Import Liberalization?

So Fujii had the idea of discussing the problem with American growers and attempting to achieve a peaceful solution before the import of oranges became a serious political problem.

The Japan Citrus Import Association established the "Citrus Expansion Committee," and a party of 18 visited the United States in March last year. The purpose of the visit was said to be to maintain harmonious relations with the producers and exporters of oranges in the United States. Of course, this was just a pretext. The real purpose was to prevent liberalization of imports.

One can understand why Japanese mandarin orange growers are opposed to liberalization. The regulation of rice production has spurred an increase in production of fruit trees and animal products. Because of this, fruit production has doubled in the last 10 years. Citrus fruit production has grown rapidly, by 2.6 times. The cultivated area in 1975 reached a high of 200,000 hectares, and the amount of production was 4,250,000 tons.

Then there was an American demand to increase the allowed amount of orange imports, and mandarin oranges became subject to a reduction in cultivated area just as was the case with rice.

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Two-thirds of the mandarin orange growers are in the Chugoku, Shikoku, and Kyushu regions, and mandarin oranges are an important crop in these regions. As the importing of oranges expands, the roar of bulldozers is heard in the mandarin orange orchards, pulling trees out by the roots.

Production of mandarin oranges has dropped to less than 3 million tons. At the same time, the mandarin orange growers are continuing an effort to cut costs. As a result they have increased productivity and there are many growers who view the liberalization of orange imports calmly. There are even some mandarin orange growers who say, "The best product will win out."

However, most growers operate on a small scale, with an area of about 40 ares per household. Oranges are grown on flat land in California where machines can be used, but Japanese mandarin oranges are grown on sloping land and there is a clear difference in productivity.

If orange imports are liberalized, it will become possible to buy oranges at American prices. At present, oranges go through three or four stages of distribution, and this system would be simplified promptly. For example, the trade departments of supermarkets would be able to import oranges directly and they could then be sold through affiliated stores.

Naturally, it would be impossible to avoid competition with mandarin oranges. However, there is a solid demand for mandarin oranges, and some fruit dealers believe that they would not be beaten out by oranges, that peaceful coexistence is possible.

Although they are both restricted import categories, oranges differ from beef in that only a handful of importers are opposed to liberalization.

Australia Also Dissatisfied

Let us discuss the Fujii Osamu Trading Company some more. The company was established in 1957. President Kazuo Fujii was said to be an old friend of the late former Prime Minister Eisaku Sato and he was from the same prefecture, Yamaguchi. He has several affiliated businesses.

One of these is race horse breeding; he owns ranches in Hokkaido and in the United States (California).

The ranch in California was purchased in 1972. The amount of authorized capital is \$500,000, and the area is 200 acres. Two hundred thoroughbreds are being raised there. With this ranch and the Fujii Ranch in Hokkaido, Fujii is attempting to expend profits from race horses.

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However, the race horse breeding business is not very profitable. It costs several hundred million yen a head to import thoroughbred horses, and this business is known as a "money eater." Therefore, it is not surprising that he is putting the profits from the orange business, where the profit for an imported case (17 kilograms) of reconstituted juice is 1,500 yen, into these affiliated businesses.

There is a tendency to loudly oppose the liberalization of orange imports on the grounds that it will destroy the mandarin orange growers. However, it would be wrong if what is behind this is a selfish desire on the part of importers to protect the profits they have enjoyed for many years. It can be said that liberalization of orange imports is the only measure for improving the distribution system without cost. Also, the liberalization of imports would open the doors equally to the countries desiring to export to Japan, and it would eliminate the charge that Japan is a closed market.

For example, Australia has attempted to export oranges to Japan for some time and is unhappy because the Japanese Government does not allow imports.

The liberalization of orange imports would bring about great changes for growers and exporters in the United States as an exporting country. At present, access for exports to Japan is limited to certain exporters such as Sunkist. However, through liberalization, large orange growers in the United States could carry out direct transactions with Japanese importers. It would be possible to lower the high export price of oranges.

According to the prime minister's office survey of household finances, the average household purchases 160 kilograms of fruit per year. This breaks down into 55 kilograms of mandarin oranges (35 percent), 19 kilograms of apples (12 percent), and 14 kilograms of bananas (8.8 percent). There is a limit to the amount of fruit a person's stomach can hold, but if, through liberalization of imports, the price was reduced to one-third the present price, the amount of consumption per person would probably increase. If that happened, it would probably have an effect on the market share of other fruit such as apples and pears.

Survival Tactics for Mandarin Orange Growers

There are three possible strategies for mandarin orange growers after the opening up of orange imports.

One is to change from mandarin oranges to other crops. Specialists see the kiwi fruit, of which consumption is rapidly expanding, as a promising candidate for such a change. Kiwi fruit can be harvested after 3 years. It does not require the use of insecticides or a great deal of labor. In addition, the regions where mandarin oranges are grown are perfectly suited to kiwi fruit as well.

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The second strategy is a shift to other citrus crops such as navel oranges and hassaku. These fruits can be produced with grafts on mandarin orange trees, so this is regarded as the most efficient type of change in operations.

The third approach is to organize groups of mandarin orange growers. There will probably be some failures among mandarin orange growers if liberalization occurs. Once oranges are liberalized, it would be essential for mandarin orange growers to work quickly to cut production costs through larger scale operations in order to survive.

Therefore, one issue for the administration would be how to bring together and organize dispersed mandarin orange farms.

Orange imports grew from 13,000 tons in 1972 to 72,000 tons last year. The liberalization of orange imports would undoubtedly remove the veil from "political businesses" which are closely tied to certain politicians.

Tobacco

The rift in U.S.-Japanese relations caused by tobacco has a long history and cannot be healed with stopgap measures. At the Japan-U.S. Trade Improvement Committee meeting in February 1978, the U.S. Government charged that the import of cigarettes to Japan is obstructed by a number of restrictions. Then in the Strauss-Ushiba statement in June 1979, tobacco was mentioned along with beef and oranges as a product which symbolizes the closed nature of the Japanese market, and both parties agreed that "talks will be started soon."

Under this pressure from outside, Japan announced a series of reform measures in November of last year.

These included the following measures: The tariff was to be reduced from 90 percent to 30 percent. The standard price of the major American products (king size) was to be reduced by 10 yen to 280 yen beginning in 1981 in order to reduce the difference with the price of, say, Mild Seven to 100 yen. The number of stores handling imported tobacco was to be increased from 14,200 to 20,000 stores (of 260,000 retail outlets in Japan). The retail profit margin for imported tobacco was to be increased from 7 percent to 8.5 percent, and then after 1981, to 10 percent, which would be comparable to the profit on Japanese tobacco. Also, advertising was not to discriminate against foreign tobacco.

Now Is the Time To Attack

Now trouble has arisen again after only about 1 year. There are several reasons for this. Tobacco is a strong product for the United States. American tobacco commands 20 to 30 percent of the market in France and West Germany, but only 14 percent (in 1981) in Japan. America cannot stand for this. Consumption

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is falling off domestically, and the three major tobacco companies, including Phillip Morris, are angry. With off-year elections coming up, legislators from tobacco states such as Virginia and North Carolina are also going into action. In addition to the overall problem of the trade imbalance with Japan, they are aware that the temporary trade problems coordinating committee is acting to reform the tobacco monopoly system, and they have judged that now is the time to attack.

America is now demanding that the American share of the huge Japanese market, where 300 billion cigarettes are consumed a year, be expanded to 10 percent, or \$1 billion. For this purpose, they are asking that the Japan Monopoly Corporation make inclusive bulk purchases of foreign tobacco and reform the "distribution monopoly" in which products are priced and distributed to designated retail outlets. In addition, America is demanding that the import price of cigarettes be raised by 30 percent because of the rise in the value of the dollar and the reduction in the value of the yen, and at the same time, that the standard selling price be kept at the same level to avoid a reduction in market share.

At first, Japan used tricks with figures to deal with these demands. President Izumi of the Japan Monopoly Corp said: "Look at the record for this year. Domestic tobacco grew by only 1 percent while American tobacco grew by 21.6 percent." However, in terms of the total market share, not just the growth rate, American tobacco only grew from 1.1 percent to 1.4 percent, a miniscule increase that would require a microscope to see.

"Even so, tobacco is a matter of taste. You cannot stop people from buying what they are used to," protested Finance Minister Watanabe. In response, Secretary McDonald, Deputy U.S. Trade Representative, said: "In that case, why not liberalize it right away?" Finally, the Japanese side promised to increase the number of stores selling foreign tobacco. A negative attitude is being taken toward the American demand to hold the selling price while raising the import price. "This is impossible; it is like asking for a subsidy." However, many observers believe that it will be necessary to reduce the tariff.

Strategy of the Major Tobacco Companies

However, what America is demanding is an expansion to 10 percent of the market. Unless the tariff reduction and delivery of foreign tobacco to rural shops causes a dramatic increase in market share, the Americans are not likely to lay down the sword. Ultimately, they want Japan to stop monopoly distribution and to open up the path for free marketing of American tobacco in Japan.

Officials of the Japan Monopoly Corporation have this to say about the strategy of the major U.S. tobacco companies in Japan: "If marketing is opened up, the U.S. majors will not rely only on retail outlets designated by the Japan Monopoly Corporation. They will probably try independent marketing approaches

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such as tying up with a cola distributing network. It is also possible that they will dump American tobacco in Japan, selling high grade tobacco at the same price as our domestic brands."

Some observers say that even if prices are reduced, the Japanese will not buy because they do not like the foreign product. However, cola, at first regarded as a "strange drink," and hamburgers have taken a firm hold in Japan. Also, 30 percent foreign tobacco leaf is mixed into Japanese tobacco, so an aversion to it is not likely. The Ministry of Finance predicts that if marketing were liberalized, "The American share would probably increase to about 10 percent, the level of the American demand."

Furthermore, the temporary coordinating committee reported that if the Japan Monopoly Corporation is turned into a private corporation, the Americans plan to create companies in Japan. If tobacco suited to Japanese taste were produced locally using cheap American leaf tobacco and superior Japanese labor, it is not unrealistic to suppose that the market share would jump to 30 percent, similar to that in Europe.

The tobacco interest legislators in the LDP probably do not expect Japanese tobacco farmers to be greatly hurt by increasing the number of stores handling foreign tobacco. But the latest American demands are raising fears because the Americans are asking for freedom in marketing.

Leaf tobacco is three times as valuable a crop as rice in terms of income per 10 ares. It makes up 2.3 percent of net agricultural production. It ranks seventh among farm products. If animal products such as pork and milk are excluded, it stands next to rice (33.3 percent) as a basic product. Also, the consumption of tobacco is falling off. The Japan Monopoly Corporation has a 1-year supply of excess inventory. Beginning in 1982, it embarked on a forced reduction of 5,000 hectares of tobacco producing land. It is in difficult circumstances. If the share of foreign tobacco is increased now, there is an understandable fear that this will develop into a serious agricultural problem.

What About Reverse Exports to the United States?

It is necessary to think about the basic issue of whether leaf tobacco is a necessary crop for Japan or not. It is not essential from the standpoint of food security. Also the price is three times higher than that in the United States, and production of tobacco is spreading to regions not suited to its cultivation. Quality is decreasing, and a commercial product cannot be created without blending in foreign tobacco leaves.

Ultimately, would it not be more reasonable to eliminate leaf tobacco from Japanese agricultural production and use the same land and labor to produce a crop which is necessary for greater self-sufficiency? However, since the

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Japan Monopoly Corporation is in control of cultivation, leaf tobacco falls outside the jurisdiction of the comprehensive agricultural policies of the Ministry of Agriculture, Forestry, and Fishery.

As a result, it is not possible for agricultural officials to provide the necessary guidance to reduce the crop of leaf tobacco and shift to another crop. When the Japan Monopoly Corporation plans a reduction, it stops production without considering substitution of a different crop. Therefore, compensation of 150,000 yen per are is paid, a much higher rate than the 60,000 yen per are paid for rice. This leads to a vicious circle of inaction. Because the financial burden is so great, large reductions in this crop cannot be carried out.

Considering this, a major key to ending the Japan-U.S. tobacco war is to cast off the territorial consciousness of the bureaucratic organs and reduce leaf tobacco production through a comprehensive government policy. If this is done, there may be some concern about the impact of the major U.S. tobacco companies on the Japanese tobacco market. However, there will be no abandoning of Japanese production technology for tobacco products. The major U.S. companies' strategy can be turned to our advantage. Japanese productivity is good enough to allow Japan to develop as a production base for tobacco.

Communications Equipment

Why Again?

The Nippon Telegraph and Telephone Public Corporation (Hisashi Shinto, president) has sent a "material procurement survey team" to the United States, giving the impression at home and abroad of a 180 degree turnaround in NTT policy.

When the issue of opening up material procurement at NTT first arose as a major political problem between the United States and Japan, the president at the time, Mr Akikusa, was firmly opposed to opening up, saying: "The only things we wish to buy from foreign countries are telephone poles." Also, it took 3 long years before the actual items to be opened up for bidding had been determined and agreement was reached between the United States and Japan. When this is considered, it would be appropriate to refer to this import promotion mission as a radical change.

The survey team left Narita Airport on 15 March and made the rounds of prospective suppliers for 13 days. The members of the party were all veteran purchasers, but even before they started most of them were doubtful about the outcome. "Is there anything we can buy in America? There probably are not any quick remedies."

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In any case, the party energetically visited the major U.S. manufacturers of telecommunications equipment, beginning with Rockwell International and then ITT, AT&T International, and GTE, and approached them about supplying NTT. They also made courtesy visits to the related government agencies including the Department of State, the Department of Commerce Trade Administration, and the FCC (Federal Communications Commission). They did everything possible to demonstrate a positive attitude on the part of NTT toward international purchasing.

In the House of Representatives, an amendment to the Communications Act (insertion of a reciprocity clause) was being considered with the aim of boycotting Japanese telecommunications equipment. At a public hearing on this issue, a critical view was presented at every opportunity to the effect that NTT was not moving ahead with international purchasing. If the amendment to the Communications Act were passed with the reciprocity clause included, the survival of Japanese telecommunications manufacturers, who export 30 percent of their products to the United States, would be in danger.

Irritation at Huge Trade Surplus with United States

Of course, President Shinto completely denies this sort of political approach. He often repeats: "NTT collects money from the consumers who use telephones, and it is natural for us to seek out the best quality products at low cost. Therefore, we are going as far as America to look for them." He evinces no concern for U.S.-Japanese relations. In spite of this disavowal of politics from the president, the survey team visit was carried out as one step toward normalizing U.S.-Japanese economic relations.

Right now, there is a huge Japanese surplus in the trade balance in telecommunications equipment between Japan and the United States, and the U.S. industry is getting more and more irritated. In Japan, there is growing concern about NTT, which is seen as having great resources, and voices calling on the public corporation to "open the door" are becoming louder. According to data of the Telecommunications Equipment Industry Association, last year's exports of Japanese telecommunications equipment amounted to 468.2 billion yen, a growth of 58.2 percent compared to 1980. Of this, 185.143 billion yen, or approximately 40 percent, went to the United States. Furthermore, last year's growth in exports to the United States was 78.2 percent compared to the previous year. In contrast, although imports from the United States doubled in comparison to the year before last, they were only 24.113 billion yen, one fifth the amount of exports. This imbalance is increasing every year.

Fujitsu's difficulties in bidding for construction of AT&T's optical communication facilities, made known last year, were certainly related to this problem of trade imbalance between the United States and Japan.

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Although Fujitsu presented the low bid to supply optical communication lines for ATT, the contract was awarded to ATT's affiliate, Western Electric. This was reported to be the result of pressure from the U.S. Government and legislature because of a need for secrecy in communications. However, in an investigation following the incident, it was found that Nippon Electric Company had previously supplied optical communications facilities to the Department of Defense. Therefore, there are not sufficient grounds for the argument that Fujitsu lost out just for reasons of maintaining secrecy in communications and national security. One can see in this an expression of irritation at the increasing trade imbalance with the U.S. telecommunications industry.

The amendment to the Communications Act has two sides. One is the separation of regional telephone companies affiliated with ATT in conjunction with the settlement of litigation between ATT and the Department of Justice, and improvement of telephone charges and the service system in relation to this. The second is the introduction of a reciprocity clause. The problem here is the latter item. This provides that if a foreign company which attempts to export communications equipment to the United States does not take a position of reciprocity in trade with the United States, the FCC (Federal Communications Commission) will not approve the exports of that company at the stage of equipment inspection, in effect boycotting those products.

The American telecommunications equipment industry fears expansion of the trade imbalance, and it singled out Japan as a target and lobbied certain legislators to bring this concern out in the open. The U.S. legislature is facing off-year elections, and the supporters of the amendment are reported to be increasing in number. In addition, the field of communications equipment includes the most advanced technology such as optical and satellite communications. America is concerned about Japan catching up or moving ahead in these areas, and this growing alarm about Japan has also been a spur to these political moves.

The amendment to the Communications Act will be coming in for serious debate and there is no predicting the outcome.

No Enthusiasm Seen From American Industry

In actuality, the opening of material purchases to international bidding has been moving ahead on the basis of the GATT (General Agreement on Tariffs and Trade) agreement concerning government procurement of January 1981. On the basis of this agreement, the procedures for procurement determined in a U.S.-Japanese accord, were categorized as Track I, Track II, Track III, Track II-A, and Track III-A.

Under Track I, when NTT purchases items which are already available on the open market, it will make a public announcement in advance concerning the qualifications for bidding participation, determine the bidders who are qualified, and invite the qualified bidders to submit a bid whenever a public announcement of purchasing plans is made and determine the successful bidder.

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Under Track II, for purchases of items which are available on the open market but for which NTT requires modifications, NTT will make a public announcement and announce the proposed requirement. It will then make a fair and even-handed review of applications submitted by suppliers, make a comprehensive evaluation, and select a supplier.

Track III is the procedure for selecting a partner for joint research and development of items not presently available on the open market. A comprehensive evaluation will be made in the same way to select a supplier. Track II-A and Track III-A are procedures for making continuous purchases from suppliers which have received orders under the procedures of Track II and Track III. These also include procedures for ordering from new prospective suppliers if they are found to be superior to existing suppliers.

According to results on international purchasing compiled up to February of this year, bids were awarded on 33 items (136 billion yen, contracts awarded to 49 companies) in the Track I category. American companies were awarded contracts for only 7 items (800 million yen, 9 companies). Most of these were U.S.-Japanese joint venture companies such as Sumitomo-3-M, Graham, Memorex, and Applicon. The names of the major U.S. corporations were not to be found among them.

In Track II and Track III, there was only one application from a major company, Motorola. With this complete lack of enthusiasm, the people in charge of purchasing appear as if they would like to complain: "After all the pressure to open up bidding, what is going on?"

Careful Guidance

During this process, at the beginning of this year, NTT concluded an agreement with Motorola, independent of international material procurement procedures, to buy pocket bells worth 9 million dollars (about 2 billion yen) annually. Also, it formally approved the switching function push-button telephone of ITT Asia-Pacific, the Japan branch of the U.S. firm ITT, and gave permission for its sale in Japan. In the case of Motorola, the agreement was made after 2 years of guidance by NTT on modifications in the pocket bell. Taking such things into consideration it seems very likely that these two cases are the result of "concern over U.S.-Japanese relations."

Except for such hand-holding operations as these, the supply of materials from American companies to NTT is showing no progress at all. Why? NTT officials point out that (1) the procedures were not well understood during the first year so there were few applications and (2) it has been found in the investigations conducted so far that the American companies are not price competitive in comparison to the Japanese companies. They stoutly maintain that there is nothing wrong with NTT's purchasing policies.

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President Shinto has repeatedly made it clear that "we are always ready to buy high-quality, low-cost items from America or anywhere else." NTT believes that American criticism of the "narrow door" of NTT is "putting the blame on the wrong party." There are even some who criticize the American side as lacking in desire. This tendency seems to have led to the recent dispatch of the trade mission. However, it is highly doubtful this will lead to more American supply to NTT or have a calming effect on American criticism of NTT. In fact, there is a danger that this search for a special remedy may produce results which are the opposite of those intended.

Banking, Insurance, Securities

False Accusation

Along with U.S. and EC demands for an opening of the Japanese market for product trade, there has also been strong criticism of the isolationism of the Japanese finance, insurance and securities markets. The Ministry of Finance has made public relations statements in response to this criticism, stating that there is no difference in the present legal structure or in the handling of foreign currency in Japan and that in Europe and the United States.

The critics were forced by this counterargument from the Ministry of Finance to realize that there had been a misunderstanding of the facts, and the criticism seems to have died down. In fact, in the U.S.-Japan Trade Subcommittee meeting in March, the demands for an open market in these three areas were dropped from the list of major demands for the immediate future. This was a change from the meeting of the same committee last fall.

Certainly, there has been great progress in opening these fields in the last 5 years.

The Foreign Currency Law was changed from regulations which were prohibitive in principle to regulations which are free in principle. The activities of foreign banks and insurance companies in Japan have ceased to be regulated in a discriminatory way. In terms of the legal system, they are treated the same as Japanese banks and insurance companies. In terms of approval of bank branch networks and loan limits, they are treated more leniently than Japanese banks.

The purchase of Japanese banks by foreign banks is unrestricted in principle. In insurance, approval has been given to American companies, in disregard of Japanese insurance companies, for new types of insurance such as cancer insurance. In securities, although there was a delay, the rules of the Tokyo Stock Exchange have been amended to open the way for foreign brokers to become regular members.

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Whatever the case may be with securities, in banking and insurance there are many areas in which there is more of a need in America than in Japan for large-scale reforms of the legal system.

However, as in the case with friction over trade, there is a problem of many regulations and obstacles remaining in domestic laws and regulations even though the overall legal system is free in principle. However, even under the present system, Japanese banks are surprisingly vulnerable.

The Day a Large Bank Is Purchased

Sometime in the future when a Japanese bank is purchased with foreign bank capital, it will no longer be possible to consider it a great problem even if the Japanese bank involved is a large one. It will be impossible to prevent a foreign bank from establishing a bank under Japanese law and purchasing or merging with a Japanese bank.

Foreign banks will probably aim at taking over a large city bank rather than a regional bank, a mutual loan and savings bank or other medium or small financial institution. What is most attractive to large foreign banking capital is the great financial power and influence on industry held by the major Japanese banks.

One thing that is causing deep dissatisfaction among foreign banks in Japan is the difficulty of approaching and dealing with Japanese industry. In Japan there is very strong leadership and group solidarity among affiliated groups of companies and banks. There is very little room for foreign banks to operate. Foreign banking interests are well aware that the only way to obtain funds by taking deposits and earning interest from loans to Japanese companies is to gain control of a Japanese bank. They cannot be satisfied if their only job in Japan is assisting Japanese companies in overseas ventures and handling foreign exchange.

The problem is when and where to grab the chance to start full-scale operations. There are at least two areas of business which can be seen as weaknesses of Japanese banks. These are international financing operations and consumer financing. These are areas into which Japanese banks did not venture until the late 1970's. The large banks of the United States and Europe have a great deal of knowledge and experience in these fields. They are a major specialty with them.

In international financing, as shown by the example of loans to Poland, Japanese banks have rapidly been drawn into making cooperative loans with foreign banks. There are a growing number of instances in which Japanese banks are showing aggressiveness, but there is a growing danger of Japanese

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banks being left with bad debts when U.S. banks, with their greater experience, sense danger and pull out of a transaction quickly while Japanese banks react more slowly because of a lack of information. If large Japanese banks run into trouble with international financing, an opportunity may be created for the foreign banks.

In the field of individual loans and consumer financing, foreign banks had difficulty in understanding Japanese methods of making credit checks and were unable to move ahead aggressively. Recently, there are signs that they have learned to guide these checks, and that they are about to make substantial progress in their operations. Up to now, Japanese banks have been very timid in this field, and there is a definite possibility for a great advance by foreign banks in the near future.

If this happens, it is possible that funds from ordinary individuals will be rapidly absorbed by foreign banks. If interest is ever liberalized, how much resistance can Japanese banks offer to the competitiveness of foreign banks? The fact is that Japanese banks have made no progress in getting past the stage of being overprotected children, dependent on the administrative guidance of the Bank of Japan and the Ministry of Finance and tacit agreements and understandings between banks.

The Insurance Industry: Strong Sense of Operating Like an Escorted Convoy

In the field of insurance, the Ministry of Finance claims that Japan has a freer system on a national scale than the United States and certain parts of Europe. In terms of the law, this is certainly true. However, in both life insurance and property damage insurance, it is customary in this industry in Japan for existing companies to operate as in a convoy, protecting each other. This conservative system is designed not to let any company fail.

It is true that foreign insurance companies have received permission to market new types of insurance such as cancer insurance which have not been used in Japan before. Japanese insurance companies did not venture into these new types of insurance for fear they would not be profitable. Japanese insurance companies have been pulled around by the Ministry of Finance in all fields of insurance, including life and property insurance, and have only had the experience of free competition for a short time.

Therefore, the overseeing government ministry, the Ministry of Finance itself, has had a tendency not to approve applications from foreign insurance companies for new types of insurance in fields where there would be competition with the insurance policies of Japanese companies. This was a cause of great dissatisfaction to foreign insurance companies.

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There is a basic difference in the attitude toward insurance in Japan and in the United States and Europe. In Japan, there is a feeling that the government should be held responsible if insurance products are approved in which the policy holder's rights are not maintained. If an insurance problem occurs, the policy holder may call the government to account for approving the policy.

However, in the United States and Europe, an insurance policy is a private agreement between the insurance agent and the policy holder. The responsibility for related damages or infringements can only be borne by the parties who made the contract. This thinking has a firm historical basis. The supervisory government agency will approve new types of insurance if there is a general possibility for maintenance of the policy holder's rights. However, if a problem occurs, the government agency has nothing to do with it.

This is a big difference in outlook. The Japanese insurance industry has relied on its convoy-like operations on the basis of this unique Japanese concept. The Japanese insurance industry will not be able to cope successfully with an age of internationalization until it can move beyond this limited concept.

Great Weaknesses in the Securities Industry

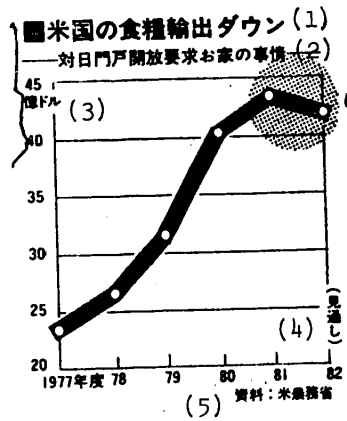
The case of the securities industry is a bit different. Japanese stockbrokers have adapted to the situation of Japanese industry and finance and have concentrated on creating markets which neglect the individual investor and earning their money from commissions. And even though the Tokyo Stock Exchange has opened the way to regular membership in the exchange for foreign brokers, it has not increased the fixed number. The quota is now filled with Japanese brokers, so there is no room for participation and the restriction has been removed in principle only.

What is most important in the United States and Europe is the rights of the individual investor. Japanese industry and securities companies have up to now ignored the rights of the individual investor with impunity and continually made capital increases by issuing stock at market value. Individual investors and institutional investors in the United States and Europe will probably not allow this sort of thing.

With the new Commerce Code, it will be difficult for industries to continue the practice of not paying for their meals, increasing capital with market value stock issues. However, if the Japanese securities industry does not make radical reforms, it will be plagued by repeated suits from foreign investors and be kept under constant pressure.

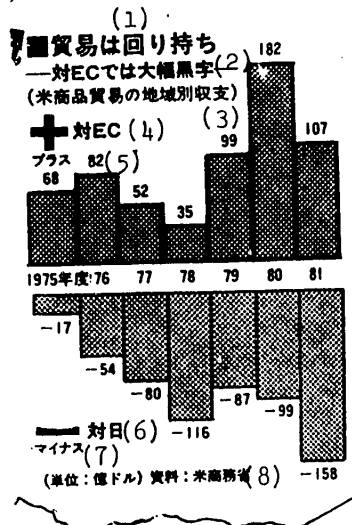
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FIGURE APPENDIX



Key:

1. U.S. Food Exports Down
2. Domestic Conditions Behind Demand on Japan To Open Door
3. billion dollars
4. (estimate)
5. Data Sources: U.S. Dept. of Agriculture

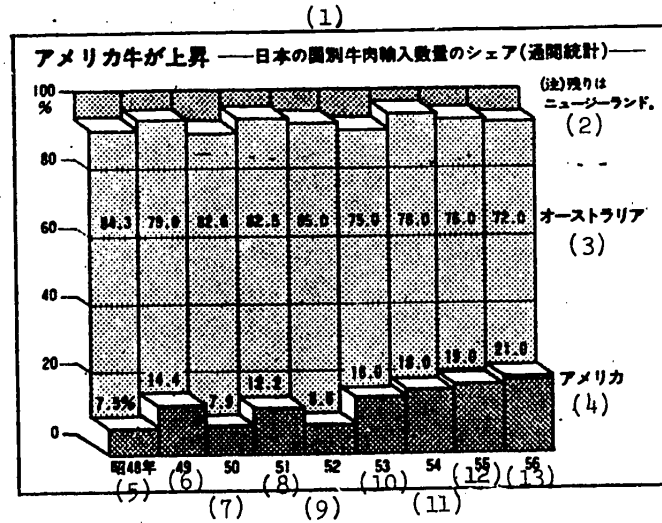


Key:

1. Trade Goes By Turns
2. Big Surplus with EC
3. (U.S. Product Trade Balance by Region)
4. with EC
5. plus
6. with Japan
7. minus
8. (unit: 100 mil. dollars) Data Source: U.S. Dept. of Commerce

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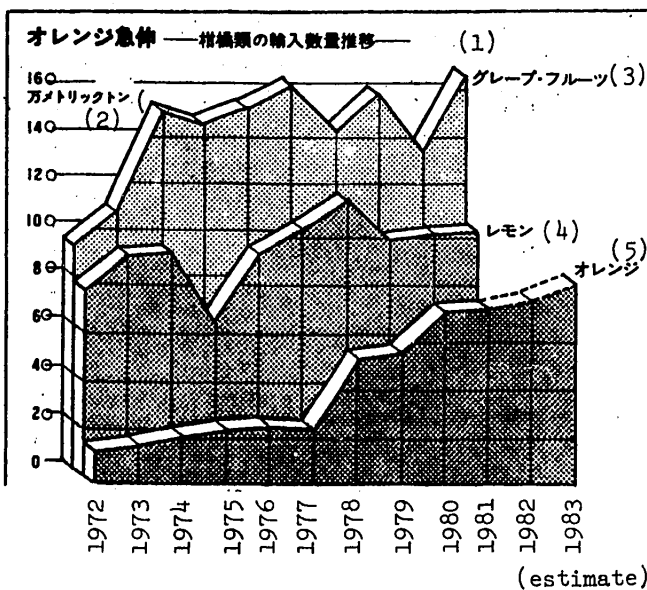


Key: 1. Increase in American Beef - Share of Japanese Beef Import Volume by Country (MITI statistics)

- | | |
|-------------------------------------|----------|
| 2. Note: Remainder from New Zealand | 8. 1976 |
| 3. Australia | 9. 1977 |
| 4. America | 10. 1978 |
| 5. 1973 | 11. 1979 |
| 6. 1974 | 12. 1980 |
| 7. 1975 | 13. 1981 |

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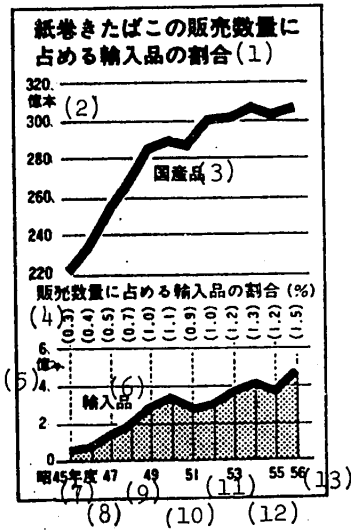
Note: The 1981 volume is the sum from January to November (MITI statistics)

Key:

- 1. Rapid Growth in Oranges - Changes in Volume of Citrus Imports
- 2. thousand metric tons
- 3. grapefruit
- 4. lemons
- 5. oranges

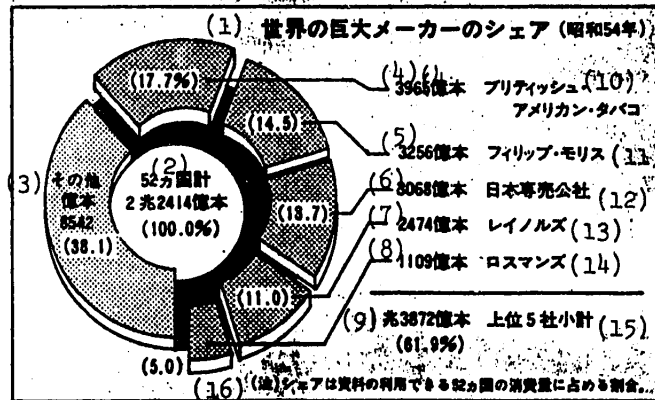
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- Key: 1. Share of Imported Products in Total Cigarette Sales
 2. billion cigarettes
 3. domestic products
 4. Percentage of Imported Products in Total Sales
 5. billion cigarettes
 6. imported products
 7. 1970
 8. 1972
 9. 1974
 10. 1976
 11. 1978
 12. 1980
 13. 1981

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Key:

1. World Market Share of Major Tobacco Companies (1979)
2. 52 Country Total
2,241,400,000,000 (100 %)
3. Miscellaneous
854.2 billion (38.1%)
4. 396.5 billion cigarettes
5. 325.6 bil.
6. 306.8 bil.
7. 247.4 bil.
8. 110.9 bil.
9. 1,387,200,000,000 (61.9%)
10. British American Tobacco
11. Phillip Morris
12. Japan Monopoly Corp.
13. Reynolds
14. Rothman's
15. Total of Five Companies Above
16. Note: Market share is percentage of consumption in 52 countries where data are available.

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LITTLE EFFECT FROM LOWERING TARIFFS

Tokyo SHUKAN DAIYAMONDO in Japanese 13 Feb 82 pp 16-21

[Text] Overprotection Versus Selfishness

A certain MITI official said the following in a tone that made it hard to tell if he was joking or serious. "Why not have the auto makers and electrical equipment makers pay a subsidy 2 years in advance to industries that will come into stiff competition with imported goods because of the reduction of tariffs and improvement of nontariff barriers. After all, the auto makers and electrical equipment makers caused the trade friction."

The EC trade deficit with Japan is \$13 - 14 billion (EC statistics) and the U.S. deficit is \$18 billion (U.S. Department of Commerce statistics). Therefore, the EC and the United States are pressing hard for further opening of the Japanese market.

Under this pressure, the government is speeding up the Tokyo round schedule of successive tariff reductions. It has decided to move up the reductions by 2 years and to improve the import inspection procedures for 67 items.

However, a number of Japanese industries, such as candy, liquor, and computers, are suffering from the successive market openings and are lodging complaints. Therefore, MITI officials, who have many headaches because of their contact with trade problems, may feel like making statements such as the above.

In reality, imports cannot be promoted very much by lowering the tariff a little or simplifying import procedures a bit. EC representatives have said that "it is doubtful how much effect there will be." A study by the American embassy in Japan states that only \$800 million could be saved by removing all nontariff barriers.

The average Japanese tariff rate for all import items is 3.7 percent. This is lower than the EC's 6.4 percent and America's 6.0 percent (as of December 1981). There were 109 remaining items with import restrictions in 1970, but now the number has been reduced to 27 items. These figures are not especially large when compared to other advanced countries.

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As a result of this opening of the door, the amount of manufactured product imports in 1980 was \$33.3 billion, 5.8 times the \$5.7 billion of 1970.

At this stage, small efforts at import promotion are not likely to have much effect.

Furthermore, the government is apparently standing by the position that "the limit has been reached" for liberalization of agricultural products being demanded by the EC and the United States. The EC and the United States have only criticized Japan and have not investigated why their products do not sell in Japan. The most important problem is not being considered.

Even Daiei Cannot Compete

Not only the EC and the United States, but Japanese consumers as well are asking: "Why isn't something being done?" about the policy of overprotecting farm products.

A glance at the accompanying list of items which still have import restrictions will show the problem clearly. And although they are not designated as products with import restrictions, many processed foods are restricted in effect. Some representative items are chocolate and cookies.

In the name of protecting domestic confection manufacturers who must buy high-priced ingredients, a tariff of 33.1 percent is laid on chocolate and a tariff of 37.8 percent is placed on cookies.

The EC countries are the major producers of chocolate and cookies, and they are criticizing these high tariffs. However, as long as Japan maintains its present agricultural policies, it will be difficult to make large reductions.

The EC countries have inexpensive ingredients, and they mass produce these products for export to the countries of the world. Therefore, the factory shipment price is 30 to 40 percent less than that of Japanese manufacturers.

However, when these products are exported to Japan, the final price is higher than that of Japanese products because of freight costs, tariffs, and the profits of importers and retailers.

Japanese distributors also have difficulties in this area.

For example, there is the case of the Daiei supermarket. This company formed a tie-up with Britain's largest chain, Marks and Spencer, and began importing and selling that store's own brand, "St Michael" cookies and candy. This was an important effort in promoting trade between Japan and Britain, and company President Isao Nakauchi and his wife were even invited to a garden party given by Queen Elizabeth.

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However, because of difficulties in pricing, the St Michael confections are not doing well. Nakauchi tries to control his anger, saying: "We have absolute confidence in both quality and taste."

Also several years ago, Cadbury, the large British candy company, established a joint venture in Japan with Kanebo Food Products, and United Biscuit, the large British biscuit company, formed a similar venture with Meiji Confectionery. The production of products by these companies has contributed indirectly to the difficulties of imports.

The production of chocolate candy by Japanese makers was 130,000 tons in 1980. In comparison, the imported amount was 4,812 tons in 1978, 6,265 tons in 1979, and 5,081 tons in 1980. Domestic production of biscuits and cookies was 270,000 tons in 1980, compared to imports of 4,079 tons in 1978, 4,813 tons in 1979, and 3,957 tons in 1980.

Protection of Leather Goods Benefits Large Companies

The Ministry of Agriculture, Forestry, and Fishery is not giving way on 22 restricted items, and likewise, MITI is attempting to protect coal, cattle and horses hides, sheep hides, goat hides, and leather shoes, the five remaining restricted items under its jurisdiction.

For example, the tariff on leather shoes is 27 percent. The voices which are heard complaining about this customs rate surprisingly come from the sporting goods industry.

A certain sporting goods importer reports the following: "The problem is that while athletic shoes which use only a small amount of leather are taxed only 10 percent, a tax of 27 percent may be assessed on shoes with a larger amount of leather. Domestic manufacturers of athletic equipment are taking advantage of this nitpicking categorization and making athletic shoes with lots of leather. If the import volume is restricted and a high tariff is imposed, there is little advantage for the importer. We may be driven out by products like Ashikkusu."

The same situation is developing in the market for ski boots. Now most ski boots are made of plastics. However, because ski boots were previously made of leather, there is a 27 percent tariff on ski boots just like that for leather shoes.

According to the owner of a Tokyo sporting goods store: "Many ski boot manufacturers are small. Ski boots are very much a seasonal product. Also, they can be a one-in-a-lifetime purchase, so large companies have not taken an interest in them. Now, however, the large sporting goods manufacturers who

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make skis have taken notice of the high tariffs on imports and the year by year increase in the skiing population, and are moving toward involvement in ski boots."

Another problem is that important athletic organizations in such sports as tennis, soccer, and baseball are reluctant to publicly endorse foreign-made athletic goods.

A number of problems exist which have nothing to do with the supposed healthiness of sports.

The Hard Battle for Scotch and Bourbon

The radical solution is being demanded to open the door for agricultural and leather products. However, there are certain things which the United States and the EC must reconsider. There are many cases in which they do not seem to have understood the actual circumstances of the Japanese market.

Scotch whiskey is an example. Great Britain is demanding that "Japan lower the tariff." The situation in Japan is not such that sales will improve just by lowering the tariff.

In Japan sales have actually worsened because of a price reduction.

The import volume of scotch increased year by year after 1971. The amount of imported whiskey (98 percent scotch) on the Japanese market, as shown in the accompanying table, jumped dramatically, from 320,000 cases (12 bottles per case) in 1971 to 11 times that amount, 3,470,000 cases in 1979. The share of the high-quality whiskey market, including scotch whiskey and high-grade domestic whiskey, has grown from 6.9 percent to 16.6 percent.

The price has now fallen. The yen has continued to be strong and the import tax has been lowered three times since liberalization 3 years ago. As a result, the standard retail price for such standard brands as Johnny Walker Red, Cutty Sark, and White Horse has moved into the 3,000-yen range.

However, sales of scotch whiskey have not gone well in the last 2 or 3 years. In 1980, the amount of scotch taxed at customs was 2,260,000 cases, down 12 percent from the previous year. In 1981, the same amount was 2,310,000 cases (estimate), increase 11 percent from the previous year. It is not accurate to say that "consumption has cooled off and it is harder for consumers to put out 3,000 yen for a high-grade whiskey." That is because the share of the high-quality whiskey market held by scotch whiskey has fallen to 6.3 percent from 10.3 percent in 1980 and 16.6 percent in 1979. Why?

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According to the stock section manager of an import dealer: "The greatest reason for the drop is that it became too popular and lost its attraction. Also, there was a great fluctuation in the final price, so consumers lost faith in the price of scotch. Even though the standard retail price is 3,500 yen, department stores sell it as a bargain for 2,800 to 2,900 yen. Then in the midsummer and year-end gift-giving seasons, they charge full price of 3,500 yen. Because of this kind of marketing practice, consumers have preferred to buy domestic high-grade whiskey with a more stable price."

Of the scotch consumed in Japan, 45 percent is used for gifts, 45 percent is consumed in drinking establishments such as bars and clubs, and the remaining 10 percent goes to the general demand in liquor stores.

Therefore, it hurts when the gift demand is taken away by domestic products. Also, in drinking establishments, the price is higher for a scotch and water than for the same drink made with domestic whiskey. So scotch has been greatly affected by the cuts in corporate entertainment expenses and the slump in overall consumption.

Now that the brand name myths have been exposed, will scotch dealers attempt to emphasize the "merit" of a low price in comparison to domestic whiskey of the same class, push the low price, and increase general demand? Or will they stop the disorderly selling practices, regain the trust of consumers, and revitalize the gift market?

Which path will the standard brands take?

The bourbon imported from the United States is also faltering. The import volume was 596 kiloliters in 1978, 1,000 kiloliters in 1979, and 714 kiloliters in 1980.

What is interesting is the difference in the method of assessing import duties for scotch, which is made from malt, and bourbon, which is made from corn. A set amount of 343 yen is assessed for each bottle of scotch, while bourbon is assessed by a percentage of 24.5 percent.

Standard brands of scotch as well as bourbon cost less than 1,000 yen per liter at the CIF price stage, so as far as the tariff is concerned, bourbon has the advantage.

According to one importer: "The preferential tariff for bourbon was won by America as compensation for Japan's refusal to liberalize agricultural products." However, bourbon is not succeeding in exploiting this advantage. Perhaps its unique smell has put off consumers. There is nothing that can be done about matters of taste.

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Creation of a Special Quota

In the tanned leather market, the United States continues to complain that the tariff of 20 percent is too high. This market has some similarities to the scotch and bourbon markets.

The domestic demand for leather in Japan has cooled and the American product does not adapt well to Japanese demand.

The leather shoe industry commands more than half of the ultimate demand for leather. In a reaction to the boot boom of several years ago, this industry is in a serious slump. Boots require three times the volume of leather used for ordinary shoes, and because of phenomenal sales, most dealers rushed to expand production facilities.

Now the situation is completely reversed, and shoes are a featured product in bargain sales.

About 90 percent of the animal hides which are the raw material for shoes come from the United States. The import volume peaked at 280,000 tons in 1976, and then went to 250,000 tons in 1977, 220,000 tons in 1978, 220,000 tons in 1979, 220,000 tons in 1980, and 230,000 tons in 1981. These figures are representative of the present status of the leather industry.

However, in spite of this situation in the Japanese leather market, the United States is seeking expanded imports of tanned leather to Japan. It is telling us to buy more products with higher added value than raw hides.

MITI cannot lower the 20 percent tariff because of a need to protect the Japanese tanning industry. However, in place of a tariff reduction, MITI has created a special U.S. quota for tanned leather imports for a 3-year period in addition to the overall quota for leather.

That was in March 1979. The U.S. quota included 12 million square feet of processed leather, 6.5 million square feet of semiprocessed leather, and 4 million square feet of car seat leather in 1979. Each category was to be increased by 10 percent in 1980 and by another 10 percent in 1981.

Ultimately, the consumption rate for the U.S. quota will remain low.

The consumption rate in 1980 was about 30 percent. After all, demand has dropped.

Another thing that should be noted is that American tanned leather does not meet the requirements of the Japanese market very well.

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Nozaki Industries, a trading company with a strong leather business, reports: "American tanning technique is not inferior, but perhaps because the American products are mass produced, the finish is rough and there are a lot of flaws. The Japanese market requires carefully finished products, and so the American leather does not stand up in the Japanese market. There are also delivery problems. If we place an order with a Japanese tanner, it might be finished in 2 weeks or a month, whereas it would take 2 or 3 months to get it from America. Perhaps because the volume of leather for Japan is small, our orders tend to be put off until last. While 2 or 3 months are passing by, demand may change because of changes in fashion."

The term of the U.S. quota will expire in March, and U.S.-Japanese negotiations will be opened again. How much understanding will the United States show for the present situation of the Japanese market?

Depends on Effort

Japan is determined to hold the line to the end, and the United States and the EC are making loud demands. This is not a problem that can be solved with stopgap measures.

Ultimately, the only hope is for companies of the EC and the United States to understand the facts about each type of market in Japan and make efforts to export in line with that understanding.

There are some areas in which the import volume is steadily increasing even under bad conditions.

One example is American confections. As shown in the accompanying chart, exports to Japan in this area grew from 1.1 billion yen in 1975 to 2.5 billion yen in 1980, putting the United States even with the EC countries.

According to Takeshi Tanaka, Confection Department manager for Seiyu Store, "America is closer than the EC countries, so it is easier to make arrangements for purchasing the products. Not only that, American companies, work hard at developing new and unusual products."

The same goes for skis. Import growth is slowing because of the high tariff, but foreign skis still have a strong position in the upper price range of 30,000 yen or above. Italy and Austria are taking advantage of their technical skill and brand name appeal to sell to young people.

Japanese consumers will buy good quality products even if the price is high. Imports are expanding for such products as Northern European and West German system kitchens and furniture, fur products, down clothing, famous brand tennis

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wear, deck shoes which are essential for marine sports, high quality Swiss wrist watches, and diamonds. In the area of food and beverage products, high quality wine and delicatessen items are major products in the food section of department stores. This shows the character of a country which has produced such things as an expensive 300-yen package of instant noodles. The question is whether foreign exporters will provide products in response to this kind of demand.

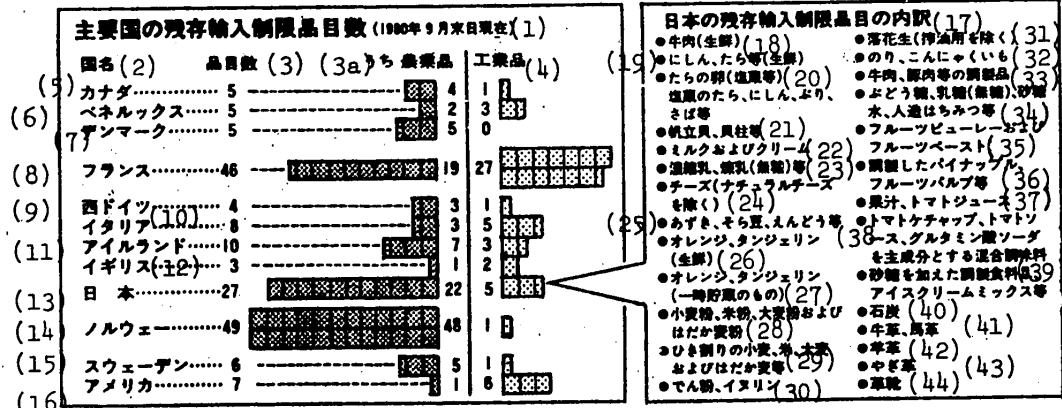
If the United States and Europe do nothing but press their demands what will happen even if Japan liberalizes all import items?

This is the view of one executive of a large trading company: "Regardless of what happens with trade in financial services and service industries such as transportation, construction, advertising, and consulting, the increase in imports of agricultural and industrial products will probably come from Korea, Taiwan, and the countries of Southeast Asia. Their wages are low and the time required for transportation is short. There will probably be an increased number of ventures in which Japanese companies create local corporations and import the products to Japan. The products of the EC and the United States will probably get even less competitive." As this statement shows, the outlook for imports from the advanced countries to Japan may be unexpectedly bleak.

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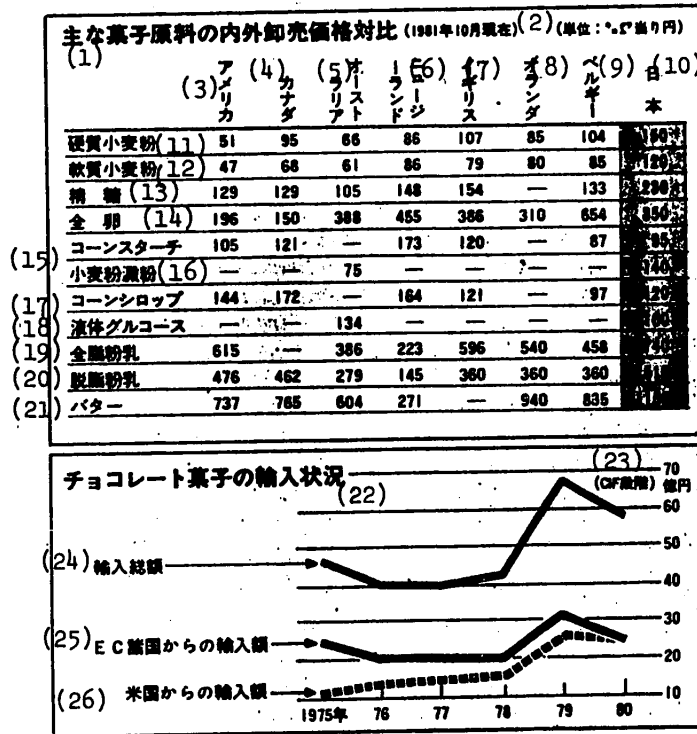
FIGURE APPENDIX



Key:

- | | |
|--|--|
| 1. Number of Restricted Import Items in Major Countries (as of September 1980) | 9. West Germany |
| 2. country | 10. Italy |
| 3. no. of items | 11. Ireland |
| 3a. agricultural items | 12. Great Britain |
| 4. industrial items | 13. Japan |
| 5. Canada | 14. Norway |
| 6. Benelux | 15. Sweden |
| 7. Denmark | 16. America |
| 8. France | |
| 17. List of Import Items Restricted in Japan | |
| 18. beef (fresh) | 31. peanuts (except those for oil) |
| 19. herring, cod (fresh) | 32. sea weed, devil's tongue |
| 20. cod eggs (salted), salted cod, herring yellow tail, mackerel | 33. processed beef or pork products |
| 21. scallops, scallop eyes | 34. grape sugar, lactose (without sugar), sugar water, artificial honey |
| 22. milk and cream | 35. fruit puree, fruit paste |
| 23. condensed milk, sugarless condensed milk | 36. processed pineapple, fruit pulp |
| 24. cheese (not including natural cheese) | 37. fruit juice, tomato juice |
| 25. azuki beans, fava beans, peas | 38. tomato ketchup, tomato sauce, seasoning with monosodium glutamate as the main ingredient |
| 26. oranges, tangerines (fresh) | 39. processed food products with added sugar, ice cream mixes |
| 27. oranges, tangerines (temporarily stored) | 40. coal |
| 28. wheat flour, rice flour, barley flour, rye flour | 41. horse hides, cattle hides |
| 29. ground or cracked wheat, rice, barley, or rye | 42. sheep hides |
| 30. starch, inulin | 43. goat hides |
| | 44. leather shoes |

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Key:

1. Wholesale Price Comparison for Major Confection Ingredients (as of October 1981)
2. unit:(yen per kilogram)
3. America
4. Canada
5. Australia
6. New Zealand
7. Great Britain
8. The Netherlands
9. Belgium
10. Japan
11. hard wheat flour
12. soft wheat flour
13. sugar
14. whole eggs
15. corn starch
16. wheat flour starch
17. corn syrup
18. liquid glucose
19. whole powdered milk
20. non-fat powdered milk
21. butter
22. chocolate candy imports
23. (CIF)
24. total import amount
25. import amount from EC
26. import amount from USA

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TRADE FRICTION WITH EC

Tokyo KAIGAI SHIJO in Japanese Apr 82 pp 54-58

[Article by Yoshimori Osade, manager of European Section, JETRO (Japan External Trade Organization)]

[Text] The problem of trade friction between Japan and the EC drew a great deal of attention when the Tsuchimitsu mission visited Europe in October 1976. Then, 5 years later, in October 1981, the government-sponsored economic mission to Europe headed by President Ynayama of the Keidanren visited the EC countries searching for a way to solve the problems between the two.

The roots of friction between Japan and the United States and the countries of Europe, including the EC, run deep. Recently, with the move toward reciprocity in the United States, there is talk of not just trade friction but cultural friction as well. In this article I will concentrate on the aspects of trade between Japan and the EC. I would like to identify the problems and suggest some quick therapy to treat the symptoms as well as some long-term remedies. I would like to make it clear in advance that my main intention is simply to analyze the friction problem in these terms. This does not represent the official view of JETRO.

Special Features of Japan-EC Trade

Let us consider why the trade imbalance between Japan and Europe became such a big problem. It is because unlike the complimentary North-South trade where food and raw materials are imported and industrial products are exported, the European countries and Japan all export industrial products to each other. Therefore, they are in a competitive relationship and the difference in competitiveness reflects directly on the trade balance. Therefore, there is no other way to improve this relationship than that specified recently by the GATT office director. The European countries must increase their productivity and catch up with Japan or, more fundamentally, a thoroughgoing horizontal division of labor must be created between Japan and Europe in industrial products.

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Table 1. Japanese Product Export to EC by Product
(unit: million dollars, percent)

	80		81	
	Amount	Change from previous year	Amount	Change from previous year
Total amount	16,650	31.3	18,894	9.9
Food products	118	24.3	91	Δ24.0
Fish and shellfish	86	19.7	66	Δ24.3
Textile & textile products	422	32.4	399	Δ 6.7
Synthetic textiles	126	18.7	139	9.7
Chemicals	703	16.3	654	Δ 7.7
Synthetic plastic	127	13.2	108	Δ16.5
Non-metallic mineral products	175	44.5	153	Δ13.3
Ceramic ware	91	60.7	73	Δ21.1
Metal & metal products	1,134	48.5	740	Δ28.5
Steel and iron	487	11.8	251	Δ54.4
Non-ferrous metals	298	174.3	205	Δ31.7
Metal products	349	58.9	285	Δ19.5
Machinery & equipment	12,033	29.2	14,956	19.9
Motors	162	30.5	247	43.6
Office Machines	589	21.4	647	9.2
Metal processing machines	274	58.4	261	Δ5.4
Weaving machines	58	29.7	60	0.1
Sewing machines	77	6.5	68	Δ15.0
Bearings	130	43.9	102	Δ21.7
Heavy electrical equipment	75	32.4	92	17.4
Television receivers	221	16.5	200	Δ10.0
Radio receivers	582	2.8	606	2.7
Electron tubes	433	46.9	429	Δ 0.8
Automobiles	2,663	23.2	2,810	Δ 0.2
Motorcycles	643	43.2	712	9.2
Ships	373	Δ15.4	1,590	189.5
Scientific & optical instruments	1,552	20.6	1,778	14.1
Watches & clocks	248	39.1	248	Δ 0.1
Tape recorders (Incl. VTR)	1,200	71.5	1,919	59.0

Note: 1980 amount is for 9 EC countries, excluding Greece; the 1981 change over previous year is calculated for 10 EC countries, including Greece.
Source: Japanese Customs Statistics, MOF Reports

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Table 2. Japanese Product Imports from EC
(units: million dollars, percent)

	80		81	
	Amount	Change from previous year	Amount	Change from previous year
Total amount	7,842	3.5	8,552	8.6
Food products	842	Δ 6.8	984	13.9
Meat	123	Δ 35.4	301	144.8
Raw materials	146	Δ 8.8	155	4.3
Chemical products	1,644	7.8	1,604	Δ 2.4
Pharmaceuticals	442	9.4	453	2.5
Machinery & equipment	2,587	14.0	2,453	Δ 5.2
Office machines	133	4.5	91	Δ 31.8
Motors	100	5.6	111	10.4
Metal processing equipment	91	25.7	87	Δ 4.4
Weaving machines	64	Δ 24.6	44	Δ 32.0
Aircraft	99	335.8	104	5.5
Ships	230	337.3	480	108.7
Procision equipment	303	3.2	227	Δ 25.2
Other processing goods	2,545	0.9	3,267	28.0
Textiles	703	Δ 6.1	640	Δ 9.0
Non-ferrous metals	199	12.6	264	31.2

Source: Same as Table 1.

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Table 3. Trade Balance Between Japan and Major EC Countries
(units: millions of dollars; items in parentheses are percentages
of change of present period over previous period)

	79	80	81
USA			
exports	26,403(6.0)	31,367(18.8)	38,609(23.1)
imports	20,431(38.1)	24,408(19.5)	25,297(3.6)
balance	5,972(Δ41.0)	6,959(16.5)	13,312(91.3)
EC			
exports	12,685(14.2)	16,650(31.3)	18,894(13.5)
imports	7,581(24.8)	7,842(3.5)	8,552(9.1)
balance	5,105(1.4)	8,808(72.5)	10,342(17.4)
Great Britain			
exports	3,097(32.3)	3,782(22.1)	4,789(26.6)
imports	1,681(21.9)	1,954(16.3)	2,694(37.9)
balance	1,416(Δ47.1)	1,827(29.1)	2,095(14.7)
France			
exports	1,395(26.5)	2,021(44.9)	2,222(9.9)
imports	1,078(43.0)	1,296(20.2)	1,171(Δ9.6)
balance	317(Δ 8.5)	726(129.0)	1,051(44.8)
West Germany			
exports	4,266(16.7)	5,756(34.9)	5,968(3.7)
imports	2,584(29.4)	2,501(Δ 3.2)	2,429(Δ2.9)
balance	1,682(1.5)	3,256(93.6)	3,539(8.7)
Netherlands			
exports	1,671(4.5)	2,061(23.3)	1,902(Δ7.7)
imports	419(31.7)	380(Δ 9.4)	427(12.4)
balance	1,252(Δ 2.2)	1,681(34.2)	1,475(Δ12.3)
Belgium			
exports	1,087(13.0)	1,419(30.5)	1,436(1.2)
imports	381(20.8)	372(Δ 2.4)	337(9.4)
balance	706(9.3)	1,047(48.3)	1,099(5.0)
Italy			
exports	681(39.2)	955(40.3)	912(Δ4.5)
imports	993(51.3)	938(5.5)	856(Δ8.7)
balance	Δ312(--)	17(--)	56(--)
Ireland			
exports	208(8.3)	221(6.1)	245(10.9)
imports	101(34.8)	78(Δ22.6)	106(35.9)
balance	107(Δ 9.6)	143(33.1)	139(Δ2.8)

Source: Japanese Customs Statistics

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Table 1 shows the amount of exports from Japan to the EC and the rate of increase and decrease by product. Table 2 gives the same information for imports.

Exports to the EC in 1980, with the exception of ships, were higher overall than in the previous year. Tape recorders in particular jumped dramatically in comparison to the previous year. The largest factors monetarily in increasing exports were automobiles, VTR, and numerically controlled machine tools. In 1981 also, machinery and equipment, including these items, showed a 20 percent rise over the previous year. However, as Table 1 shows, there were a fairly large number of items in 1981 which did worse than the previous year. Total exports did not increase by even 10 percent compared to the previous year. Ships went up rapidly, but overall, export results were rather moderate.

Imports from the EC in 1980, in spite of an increase in chemical products and machinery and equipment, showed an overall rise of only 3.5 percent over the previous year. This was due to a reduction in food products and fiber products. In 1981, imports of food and other processed products showed a relative increase, so the total import amount rose by 8.6 percent over the previous year. In any case, the increase was small.

As a result, the total amount of exports to the EC in 1980 was \$16.65 billion, while the import total was \$7.842 billion. The Japanese export surplus jumped to \$8.8 billion from the \$5.1-billion surplus of 1979. This was a record figure, but in 1981 the surplus passed the \$8.8-billion mark in the first 10 months and reached \$10.3 billion for the year (the figures for 1981 include Greece).

Table 3 shows the trade balance between Japan and each European country. The largest imbalance was \$3.5 billion with West Germany in 1981. Next came \$2.1 billion with the UK, \$1.5 billion with the Netherlands, \$1.1 billion with Belgium, \$1.0 billion with France, and \$1.0 billion with Ireland.

The imbalance with Italy did not reach the \$1-billion mark, and in some years there was even a surplus of imports to Japan. This was an exceptional case. At any rate, there was an overall trade surplus of \$10.3 billion, the highest figure in history, with the EC. This figure explains why the EC has been pressing Japan for the last year or two to redress this imbalance. The imbalance with the United States also grew dramatically in 1981, passing the \$10-billion mark in the first 10 months, to reach \$13.3 billion for the year.

European Recession Amplifies Criticism of Japan

The pattern of trade payments between Japan, The United States, and Europe shows a flow of payments from Europe to the United States and from the United States to Japan. Japan shows a surplus with regard to both the United States

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and the EC. The United States has a deficit with Japan but a surplus with the EC. The EC is in the unfortunate position of having a deficit with both Japan and the United States.

Furthermore, the economic difficulties which began with the second oil crisis have caused the greatest amount of unemployment in Europe since the Great Depression of the 1930's. Therefore, the criticism of Japan, which is the only country with a good economic performance, is growing harsher.

The causes of Europe's economic difficulties have been identified as a loss of worker morale, insufficient plant and equipment investment, and a lag in technological developments in some fields. Also, there is reportedly a lack of effort to sell to the Japanese market. However, there are two sides to this argument, and it is necessary to hear them out sufficiently. In this article, I would like to consider how the friction between Japan and Europe can be reduced, even a little. I will consider the measures taken so far and the direction to be taken from now on.

Industrial Revitalization of Trading Partners

The method for solving the problem which is being carried out most actively is industrial cooperation between Japan and Europe. The concept of industrial cooperation can be very broad. Here, I will consider it in three main categories--investment exchange, technological collaboration and joint research and development, and third country market cooperation.

Investment exchange helps create employment opportunities in the host country through joint ventures and direct investment.

Technological collaboration and joint research and development promote mutual transfer of technology and knowhow and make it possible to reach a higher technological level at low cost. In third country market cooperation, each party takes priority over the other in certain areas. For example, in plant exports, complimentary groupings of the equipment supplied can increase economic efficiency and help spread out the risk.

These approaches will not lead to an immediate resolution of the trade imbalance between Japan and Europe. But when we consider how the trade imbalance is chiefly caused by differences in industrial competitiveness between Japan and Europe, these kinds of industrial cooperation are very important as ways to reduce the differences and improve our relationship as trading partners. Here are some specific recent examples.

--VTR joint venture between Japan Victor, Thorn EMI of Great Britain, and Telefunken of West Germany

--VTR joint venture between Matsushita Electric Works and Bosch of West Germany

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- Joint development of a jet engine (XJB program) between Rolls-Royce of Great Britain and Ishikawajima Harima and other companies
- Joint development of a coal-fired boiler between Kawasaki Heavy Industries and Babcock of West Germany
- Minifax joint venture between Matsushita Electrical Transmission Equipment and the British Government
- Joint development of a ship turbocharger between Ishikawajima Harima and BBC of Switzerland
- Technological assistance for industrial robots between Fujitsu Fanac and Six Hundred of Great Britain
- Technological assistance for lighting and air regulation equipment between Matsushita Electric Works and BBC of West Germany
- Technological assistance for large computers and semiconductors between Fujitsu and ICL of Great Britain
- Technological assistance for a ship turbocharger between Mitsubishi Heavy Industries and GEC of Great Britain
- Joint venture for carbon fiber production between Toray and Elf-Acquitaine of France

Mutual Effort Necessary by Japan and EC

Although we can recognize the necessity of such industrial cooperation, the effects will generally come too late to contribute to a solution of the trade imbalance. The situation could be remedied more quickly if the European side expanded exports and the Japanese restrained exports.

First, let us examine the problems involved in expanding European exports to Japan or, in other words, expanding imports to Japan.

According to a JETRO survey of inquiries made to JETRO last year, only 9.6 percent concerned exports, while 90.4 percent concerned imports. As in the past, there was a strong desire to import from Japan and, while interest in exporting to Japan is increasing year by year, it has not yet reached the level of 10 percent of total inquiries.

The five top ranking items of export to Japan are: 1) processed foods, alcoholic beverages, and tobacco (21.0 percent); 2) furniture, toys, and sundry goods (18.3 percent); 3) textiles and textile products (11.8 percent); 4) machinery, electrical equipment, and parts for the same (7.8 percent); and 5) art and antiques (5.7 percent). With the exception of item 4), machinery and electrical equipment, the list includes only food products and light industrial products which do not make a great monetary contribution to improving the balance of trade. Therefore, it is necessary for the European side to make a more careful study of the characteristics of the Japanese market in the fields of capital goods and durable and consumer goods. JETRO and other organizations stand ready to help as much as possible. Beginning this year JETRO has installed an Export to Japan desk in its offices in Europe and is ready to provide consultation on exporting to Japan.

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The European nations will have to reconsider the Japanese market, with its 100 million population, as a major market and make the necessary effort in export marketing to exploit this market, not as a limited Far Eastern market, but as an important market with great future potential. JETRO has held seminars to promote exports to Japan and export clinics in the major EC countries in an effort to introduce the special features of our market and explain the system of distribution and import procedures. We have provided help from the sidelines to aid in removing barriers to their exports.

The problems on the Japanese side have been repeatedly pointed out by Europe and the United States. The demands of the EC countries to open the Japanese market and expand imports, made on the occasion of the Inayama mission's visit last year, were typical. An extreme example of these demands was the list of 20 itemized demands presented by Great Britain. Another list of demands for improvement of trade with Japan was submitted in December and it centered on demands to open the market, lower tariffs, and modify import inspection procedures.

The demand to open the market specifies such measures as modernization of the distribution system, reform of the import marketing system, promotion of government purchasing of imported goods, and expediting of customs procedures. Many of these areas cannot be made subject to government intervention. However, Japan is attempting to deal with the demands by creating a single contact organization for handling complaints.

Also, the government is taking positive action to lower tariffs, moving up the 1,653 items agreed upon at the Tokyo round of GATT talks by 2 years, and lowering tariffs on the third year items at one time.

Also, with respect to improvement of import inspection procedures, an initial study was completed at the end of January for food products, pharmaceuticals, high-pressure gas containers, electrical products, automobiles, and agrichemicals, and a decision was made to accept 67 items out of a total of 99 demands for improvement of nontariff barriers. Although the United States and Europe recognize our effort, they both hold the view that it is still insufficient.

In any case, the purpose of these improvements in the system is to increase the amount of product exports to Japan, and fundamentally, to balance the expansion of Japanese exports by promoting imports. The United States and Europe are becoming impatient at the lack of visible results. However, product exports make up 25 percent of total exports in Japan, compared to a rate of 60 percent in the United States and the EC, and they recognize that we are making a substantial effort.

As we have seen, even with the continuation of mutual effort, we must be a bit pessimistic about a simple solution to the trade imbalance between Japan and

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Europe. The areas in which Japan has strong international competitiveness, where there is little possibility for imports, are roughly the same areas in which Europe has strong export products. This competitive relationship between Japan and the EC, which I mentioned at the beginning of the article, will always remain.

Therefore, the problem of Japanese moderation of imports comes up as a final proposal. The EC demands mentioned above call for Japan to restrain imports to the EC of automobiles, color television sets, color television tubes, machine tools, and light commercial vehicles. The EC asks that the laserlike concentration of these export items be moderated and that time be given to the EC to rebuild its own forces.

This method is fundamentally in opposition to the GATT principle of free trade, and it leads to a balanced reduction of trade or protectionism. So it is not at all desirable. However, when as today, our partners in free trade are faced with great economic difficulties, helping them can be considered a pragmatic policy for maintaining the market in the long run. Also, even though it does not lead to the vitalization of European industry, such restraint can be seen as having an immediate effect as an emergency relief measure, and therefore, is being put into effect.

Reassessment of the Horizontal Division of Labor and the Cultivation of Preferred Industries

The last thing I would like to point out is that there are naturally some fields in which the EC has a position superior to Japan in terms of industrial competitiveness. As is often noted, Europe is firmly in the lead in certain fields, such as chemicals and nuclear power (light water reactors) in West Germany and aircraft and nuclear power (fast breeder reactors) in France. In the field of machine tools, for example, Japan is strong in numerically controlled machine tools, but West Germany is still highly competitive in traditional precision machine tools.

In the area of equipment, Japan is generally strong in mass-produced equipment such as cameras, watches, audio equipment, automobiles, and household electrical products, while Europe is strong in non-mass-produced general equipment (farm equipment, weaving machines, printing machines, pumps, boilers, etc).

Therefore, it is necessary for the EC to streamline these industries and regulate industry in the region in order to cultivate them as export industries with overwhelming competitive strength. However, at present, Europe is in difficulty because it cannot find the promising areas of industry suitable for cultivation. No matter what happens, the trade imbalance cannot be radically improved without exports of heavy industrial goods. The Japan-EC trade imbalance problem cannot be solved if European exports continue to center on food

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and textile products such as British whiskey, French wine and cognac, and Italian fashion products. As for Japan, it goes without saying that it must make even greater efforts to expand imports while it continues to eliminate nontariff barriers and open its market.

For the immediate future, it will be interesting to watch the results for imports of rare metals and grains which were discussed at the end of last year, the increased stockpiling of oil, and the emergency import of aircraft, as well as the effect of the import promotion mission that will be sent to France and Austria this May. Japan will attempt to expand its internal demand, but the way in which the EC works to gain access to the Japanese market and discover new possibilities will be an important factor.

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INTERVIEWS ON RELATIONS WITH UNITED STATES

Tokyo SHOKUN in Japanese May 82 pp 46-83

[Joint article and interviews by Tadae Takubo, foreign policy critic, and Seiichiro Saito, professor of socioeconomics at Rikkyo University]

[Text] Declining U.S.-Japan Relations; the Japanese Rebuttal

This Is What the Politicians Think

The present economic tension between the United States and Japan is not a problem of particular products. It is becoming a problem that will require a comprehensive response by Japan. We can say that a response in the political dimension is necessary. Can Japanese politicians exert the leadership to make a political response which is above bureaucratic limitations?

We interviewed six politicians--Masumi Ezaki, Ichiro Nakagawa, Koichi Kato, Shintaro Ishihara, Yoshiro Hayashi, and to represent the opposition parties, Eiichi Nagamatsu of the Socialist Party. They had many different approaches and requests for America, but they were all highly critical of the Foreign Ministry.

Only the Soviet Union Is Pleased

The interview began in Masumi Ezaki's office in Sabo Hall in Tokyo. Following a visit to America at the end of February, Masumi Ezaki is planning to visit Europe soon and seemed very busy.

Masumi Ezaki was born in 1915 and is 60 years old. He is a member of the House of Representatives and is the chairman of the LDP Special Study Committee on International Economic Measures. He graduated in economics from Nippon University in 1941. After serving as secretary to the president of Daido Steel Company, he became a member of the House of Representatives. He has served as director general of the Defense Agency, minister of home affairs, and minister of international trade and industry. In addition, he is an influential member of the LDP, having served as chairman of the party Executive Council and chairman of the Political Coordinating Committee.

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It was reported that when Masumi Ezaki visited the United States as chairman of the Special Study Committee on International Economic Measures, he was thoroughly worked over by the Americans.

According to him, "The opponent was waiting to pounce on me."

[Question] What would you like to say to America?

[Ezaki] "During the time of the Fukuda government, we were asked by the Carter administration to take a "locomotive" role in the world economy along with West Germany. I remember this well because I was serving as chairman of the party's Political Coordinating Committee and Executive Council. Japan issued large amounts of government bonds for 3 years to stimulate domestic demand and assist in creating international harmony. The debt for that still remains in the form of 450 billion yen in government bonds. Japan is making sacrifices. The problem is why American goods do not sell on the Japanese market. Is it because the Japanese market is closed? That may be true to some extent, but doesn't America have any responsibility for the problem?

"It is wrong to turn people's frustration toward Japan and say that Japan has more to lose than the United States if the trade imbalance is not corrected immediately. It may be easy to make Japan a scapegoat and put more and more pressure on us. It will lead to a harsh reaction from Japan if they do not give us credit for the good job we have done but go on making statements that unless 'something dramatic' is done, this problem cannot be solved and protectionism and reciprocity laws will be passed. There may even be a political upheaval in Japan. If this happens, the only happy party will be the Soviet Union."

[Interviewer] It seems that Ezaki said what he had to say in the United States while being hit with a barrage of criticism of Japan. However, he was probably more relaxed in an interview with fellow Japanese. His counterargument flowed smoothly. He did not get upset at our questions but countered them with a smile. This "man of the hour" was probably unable to smile like this when Secretary of Commerce Baldrige demanded "dramatic" measures.

During the U.S.-Japan textile negotiations in 1970, it was reported that Mr Miyazawa, the minister of international trade and industry at the time, turned white when he was threatened by Secretary of Commerce Stans during a meeting at the Watergate Hotel. Miyazawa's recent statements have an anti-American tone. Perhaps he still holds a grudge. In comparison, Ezaki seems more of an old pro.

[Question] So what is the best way to get out of the present difficulties? If the approval system is abolished, the Tokyo round agreement is moved up by 8 years, or beef and oranges are liberalized, won't the Suzuki government fall?

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[Ezaki] "Yes, it will fall. Japan will make efforts to open its market, but there is a limit to what each country can do by itself."

"Take the action of moving the Tokyo round tariff changes up by 2 years. What other country could have done something like that? I think we should be given more credit. That agreement was worked out in multilateral negotiations and it called for a gradual lowering of tariffs, to a reasonable point over a period of 8 years. I think we should be given more credit for moving up the schedule by 2 years.

"Is Japan really the only country with a lot to lose if things keep going as they are? Does not America have a lot to lose as well? It is necessary to discuss this patiently over a long period. To determine the proper course of action, we must gather the advice of experts, debate the issues between the ruling and opposition parties, and get the participation of the financial sector. The proper responsive measures will naturally emerge from this process. I have my ideas, but if I let them out little by little, taking this or that position, the opponent will think that our policy is already set. This is not in the national interest. Carefully, but quickly, we must determine the measures to take."

[Interviewer] Ezaki is not the only person without a clear answer on how to reply to U.S. demands. Hardly anyone is able to say what to do.

Japan is suffering because it is caught between the demands of a "domestic logic" and "international logic." However, there is no trace of bitterness in Ezaki's face.

[Question] How do you rate the Foreign Ministry on its gathering of information, public relations efforts, and response after the problem developed?

[Ezaki] "The Foreign Ministry asks that we leave matters of diplomacy to it. It is still dominated by a tendency to sectionalism and overconfidence. In the U.S. Senate, there are four rooms for eating. One of these is the Mansfield Room. It is said that Ambassador to Japan Mansfield is the only postwar politician to have his name affixed to a room. A man of his stature, now 78 years of age, has come to Japan. In comparison, Japanese ambassadors are assigned by turn according to a seniority system. With such a way of doing things, how can an upstart power like Japan carry out decent diplomacy?

"Reportedly, there are 500 or 600 employees in the U.S. Embassy in Tokyo. If auxiliary organizations are included, there must be at least 800. Now that Japan is such an influential country, we should freely select the ambassadors for major countries, although this would require administrative reform, in order to have an ambassador similar to Ambassador Mansfield whom the U.S. President or his adviser, Mr Meese, could meet with respect."

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[Interviewer] Ezaki's criticism of the Foreign Ministry was very severe.

From Domestic Logic to International Logic

The next person we interviewed, Eiichi Nagamatsu, is the top expert in the Socialist Party on defense and foreign policy. Unlike the LDP politicians, who are tied to a variety of domestic special interests, he presented a clear argument on U.S.-Japan relations. Nagamatsu was born in 1918. He is a member of the House of Representatives (Democratic Socialist Party). After graduating from the law department of Tokyo University, he joined the Navy (crew of the battleship Yamato). Before taking his present post, he served as a member of the Kyoto city council, the Kyoto prefectural assembly, and the House of Councilors.

[Question] If the market is opened, it will cause a disturbance in domestic politics. If not, there will be a crisis in U.S.-Japan relations. Should we give priority to "domestic logic" or "international logic?"

[Nagamatsu] "Japanese politics are based on an old social structure, but we should pay attention to the fact that the social structure is changing. The LDP has not attained 50 percent support in urban areas, including the six major cities. It is now a 30-percent political party. Here we see a tendency toward a multiparty system. However, in the nation as a whole, the LDP has 60 percent of the seats in the Diet. This is because it has a solid base in rural areas. The Socialist Party is also unable to get many Diet seats from the cities, but in the rural areas it is the only influential opposition party, so it has a substantial number of seats. The middle-of-the-road parties are most influential outside of the farming villages. We can say that the old system which gave great importance to the rural villages has created the political concepts of the present. Does this accurately reflect the will of the people of Japan? I do not think that everything the Americans claim is true. However, we must move in the direction of building the political and social structure necessary for Japan to live in international society. Unless we make this decision, the tensions over trade will never be eliminated."

In other words, he is saying that changes are already occurring in Japan in line with an "international logic" and that is the direction we should take. His argument is very clear. He points out that most of Japan's import restrictions are being carried out in accordance with the needs of domestic politics and "domestic logic."

If beef and oranges are liberalized in accordance with "international logic" the Diet members from rural villages will be violently opposed. This is a strange situation, and by opening the domestic market, the political system can also be changed. It follows that the Democratic Socialist Party will benefit from this since it is based in the cities.

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Nagamatsu's statements turned to wholesale criticism of the government and the LDP. "When foreign countries observe the dramatic advance of the Japanese economy, it is only natural for them to complain that it is due to a lack of defense spending. They get angry when they see Japan audaciously living next to the Soviet Union while only spending 0.9 percent of its GNP on defense.

"The prime minister comes and celebrates an alliance in talks with the president, and then before the words are out of his mouth, Prime Minister Suzuki turns around and says that this 'has no military meaning' and fires Foreign Minister Ito who accompanied him on the trip to America. How can the Americans understand Prime Minister Suzuki? The way to eliminate the tensions between the United States and Japan is for the politicians to get a clear understanding of where our country is going and make certain that Japan builds the kind of economic and social system that can be understood in international society. If we perform our proper role as a member nation in the free world, there will be no reason for anyone to complain about a trade imbalance."

[Question] It costs money to carry out this responsibility, and the government purse is empty. It is deep in debt.

[Nagamatsu] "This will require administrative reform. Because of continued high growth, Japan was able to keep increasing government revenues by simply keeping the tax system in place, and under these conditions, the government kept on spending. We cannot go on this way. Last year there were 1,000 instances of agricultural subsidies. This year the number has dropped to 600. However, the amount of money involved exceeds 2 trillion yen. This is foolish. It is due to pressure from legislators from the rural villages. The national railways is receiving 700 million yen in subsidies this year and is still 1.4 trillion yen in the red. Isn't this wrong? If we carry out administrative reform, taxes can be lowered and foreign aid and defense spending can be increased. Outside pressure may create the opportunity for this."

[Question] In conclusion, how do you feel about the Foreign Ministry?

[Nagamatsu] "I had the experience of going to Washington as a member of a representative group from the Democratic Socialist Party. We ate lunch in a restaurant next to the office of the Senate diplomatic committee. The Japanese ambassador was with us and he said that that was the first time he had eaten in that restaurant. I was amazed at this. Doesn't the Japanese ambassador associate with American politicians? Because of the separation of powers in the U.S. Government, there is a limit to what the Department of State can do. No matter how much the Japanese Foreign Ministry deals with the Department of State, the Department of State has little connection with the American people. If it has no dealings with the legislators who represent actual American society, it cannot be conducting real diplomacy. Also, the Foreign Ministry has a very small budget. With things as they are, it is unable to understand the feelings of the United States."

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Liberalization of Beef Would Destroy Agriculture

[Interviewer] After hearing the clear argument of Nagamatsu, we listened to the frank opinions of Ichiro Nakagawa, who has climbed to a position of great influence in the LDP.

Ichiro Nakagawa was born in 1925. He is the director general of the Science and Technology Agency. After graduating in agriculture from Kyushu University, he worked for the Hokkaido government office. After serving as a development officer for that office, he became a member of the House of Representatives. He has served as minister of agriculture, forestry, and fishery. He is one of a breed of new leaders with independent opinions on domestic government, foreign policy, and defense problems.

Perhaps for that reason, this man's statements are full of confidence.

[Question] What do you think about the present tensions in U.S.-Japanese trade?

[Nakagawa] "I think both sides have a point. The United States has not tried hard enough to sell. The Japanese trading companies have carried out marketing activities unlike any other companies in the world. Also, Japan has exported good products at low cost. In both cars and television sets, the decisive element is that the Japanese products are high in quality. In addition, the price of American products has gone up because of high rates of inflation and interest.

"As for Japan, if Japan spent as much for defense as America, 5 or 6 percent of the GNP, the economy would not have grown this much. We would not be able to build roads or houses or anything. There would be more unemployment. It would be terrible. So there is an argument that we should sympathize with the Americans in this regard."

[Question] In that case, wouldn't it be all right to liberalize agricultural products, as America so strongly desires?

[Nakagawa] "America and Japan each have their own views on this question. America bought cheap Japanese cameras, televisions, and cars and this led to unemployment. Therefore, they say, why not buy our cheap beef and oranges? This is one theory. However, if we imported a lot of beef, Japanese agriculture would be destroyed."

[Question] What? Japanese agriculture would be destroyed?

[Nakagawa] "That may be an exaggeration, but there are a lot of beef producers in Kyushu and also in Hokkaido. Beef provides side-product income to help support dairy farmers. If inexpensive beef were imported, it would have a

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very great effect on them. When I was minister of agriculture and forestry, American Secretary of Commerce Strauss said that if the Japanese farm population was reduced, the government should take care of them. I said that Japan would be in trouble if the farm population dropped below 10 percent. Good honest people of strong character come from the farm villages."

[Question] Did this explanation satisfy the United States?

[Nakagawa] "Strauss did not say he understood, but we decided to negotiate in good faith in a range that would not hurt Japan's rural areas."

[Question] However, America is calling for "dramatic" measures. It seems to be a critical situation.

[Nakagawa] "It is troublesome because we do not know if by 'dramatic' measures they mean beef or oranges. Even if we liberalize beef, it will not help correct the trade imbalance. We may get a large amount of inexpensive beef from Australia in both Japan and the United States. The situation may be serious now, but I believe it was the same 3 years ago when I was minister of agriculture and forestry. I had table-pounding talks with then Secretary of Commerce Strauss which resembled a fight. At one time, I even considered resigning. Ambassador Mansfield finally took the matter to the White House and we arrived at a compromise."

Nakagawa takes a very hard line on liberalizing beef. As he stated, he had the experience of negotiating with a letter of resignation in his pocket, so his present thinking does not come from desperation. He takes the position that "Japan cannot possibly separate itself from America and be independent. Harmonious relations with the United States are a prerequisite for everything."

He continued: "Nobuhiko Ushiba knows both Japan and the United States well. He is a type of person similar to Mr Mansfield. It is best to have a person like him act as umpire, participating in discussions and attempting to find a solution."

Although he balks at the liberalization of beef, Nakagawa is not just another farm-interest Diet member.

"The Soviet Union invaded Afghanistan with its sights on the Middle East and there is trouble in Poland. The United States has no choice but to undertake a military buildup. This in turn will have a bad effect on the American economy. The world is in a typhoon condition. At the same time, Japan is in an unhealthy financial condition. However, our overcast sky is in a favorable state when compared with circumstances in other countries. At a time like this many people wonder if we can afford to have a conflict over whether to give bombing capacity to the F-4 fighter or not."

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In discussing the international situation, his specialty of defense issues came up.

[Question] What do you think about the American demand for the strengthening of our defense capacity?

[Nakagawa] "After the war, America pushed a constitution on Japan which included the concept of unarmed neutrality. It is awkward for us to be asked to strengthen our defense capability now. I recently stated something to this effect to a U.S. Government official. We can suppose that America did not have a long-term strategy. At the end of World War II, it did not understand the threat of communism. It was concentrating on preventing the return of militarism in Japan."

[Interviewer] As is well known, Nakagawa has consistently advocated constitutional reform and the strengthening of Japan's defense capability. He believes that the United States has created a situation that makes this difficult to do.

The United States Is an Economic Colony of Japan

The liberalization of agricultural products such as beef and oranges has become a focus of concern. What is the opinion of Koichi Kato, the chairman of the LDP Agriculture and Forestry Committee and an internationalist?

Koichi Kato was born in 1939 and is 42 years old. He is presently a member of the House of Representatives and chairman of the LDP Agriculture and Forestry Committee. After graduating from the law department of Tokyo University in 1963, he entered the Foreign Ministry. After serving as a deputy chief of the China section, he was elected as a member of the House of Representatives. He served as the deputy chief cabinet secretary in the Ohira cabinet.

Because of his experience in the Foreign Ministry, Koichi Kato is recognized by everyone as the top international expert in the LDP. He recently visited the United States as a member of the Ezaki mission.

[Question] What do you think about the growing strain in U.S.-Japan relations?

Koichi Kato gave his reply with a tone of conviction: "This is a problem we must consider seriously. Although it is partially due to the difficulties of the American economy and the effect of the upcoming elections, the roots of the problem go much deeper. The fire has just been lit, but there is a danger that it could spread through an appeal to the simple emotions of the American people."

After saying this, he spoke of a speech given by a woman legislator in a public hearing in the U.S. Congress.

"This Congresswoman called for an import duty of \$150 per vehicle on cars imported from countries for which the United States bears a defense responsibility. There are grounds in America for making such frank proposals. The basic problem between Japan and America is not trade. It is the fact that Japan is not doing enough in defense and economic cooperation."

In short, from the American point of view, Japan is thinking of nothing but itself and this is unfair.

[Question] How much of the defense burden must Japan bear for America to be satisfied. It would seem that America would be cautious about militarization in Japan.

[Kato] "Two percent of the GNP is the upper limit. More than that and it would be on guard."

[Question] However, if it goes to 2 percent, won't America be afraid we will escalate further.

[Kato] "There is certainly some uneasiness, but it believes that the Japanese constitution and maintenance of the U.S.-Japan Mutual Security Treaty will keep the brakes on Japanese militarization."

He emphasized that the problem was how to expand Japan's military spending from the present 0.94 percent rather than a concern with Japanese militarization.

[Question] Then Japanese military spending will advance further and further. Domestic criticism will grow.

[Kato] "Yes, criticism will grow. But that is a political decision. Japan must gradually increase its spending for defense."

[Question] In addition to a gradual increase in military spending, there is the matter of economic cooperation. Does America recognize the increase in Japanese foreign economic aid?

[Kato] "Japanese economic aid must not be limited to the purpose of 'stabilization of the people's livelihood.' It must be carried out with diplomatic and strategic intent. For example, to the Caribbean countries. If the aid is unrelated to political diplomacy, the United States will think that our economic cooperation is only being used to expand the Japanese market."

Kato emphasized again and again that the root problem of U.S.-Japan relations is defense and economic cooperation. If the sum of defense spending and ODA (official development aid) reaches 2.0 or 2.5 percent, trade will cease to be a great problem.

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[Question] However, won't it be necessary to liberalize agricultural products?

On this point, Koichi Kato, who is chairman of the LDP Agriculture and Forestry Committee, suddenly turned reticent and spoke like an isolationist.

[Kato] "Over the middle and long term, I would like to eliminate the remaining import restrictions as much as possible."

He repeated the phrase "over the middle and long term."

[Question] In 5 years?

[Kato] "No, over the middle and long term."

[Interviewer] I felt that it would be meaningless to press him any further on the farm products question, so I turned to the next question.

[Question] Since Japan is now a great economic power, should it not open its market from the point of view of making a contribution to international society?

[Kato] "Up to now, Japanese policies have all been in accordance with GATT and on a level with other advanced countries. We have been saying that there is no reason for complaint. However, Japan is the country that stands to gain the most from free trade. Japan must make even greater efforts than the other countries. I became convinced of this on my recent visit to the United States."

[Question] Specifically, what must be done?

[Kato] "In simple language, the liberalization of tobacco imports. In addition, making it possible to import drugs which have passed inspection in the United States."

[Question] What about beef and oranges as a symbol of an open market?

[Kato] "The political sacrifice would be too great. We cannot shake up the fundamental political support of agriculture."

With this, Kato said he had another important point and continued.

"Recently, there has been a strong feeling in the United States that the United States has dropped to the status of an economic colony of Japan. America has become an exporter of primary raw materials and Japan has become an exporter of high-level industrial products. Automobiles are a symbol of this. Therefore, America feels that its pride has been hurt. The Japanese have ignored this feeling and have even begun sermonizing, offering to teach management methods to the Americans. We must not become arrogant."

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[Question] Whether Japan expands its economic cooperation or becomes a model of free trade, it will be difficult for it to continue with the foreign policy of the past. It will be necessary for Japan to make fundamental changes in its foreign policy, will it not?

[Kato] "Exactly. President Reagan told Mr Ezaki that even a tame horse must be beaten occasionally or it will not do what you ask. He was hinting that we should make more use of our bureaucrats. There is a growing awareness in America that Japanese politicians have trouble controlling the bureaucrats. Certainly, political leadership is important."

[Question] But can the politicians exercise leadership?

[Kato] "When it is necessary, the LDP will. If the prime minister and the three party executives make a decision, it can be carried out even if special domestic interests are involved."

[Interviewer] In the interview with Koichi Kato, I was somewhat surprised at this optimism about U.S.-Japan relations and change in Japanese foreign policy. He said: "If defense spending and economic cooperation are improved, the trade tensions will be reduced to a business problem. Business problems can be worked out."

[Question] Are you saying that Japan can take the "dramatic" measures being asked for by America?

[Kato] "America is saying that it is time for Japan to consider what to do by itself and take positive action. It does not seem to feel it necessary to specify the content of the 'dramatic' action. Japan must get rid of the idea that it is a small country and that protectionism is justified."

With this, Koichi Kato concluded as follows. "The United States is bearing down hard on Japan. There may be some racial discrimination in this. However, Japan should not cooperate with Europe in building a strategy against America. Compared with the United States, Europe is more protectionist and racially discriminatory. America is simply trying to protect its own trade. Did it not take good care of Japan in the past?"

Racial Discrimination?

[Interviewer] Shintaro Ishihara, like Koichi Kato, is a young man with experience as a cabinet minister. Shintaro Ishihara has always spoken frankly, and he presented clear views on the present relations between the United States and Japan.

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Shintaro Ishihara was born in 1932. He is presently serving as a member of the House of Representatives. He graduated from Hitotsubashi University and won the Akutagawa Prize for literature with his novel "Season of the Sun." He served as a member of the House of Councilors and as director of the Environmental Agency before being elected to his present position. He has always been active in making pronouncements on defense and diplomatic issues.

[Question] After hearing the U.S. statements, do you have anything to say back to them?

[Ishihara] "Senator Muskie proposed the Muskie bill to strengthen emission regulations, and Japan implemented it immediately. Muskie visited Japan and was impressed when he rode in the Matsuda automobile which was the first to apply the Muskie standards. However, America itself did almost nothing in this regard. Now these Japanese measures have become a barrier to trade. When I asked an American Congressman who came to Japan in connection with the trade barrier issue, 'Who made this Muskie law anyway?' he had nothing to say.

"In an interview with a West German reporter, the chairman of Ford Motor Co said: 'I don't mind Volkswagen selling in America, but I can't stand to see Japanese cars selling that well.' When I told this story to Mr Reagan in a television discussion, he became angry. He told me another story. 'When I was in New Mexico, I saw a runner with a placard saying 'buy American!' Below 'American' was the word 'Japanese' crossed out in red. But when I looked at the car he was driving, it was a Toyota.'

"The kind of angry emotionalism represented by the Ford chairman exists in the United States. They taught Japan very carefully and kindly and now they are shocked that we have not only caught up with but surpassed them."

[Interviewer] The specific examples given by Shintaro Ishihara are very interesting. How would President Reagan, Senator Danforth, Secretary of Commerce Baldrige, and Senator Muskie react if they heard him.

Ishihara continued: "On the issue of defense as well, the United States would probably not be in favor of Japan having all the information on even the sea lanes in the Indian Ocean. It would be different in the case of New Zealand or Australia. If such information cannot be exchanged with Japan, we must see it as racial discrimination and prejudice. When we point out that there is racial discrimination at the root of the U.S.-Japan trade tensions, they wince. In foreign countries, when racial discrimination is mentioned, the other party's annoyed expression seems to say: 'Why bring that into the discussion?' However, unless this is overcome, tension will occur unnecessarily, and problems that should cool off will not. Racial discrimination is always lurking in the background of civilization and history."

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[Interviewer] "Racial discrimination" has become a kind of taboo. There are many observers even in Japan who say that it cannot exist. Ishihara explains the history of superiority and inferiority complexes, using the examples of the decadence of Edo culture and the Mongolian rule of Europe. This is something that any Japanese who has lived in America for a long time has had one or two painful experiences with.

[Question] What do you think about problems on the Japanese side?

[Ishihara] "Isn't the Japanese press making too big a fuss over U.S.-Japan economic problems? When you read U.S. newspapers, there is a big difference from the commotion in Japan. When automobiles became a problem, the MITI adviser, Mr Amaya, ran about shouting, 'It's terrible! It's terrible!' There were American politicians who had rational views, but the Japanese did not approach them. Furthermore, the Foreign Ministry, the Defense Ministry, and MITI all held bilateral discussions with the United States without any communication among themselves. They used the crude method of saying, "You go to America," to the people who were making the most noise. The business sector did some lobbying, but it was scolded by the politicians and the bureaucrats, and it ended up making unnecessary concessions. Japan has little tradition of government offices working together and lending assistance to each other in order to deal with even major problems in international relations. It is the task of the politicians to bring the government agencies together, but the international awareness of the politicians is limited. In fact, they are used by the bureaucrats.

"The Foreign Ministry is poor at gathering information. The bill proposed by Senator Helms to revise the Security Treaty was submitted in October of last year. It was finally withdrawn, but the Foreign Ministry had no knowledge of movements prior to the submission of the bill and it was unable to take any action. It would probably be impossible to get an appointment with an important person in Washington by going through the embassy."

The criticism kept coming.

[Question] What is the solution for the present trade problems?

[Ishihara] "Take farm products, for example. Even if they are liberalized, the amounts involved are insignificant. However, when those of us from the city say this, the politicians with a rural base get angry."

[Interviewer] Although he is a member of the Nakagawa faction, his opinion differs from the head of the faction, Ichiro Nakagawa, who is opposed to the liberalization of beef. It seems that there is no definite proposal for a solution.

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Ishihara says the following about Japan's role. "The peace in Southeast Asia is due to the fact that it is in the Japanese economic sphere. U.S. policies in Africa and the Middle East are not working. If Southeast Asia falls apart, it will mean trouble for the United States and the world. The United States is not the only country with an international viewpoint. When I explain this to Americans, they say, 'I understand.' Japan must take the position of protecting Southeast Asia and the sea lanes in the Indian Ocean, even if this only takes the form of gathering information with the use of civilian ships. We must change the regime based on the concepts produced by Shigeru Yoshida. Japanese politicians are still part of the Yoshida regime. If social welfare expenses are held down so that Japan does not imitate the decline that has occurred in Europe, it should be possible to raise defense spending to 2 percent of the GNP."

U.S. Congressmen Afraid of Elections

[Interviewer] Yoshiro Hayashi is the director of the LDP Accounting Office. Like Kato, he is a former bureaucrat and an expert on international affairs. He made his way to the United States and to the EC countries in a public relations effort for Japan as a member of the Ezaki mission.

Yoshiro Hayashi was born in 1927 and is 54 years old. After graduating from the law department of Tokyo University, he entered the Ministry of International Trade and Industry. He was elected to the House of Representatives in 1969. After serving as chairman of the Executive Council and the Fisheries Committee of the LDP and as parliamentary vice minister of finance, he took his present post as director of the Accounting Office.

Hayashi said that he was shocked at the unexpectedly bad state of the American economy. "Observing from Japan, we get the strong impression only of the decline in the auto industry in America. Autos are in bad shape and so is steel. The construction industry and the housing industry are both in trouble. Agriculture is in the worst condition it has been in since 1937. Because of high interest rates, there are almost no industries which are doing well. The only ones that are doing all right are the industries related to oil and military demand."

[Question] What image do Americans have of Japan?

[Hayashi] "When you watch television in America, you see a lot of commercials for Japanese products--electrical products, transistors, videos, cameras, cars. Even the invader game is mistakenly thought to be Japanese. To the average person being bombarded by these advertisements for Japanese products every day, through the television set in his living room, the image of the Japanese is of people who are always coming to sell something."

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[Question] Is there an evident attack on Japan, especially from members of the House of Representatives, in forums such as Congressional hearings?

[Hayashi] "As if prearranged, they bring up all the obvious items such as oranges, beef, and tobacco. I got the impression that there is an image being built up among Americans of 'Japan, Incorporated' where the Japanese agree among themselves, using a language that the Americans cannot understand, and come to sell their products."

Hayashi then turned the discussion from foreign policy concepts to U.S. domestic politics, in other words, to the Congressional elections coming up in the fall and the relationship of the tensions with Japan to votes. In his own position as a politician, he understands how they think.

"Japan buys 55 percent of its wheat, more than 94 percent of its soy beans, and 90 percent of its corn from America. Therefore, Japan is one of America's best customers. When I talk this way, the Americans say that they understand what I mean. It is the same with beef. American beef is high in quality. Australia's beef is a more ordinary grade. Therefore, if beef were completely liberalized in the Japanese market, American beef would be pushed aside and only Australian beef would come in in large amounts. If that happened, it would be a severe blow to the Japanese animal industry, there would be a decline in the need for feed grain, and imports would decrease. When I explain this, they say they understand me."

However, according to Hayashi, when the politicians say they understand, they still have one eye on elections and mean "yes, but..." When the elections are over, will the fierce American attack on Japan also end? If so, then perhaps we can be optimistic about U.S.-Japan relations.

"There are not many Japanese in America. Therefore, there are no votes to be gained by siding with the Japanese. When the politicians return to their electoral districts to campaign for the offyear elections, it is easy to say that so many people are losing their jobs because of the large amount of Japanese imports. Therefore, Japan is to blame. I think this feeling exists."

[Question] So there is a pattern of American Congressmen understanding the Japanese position intellectually but being opposed on an emotional level?

[Hayashi] "I asked the Americans to consider the Japanese problem from the overall point of view of food and energy security. They say they understand that but what about beef? The same arguments get repeated over and over."

[Interviewer] The relationship has declined seriously when the other party understands with his head but his body will not go along. Whether Japan can overcome this situation or not will depend on the strategy it takes as a nation.

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This Is What the Business Sector Thinks

Following the views of the politicians, let us investigate the issues of U.S.-Japan relations from the business sector's point of view. The direct cause of the tension between Japan and the United States is the trade imbalance. Behind this is the fact of the great expansion of the Japanese economy. Twenty years ago the ratio of the size of the Japanese and U.S. economies was 1 to 10. Now, it is 1 to 2. Thus, there has been a big drop in the relative position of the American economy. Because of this, the U.S. demand on Japan to open its markets is growing in intensity. How do Japan's top business executives feel about this?

Problems in Vertical Diplomacy

Our interviews with major business leaders started with Haruo Suzuki. Suzuki's views were moderate, perhaps because of his long experience in the business world or because his industry is not directly involved in the tensions.

Haruo Suzuki was born in 1913 and he is 68 years old. He is the chairman of Showa Denko K. K. and director of the Japan Committee for Economic Development. After graduating from the law department of Tokyo University in 1936, he entered Showa Denko. He became president of the company and then chairman. Recently, he received an honorary doctorate in economics from Humboldt University in East Germany. A logical thinker, he is known as a top theorist in financial circles.

Speaking in a soft tone, Suzuki began by pointing out the low level of awareness of U.S.-Japan relations in Japan. "I believe the present situation in U.S.-Japan relations is serious. There was a meeting in Hawaii this February between the Japan Committee for Economic Development and the U.S. CED (Council for Economic Development). The American side was surprised at the limited awareness of the Japanese. What I noticed at this meeting was a sharp general perception of Japan rather than any thing specific."

He said that "perception" is a conceptual image that differs from both certain facts and ideals, so it is difficult to understand. With a trace of sarcasm, he said that it seemed as if there was a common text for the critical U.S. view of Japan because everyone said the same things.

[Question] However, isn't the reaction of the Japanese press excessive?

[Suzuki] "No, it isn't. U.S.-Japan relations are very bad. There are not that many people who think the situation is serious. That is true even in the business world."

[Question] Then, what is the fundamental problem in this serious situation?

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[Suzuki] "Even though the American economy is weak, the Americans do not want to admit it. So they have begun harping on the faults of others. Then they bring up such things as farm products, which puts us in a difficult position."

Haruo Suzuki said that from an objective point of view, the solution to the problems between the United States and Japan is the passage of the proposed reciprocity bill. According to his logic, passage of this bill would absorb all the frustration directed at Japan. This could be thought of as reverse psychology.

"However, the business sector would say that this is ridiculous. So, symbolic measures are necessary. Japan should make an all-out effort to remove the remaining restrictions on imports such as tobacco. However, this should be done effectively, with due consideration to timing and the manner of public announcement."

[Question] What about the linkage between these issues and defense?

[Suzuki] "U.S. Government officials are now recognizing Japan's efforts in defense. A situation is developing in which economic matters and defense can be kept separate. A domestic debate will probably develop on the issue of 'excessive advance,' but as long as the buildup is gradual, the United States will probably be satisfied."

On this point, he was in agreement with the opinion expressed by Nori Yoshii (Sony adviser) later in this article while substantially disagreeing with the views of the politicians seen above. This may be the majority view of the business sector.

[Question] There are some in Japan who reject the U.S. demands for opening the Japanese market as excessive.

[Suzuki] "There is a lot of that kind of feeling in the business world as well. I also think that many of the American claims are illogical and excessive. However, there are areas where we should take action. There are areas that we should open up without being told to. In this regard, the American pressure will help promote rationalization in the Japanese economy."

[Interviewer] After making this statement, he made a strong claim that more freedom from government control in the financial and insurance fields is essential from the standpoint of internationalization. This refers to America's attempt to have the service industries liberalized.

However, there are many people in the Japanese financial sector who think that the system of government controls is what has made Japanese economic growth possible.

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This will be made clear by the statements of Toshihiro Tajima (vice president of the Industrial Bank of Japan) later in this article.

[Suzuki] "Certainly it has advantages, but there have been many excesses. It is difficult for the United States to understand government guidance which is not based on laws or official documents."

Certainly this Japanese system must be hard for the Americans to understand. This obscurity is commonly referred to as NTB (non-tariff barriers). There are unique features in the Japanese system of which the Japanese themselves may not be aware.

[Question] Isn't the United States being discriminatory toward Japan?

[Suzuki] "The United States thinks that Japan is different from other countries. The reciprocity bill is clearly directed at Japan. This is because it believes that the Japanese concept of free trade is different from the concept of free trade in the United States and other countries. In America, there is a tendency to think that world peace could be maintained if it were not for the Soviet military threat and the Japanese economic threat."

[Question] Perhaps Japan really is unique.

[Suzuki] "In consideration of its position as a major economic power, representing 10 percent of the world economy, it has many peculiar features."

[Question] However, it could be argued that there is no justification for criticizing Japanese patterns of behavior.

He replied in a clipped tone. "No. America can be self-sufficient, but Japan cannot live without world trade. Otherwise, it must go into isolation. Can it exist as an isolated country?"

[Question] So there is no other way but to use skillful diplomacy?

[Suzuki] "Our diplomacy is not necessarily poor. The problem is that it is conducted without horizontal coordination. There is no comprehensive strategy for dealing with the United States. When there is a failure to resolve conflicts between the various ministries and agencies, everyone goes to the prime minister. However, the prime minister is not able to exercise that kind of absolute authority."

[Question] So it is difficult for Japan to change its passive diplomacy.

[Suzuki] "Passive diplomacy is not necessarily bad. The Japanese are not insensitive to foreign developments. They are oversensitive. Therefore in

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crisis situations, they have an unexpected capacity for pragmatic action. For the time being we have no choice but to rely on this kind of zigzag approach to problem-solving."

[Question] The United States seems to be developing a fear of Japanese economic power. Can U.S. economic power ever be restored?

[Suzuki] "The present tensions between the United States and Japan come from three sources of frustration--cultural differences, a fear of Japanese industrial power, and the U.S. economic recession. However, I think that the United States, unlike Europe, has underlying vitality. In the fundamental areas, military power, energy resources, and food, America has tremendous strength as a nation. It is necessary for Japan to be tolerant with America until it recovers."

After making this statement, Haruo Suzuki concluded by advocating that the time has come for Japan to make an international contribution.

"In the coming summit meeting in June, Japan should take the initiative for overcoming the world recession. Interest rates should be lowered in the United States. Domestic growth must be expanded in Japan. And we must increase our foreign aid."

Government Involvement Also Strong in the United States

[Interviewer] The next businessman to be interviewed was Atsuyoshi Ouchi of Nippon Electric Company. Since he has responsibility in a high technology field which is being viewed with increasing alarm in the United States, his statements were rather strong.

Atsuyoshi Ouchi was born in 1919 and is 62 years of age. He is vice president of Nippon Electric Company. He entered Nippon Electric in 1942 after graduating from the engineering department of Tokyo University. He reached his present position after serving as general manager of the Integrated Circuit Design Division of NEC. He holds a doctorate in engineering and is a major force in IC development in Japan.

Throughout the interview, Atsuyoshi Ouchi spoke rapidly and aggressively about U.S.-Japan economic problems. This was probably due to his pride as an important figure in advanced technology standing on the front lines of the "Japanese challenge."

[Ouchi] "Theoretically, the Americans have no reason to complain about the battle over IC's with which I am involved. The U.S.-Japan trade is relatively balanced in the field of IC's, and in September of last year, Japan speeded up tariff reductions at the request of the United States, so the present tariff is 4.2 percent, the same level as in the United States."

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After this statement, he frowned and said: "However, this year the United States began to complain about IC's along with other items." An argument has arisen in America that import restrictions should be placed on 64K LSI's, for which Japan is the top producer, for reasons of national security.

It is a fact that 70 or 80 percent of the 64K chips sold in America are imported from Japan. Japan is suddenly putting pressure on the high technology industries of which America has been so proud, and it seems possible that, in its momentum, it could surpass America. This idea took the form of alarm at Japanese economic power expressed in the Gibbons report.

Ouchi frowned as he went on: "I do not understand the true intention of America. Its demands are confused. Is it asking us to get out of advanced technology or is it asking us to cooperate in joint research?"

[Question] Can you say that Japanese advanced technology has surpassed that of the United States?

[Ouchi] "No, I do not think so. Japan is superior in the 64K product, but we rely on imports from the United States in many high-performance items. In other words, there is an even trade between Japan and the United States in high technology, and in this area, there is coexistence and coprosperity."

[Question] Is the United States becoming more alarmed at the underlying strength of Japan?

[Ouchi] "Yes. The United States instinctively feels that it has been able to maintain its leadership of the free world mainly because of its absolutely superior world position in advanced technology. There is a fundamental annoyance at this being threatened by Japan. However, I cannot go along with the idea that Japan and Europe must always be subordinate to the United States in advanced technology. It would be very sad if the United States came to look at Japan in the same way that the Soviet Union looks at Poland and Afghanistan."

After this statement, Ouchi turned to parrying U.S. criticism of Japan Inc. "The United States often criticizes the fact that the Japanese Government provides support for research and development of advanced technology, but this is mistaken. Only 2 or 3 percent of the research and development in Japan's electronic and machine industries is paid for by the government. Almost all of this expense is taken out of corporate profits. In comparison, business in the United States is much more dependent on Uncle Sam. Almost 50 percent of research and development expenses in the U.S. electronics industry is provided by the U.S. military or NASA orders."

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Because of this, he emphasized that the U.S. view that Japanese competitiveness has grown so much because of the small Japanese defense burden is not convincing. In short, the development of advanced technology in the United States has been supported by defense expenditures.

[Question] In that case, the American ideas of linkage between economics and defense and the Japanese free ride are mistaken?

[Ouchi] "That's right. The United States is carrying out research and development on advanced technology in the name of military preparedness. The strength of the Japanese economy is a result of the great effort we have made since the end of the war, not of a failure to arm."

These strong statements are backed up by the record of the Japanese high technology industries, which, unlike farm products and automobiles, have competed fairly with the United States.

"Nippon Electric itself has built a plant in the United States and is working with American employees. In this area, we were much quicker than the automobile industry to move into the United States and make a contribution to American employment."

[Question] So what action should Japan take?

[Ouchi] Japan should open its markets where appropriate and stand up to America when necessary. When I observe the United States now, I feel that it is taking out its frustration on Japan because of the failure of its economic policy. The United States has great underlying strength and if it makes the effort, it can recover. On this point, it is different from the developing countries. Japan has a large population, few resources, and a small land area. You can say that Japan should provide aid to the developing countries, but there is no reason to be concerned about the country like the United States which is much wealthier than Japan."

[Question] Do you think that the Japanese Government is showing too much deference to the United States?

[Ouchi] "The Japanese Government comes and tries to convince us not to upset the United States. That is all right, but we must make our position clear. Japan should conduct diplomacy in a much more straightforward way. If the United States makes unreasonable demands about the defense burden, the Japanese situation should be explained clearly. In other words, we should tell the Americans that excessive demands will lend strength to the movement to abolish the Mutual Security Treaty, that there is a danger of alienating Japan from the free world."

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Financial Liberalization Would Lead to Chaos

[Interviewer] Along with high technology, America has targeted the isolation of Japan's financial market. On this question, I asked the views of Toshihiro Tajima, vice president of the Industrial Bank of Japan. The Industrial Bank of Japan has been a major controlling power in the Japanese financial system since it was founded in 1902, providing support for the industrialization of Japan.

Toshihiro Tajima was born in 1919 and is 62 years of age. He presently serves as the vice president of the Industrial Bank of Japan. After graduating from Tokyo University of Commerce in 1940, he entered the Industrial Bank of Japan. He reached his present position after serving as manager of the research department of the bank. At present he is a representative spokesman of the financial sector, serving as a member of councils associated with the Ministry of Finance, MITI, and the Ministry of Posts and Telecommunications. Perhaps because he is very much aware that the focus of attention in the economic tensions between the United States and Japan is shifting toward service industries, especially banking, Toshihiro Tajima spoke with feeling about the effectiveness and advantages of the Japanese financial system. His views were in sharp contrast with those of Nori Yoshii of Sony.

[Question] What do you think of the condition of U.S.-Japan relations?

[Tajima] "American emotionalism is escalating. I don't think it can be helped in view of the huge trade deficit it has with Japan, but there is much misunderstanding about the closed market of Japan. Attention seems to have focused on service industries, especially banking, but this is inappropriate."

[Question] Can you say that the Japanese financial system and financial market is sufficiently open?

[Tajima] "In Japan, there is no distinction made between foreign and domestic banks. In fact, foreign banks even have some special privileges such as being exempt from the obligation to purchase national bonds. However, the United States is asking us to stop the administrative guidance of the Ministry of Finance and to liberalize the system. It is difficult to change the unique Japanese system."

With this, Tajima began to point out the merits of the Japanese financial system. "Banks have the important function of supplying funds to industry. If the Japanese financial market collapses, it will have a serious effect on the industrial order. If the financial market is completely liberalized like that of the United States, many new products will be introduced, as we saw with zero coupon bonds. The results will be higher interest rates in Japan. If the interest rate rises to 15 percent, what will happen? The economy will be destroyed. The result would be awful if we imported the U.S. system."

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[Question] However, if Japan advocates free trade and free transactions in physical products, but does not liberalize the financial system, will the Americans accept such a position?

[Tajima] "Just as America allows possession of guns, there is nothing wrong with Japan having its own unique system as long as it does not discriminate between foreign banks and domestic banks."

[Question] In America, many people are saying that the Japanese system itself is insular and closed and are calling loudly for reform.

[Tajima] "We would like to ask the Americans to stop allowing the possession of guns. The American system isn't perfect. A system cannot be changed immediately."

Raising his voice, he went on to criticize the American charge of a "free ride" in defense as being excessively self-centered. The original cause of Japan's low defense spending was the U.S. occupation policies and the constitution the Americans forced on the Japanese. The seeds sown by the Americans have grown into a great tree of Japanese resistance to defense. Therefore, just because they tell us to increase our military capacity now, the system cannot be changed so quickly. Then he continued: "I would like to ask which banking system is better, that of the United States or Japan. Industry should have complete freedom for competition. Banks have the function of providing the life blood of industry, and if they are not regulated to some extent, the optimum distribution of resources cannot be achieved from the standpoint of the entire national economy. This is something in which we have unshakable confidence. Without the optimum distribution of resources, high growth is impossible. In a free financial system, the ground the banks stand on is weakened and bank operations come to focus on profits. If this happens, the banks become unable to lend money to industry from a long-range point of view, and bankruptcies increase."

[Question] This kind of thinking is the concept behind Japan Incorporated, and this is exactly what the Americans criticize.

[Tajima] "Japanese postwar growth was possible because of the Japan Incorporated system. I would like to tell the Americans to use a more moderate system. A small government is fine. But a free financial system creates problems. Interest rates should be controlled. I would like to tell this to Mr Reagan directly."

[Interviewer] I was somewhat awestruck by Toshiro Tajima's argument criticizing financial liberalization and the American financial system and praising the Japanese system of controls. It even had a fresh sound to me because there are so few people nowadays who argue against financial liberalization so energetically.

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Of course, the U.S. Department of the Treasury says that there is no need to greatly revise the unique financial system of Japan. But how long can Japan continue to ignore American demands for a more open market?

[Question] So is there no need for Japan to accede to American demands?

[Tajima] "As far as the financial system is concerned, there is no need to introduce the American system because it does not work well. However, we should liberalize the remaining import restrictions on the 22 farm products and improve import procedures as much as possible. These measures would produce only a slight shock in the national economy. There will certainly be political problems, but we must plead with the people involved and beg for their cooperation as much as possible."

[Question] However, as a great economic power, shouldn't Japan make a greater international contribution?

[Tajima] "Defense spending should be increased to some extent. And for now there should be an increase on ODA. As a first step, the sum of defense spending and ODA should be increased from the present 1.5 percent to 3 percent."

Then Tajima concluded by reiterating: "If we liberalize the financial system that has supported the Japanese economy, the result would be the kind of chaos we see in America."

The Friction Has Been Taken Care Of

[Interviewer] Hei Yoshii of Sony cautioned against an extreme reaction on the part of Japan and presented a unique view of U.S.-Japan economic relations.

Hei Yoshii was born in 1911 and is 70 years old. He is now a consultant to Sony. After graduating from the Nagasaki Higher School in 1932, he entered Mitsui Bank. In 1962, he moved to Sony and served as executive managing director and senior executive managing director before taking his present post. He has unique capitalistic economic views and is conversant with international affairs. Hei Yoshii began expounding his unique views in a strong voice that didn't seem to belong to a 70-year-old man even before I had finished asking my question about what he thought of the status of U.S.-Japan economic relations.

[Yoshii] "I do not think that U.S.-Japan relations are bad at all. A number of problems have come up, but they have been taken care of one by one. All the problems related to physical products were solved with the automobile export restraints last year. The only remaining problem for automobiles is how fast the industry can move into local production. The only other problems concerning physical things are oranges and tobacco, but these are small problems."

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[Question] So are you saying that the only remaining U.S.-Japan economic problems are minor ones?

[Yoshii] "Yes. The service industries come next. There are plenty of problems in this area in Japan even if the Americans did not point them out. The Ministry of Finance says that it does not discriminate against foreign countries in banking, securities, and insurance. However, there are many problems. At any rate, it is not desirable to invite problems just because of insignificant considerations in either farm products or service industries. Electronics have competed openly, and sooner or later, the market should be opened in these other areas."

Perhaps because of confidence gained in overcoming the television problem, Hei Yoshii believes that the U.S.-Japan economic problems are fundamentally minor ones.

[Question] Is it overreacting to say that Japan is in big trouble?

[Yoshii] "Yes. The Japanese overreact to small things and have unnecessary feelings of victimization. This is because the Japanese are poor and good people. Even the reciprocity bill is not a big problem. The U.S. Congressmen are saying all sorts of things for the benefit of their voting constituencies, but the major U.S. newspapers are ignoring this movement. The reciprocity movement itself can be thought of as an opportunity for the Japanese to stop some foolish practices."

[Question] There is a growing view in the United States which links economic issues with defense.

[Yoshii] "The increased defense spending in this year's budget was a big success. The United States knows that it forced the peace constitution on us. They are not really coming out very strongly on this issue, are they? The next target of the United States is the service industries, not defense."

Here he pointed out that many of the problems connected with the service industries were minor but that there were others which could not be ignored. Then he continued: "For example, if an American company wants to issue bonds in Japan, it takes a year and a half after making the application to complete inspections, underwriting, and other procedures. In the United States, it only takes 20 days. The United States will focus on such problems as this from now on. At any rate, the Japanese financial market is not normal."

[Question] However, even though we are asked to liberalize the financial market, there are some who feel that there is no justification for the Americans to make such a demand on the unique Japanese system.

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[Yoshii] "Unless we liberalize the financial system, the Japanese economy cannot grow stronger. A system without competition will inevitably work badly. U.S. color television was beaten out by Japan for this reason."

He emphasized that the bureaucracy has its fingers in every part of the Japanese economy, not just the financial system, and that this is beginning to draw the vitality out of the Japanese economy itself as well as preventing the penetration of foreign industry. He then concluded his statement.

"The thing that worries me the most right now is that the Japanese economy is not as strong as the Japanese people believe. By 1985 there will be a reversal in the positions of the U.S. and Japanese economies. Observing the recent developments and government policies in the United States, I believe that a recovery of the American economy is very likely. The real problem is that the Japanese economy is in danger of declining. Compared to this, the present tensions between Japan and the United States are a small problem."

"Sympathy" for America

These four businessmen gave their unreserved opinions on the economic tensions between Japan and the United States. Next, in order to find out how a labor leader viewed these problems, we interviewed Ichiro Shiomichi, the head of the automobile workers union.

Ichiro Shiomichi was born in 1927 and is 54 years old. He is president of the National Federation of Auto Workers Unions and vice president of the Japanese Confederation of Labor. After graduating from the law department of Meiji University in 1953, he entered the Nissan Motor Company. Recently he studied at the Harvard Business School. After serving as president of the Nissan Motor Company Labor Union, he came to hold his present position. He is the most influential figure in auto industry labor unions and the top expert on foreign affairs among labor leaders.

Ichiro Shiomichi spoke eloquently on the positive role to be taken by labor in easing the economic tensions between the United States and Japan, especially with respect to the auto issue.

[Question] U.S.-Japan relations have gotten quite bad.

[Shiomichi] "Rather than saying that relations are bad, I would say that they have gotten close enough to make quarrelling possible. However, it is unfortunate that the Japanese side has not clearly grasped what the real nature of the trade problem is. Trade is a purely economic problem, but the friction is a political problem. Therefore a solution cannot be produced with economic theories alone. We have to get away from theories and take a political approach. However, the Japanese Government and industry are, as usual, relying only on economic theories and failing to deal with the problem politically."

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[Question] There is a common view in Japan that the United States is wrong to make an issue of the bilateral trade deficit with Japan rather than its overall trade deficit.

Japanese Government officials and many economists stoutly criticize the American claims as one-sided.

[Shiomichi] "With respect to an overall view, there is no agreement among all countries of the world. There are certain countries with a relationship that must be considered bilaterally. The United States is not thinking of limiting the problem to our two countries. However, it is saying that consideration of the problems between the United States and Japan is necessary."

After making this statement in one breath, he paused and went on.

"It is not a problem of money. The problem is whether there is 'sympathy' in Japan for America's difficulties. The biggest problem in Japan is the occurrence of large-scale unemployment. Japan is forgetting that the basic economic problem between the United States and Japan is the issue of employment."

[Question] Last year Japan determined restraints on auto exports to the United States. Will this have any effect in solving the unemployment problem in the U.S. auto industry?

[Shiomichi] "There is no reason to expect an increase in employment because of the reduction of 140,000 vehicles last May. This measure had great significance in showing Japanese sensitivity, or in other words, sympathy and sincere concern, toward the United States. This is a matter of politics, not economic theory."

After this statement, he emphasized that Fraser, head of the UAW (United Auto Workers), had shown understanding of the Japanese position on this point.

[Question] There is criticism that the Japanese auto industry has been slow in building plants in the United States.

[Shiomichi] "It could have been done better. Instead of resisting from the start, it should have promised the United States at an early point to make studies and investigations to see if local production would be feasible. Just because a study was made, it would not have been necessary to go ahead and build a plant. The problem is that the Japanese side was not sincerely concerned."

[Question] In any case, we can say that tension over automobiles has been eliminated for the present, can't we?

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[Shiomichi] "No, it still exists. Last year, 1.8 million Japanese cars were imported in the United States, while only 7,700 American cars were imported in Japan. This is an abnormal gap. Furthermore, U.S. auto production capacity is 10 million cars per year, but only 6.2 million cars were produced last year and unemployment is becoming a serious problem."

[Question] How should Japan deal with the United States?

[Shiomichi] "Such efforts as the joint production being carried out by Toyota and GM will help alleviate friction. UAW President Fraser and other officials told me the following. They want Japan to build local plants to help solve the employment problem. But they also hope that this will stimulate U.S. auto companies such as GM and Ford."

Following this, Shiomichi raised his voice as he began to criticize the methods of the Japanese industry.

"The Japanese auto companies are attempting to prevent the organization of unions at local plants. The Japanese companies are building their plants in the sun belt where there are many non-union workers. What will happen if Japanese companies carry out production with low-cost labor and poor working conditions? American industry in the northeast employs union labor. Therefore, the new Japanese plants in the United States will further exacerbate the "North-South problem" in the United States. The United States is hoping that Japanese companies will bring Japanese style labor relations to the United States. The UAW has said that it will cooperate with these Japanese style labor relations."

The approach of Japanese industry is to pursue immediate profits. It is lacking in "understanding" of the United States.

[Question] What should be done from now on to improve U.S.-Japan relations?

[Shiomichi] "In U.S.-Japan auto negotiations, MITI, the Foreign Ministry, and industry all take separate approaches. This sort of approach is odd for a large country. With respect to automobiles, there is a relationship of trust between the labor unions of the United States and Japan. In future U.S.-Japan negotiations, the government and the unions should work together."

Because of his confidence in the strong trusting relationship between the auto workers unions of the United States and Japan and his personal trusting relationship with President Fraser, he concluded as follows.

"The relationship between one country and another is built up from the relationships of individual people. If personal relationships are created between people in the United States and Japan from the various sectors,

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government, business, education, and labor, I am sure that a close relationship of trust will develop between the two countries. When this happens, the tensions will disappear. However, at present, outside of the labor unions, we cannot say that there is trust between the United States and Japan."

Special System in Japan

[Interviewer] Our last interview related to the business world was with Jiro Tokuyama. He is not purely a businessman or financier, so he analyzed the structural characteristics of U.S.-Japan relations from an objective point of view.

Jiro Tokuyama was born in 1919 and is 62 years old. At present he is director of the Nomura Management School. After graduating from the economics department of Tokyo University, he worked for the Defense Agency, JETRO, and served as vice president of the Nomura Research Institute before taking his present post. He is a profound scholar of American politics and government and a commentator with unique views.

Jiro Tokuyama began the interview with his theory of the uniqueness of Japanese society. It was an extremely interesting theory.

[Tokuyama] "Many people do not like the argument that Japan is a country with a unique structure, but I believe that, compared to the United States, Japan has a very unique system. For example, the United States has 27 times the land area of Japan but only twice the population. If this ratio were applied to Japan, only 8 million people would live there. However, there are 120 million people living in Japan. Under these conditions, the Japanese system is 'warped' from the start."

He began with this statement and then said: "Because of this excessive situation, the Japanese have few opportunities and have a hard life. Many of the mechanisms of Japanese society have resulted from this. Many of the things that seem illogical from the viewpoint of the United States are logical under the given conditions in Japan. Our resplendent method of decisionmaking is a good example. Because of the lack of opportunity, group harmony provides a guarantee of security. This leads to strong group loyalty. However, this also results in exclusion of other groups. The Japanese archipelago is built up to a total system of such groups and organizations.

"It is difficult for the Japanese themselves to be accepted in these groups. In this sense, it is not only foreigners who are excluded."

He stated further that because the system is insular, it does no good to advise the leaders to become internationalists. In the foreign branches of Japanese companies, there is a system of "noncommissioned officer" compensation for employees hired locally. The representatives of the company living abroad work with their eyes on Tokyo. Their children discard their extraordinary foreign experience and return to Japanese high schools and universities in order to adapt to the group system in Japan.

[Question] Then, is it necessary to revamp this entire system in order to eliminate the tension between Japan and the United States?

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[Tokuyama] "Theoretically, that may be true. Such a social system cannot be simply changed overnight. For example, there are other problems than over-population. Japan is being criticized for not buying the products of foreign countries, but until recently there were no industrial countries around Japan with which it could have a buying and selling relationship with a horizontal division of labor like that in Europe. Therefore, Japan came to make all its own products."

[Question] Why doesn't the Japanese Government explain these things to the United States?

[Tokuyama] "There are many Japanese who themselves do not understand the structure of Japanese society. Also, the Japanese elite, in government or in the private sector, seldom move outside of the groups to which they themselves belong. Since they do not have the experience of being cut off from the group, these people on the "inside" in Japan may not be able to understand the frustration of the United States at being on the "outside." Also because this is not a contest where the losers have a chance to make a comeback, the government does not dare make any bold statements."

Perhaps Tokuyama has a good understanding of the "logic of exclusion" because of his own experience in changing jobs several times, from the Defense Agency to JETRO to the Nomura Research Institute.

[Question] If we do not provide an explanation to the United States or if it does not understand our explanation, is there any course left except defiance?

[Tokuyama] "Certainly, America is making some rather one-sided claims. However, if no common ground is found for the claims of the two sides, the reality is that the argument of the strongest side will prevail in the arena of international politics. If we assume a defiant attitude, it will probably lead to a repeat of the Pacific war or to a position of isolation. But be that as it may, because of modern progress in jet aircraft, communications, and computer networks, the economic world is rapidly becoming more and more interdependent. Japan can no longer go back to being an economically isolated country."

After saying this, he emphatically stated that the most effective approach is for Japanese companies to go overseas. Furthermore, he said that in consideration of the present pace of liberalization, it would be necessary for domestic business methods in Japan to become just the same as the business methods of foreign countries.

[Question] How should Japan deal with economic tensions for the time being?

[Tokuyama] "In any case, we should open the market to symbolic items like tobacco, oranges, and beef and service industries such as finance, insurance, and data communications. Tobacco and oranges are irrelevant to Japan's food security. Those who are hurt by this measure should be helped domestically."

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[Question] Japanese diplomacy has a tendency to take the form of passive reaction. This gives rise to an uneasy feeling about Japan's future.

[Tokuyama] "Considering the previous position of Japan in the world, there was a time when it was better not to have a diplomatic philosophy. However, now that Japan is the second greatest economic power in the world, that will not do. It should take an appropriate role in international society. If Prime Minister Suzuki is a novice at diplomacy, the foreign minister should assign an expert in this area. The post of foreign trade minister should not have been abolished.

"Japanese politicians cultivate their domestic voting districts with great vigor, but they have completely failed to cultivate the electoral districts in the arena of international politics as the world has grown smaller. If trade friction between the United States and Japan occurs again, we will have no bargaining power."

This Is What the Bureaucrats Think

[Interviewer] The real power to determine the will of Japan and formulate government policies belongs to the bureaucrats. They have great intelligence and access to huge amounts of information, and it is undeniable that their thoughts and actions have a great effect in determining the direction that Japan takes.

We obtained the frank views of three bureaucrats on U.S.-Japan relations. They were Jo Hashimoto, a bureaucrat serving in the Foreign Ministry, Takashi Hosomi, a former MOF bureaucrat presently working for the Overseas Economic Cooperation Fund, and Saburo Oki, a former Economic Planning Agency bureaucrat who has served as foreign minister.

We Don't Feel Like a Great Economic Power

Jo Hashimoto was born in 1926 and is 56 years old. At present he is chief of the Public Information and Cultural Affairs Bureau. He entered the Ministry of Foreign Affairs after graduating from the law department of Tokyo University in 1953. He served as manager of the China section of the Asian Affairs Bureau before taking his present post. Hashimoto has been on the front lines in the trade conflicts with the United States. As a Foreign Ministry spokesman, he has had contact with the United States and has served in a coordinating role among the various ministries and agencies in Japan. Speaking with a unique accent, he advocated Japan's position and fiercely attacked the domestic criticism of the Foreign Ministry.

[Question] What do you think has caused the U.S.-Japan trade friction?

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[Hashimoto] "The basis of problems between Japan and other countries is a perception gap. Japan may be called the second largest economic power in the world or an economic giant, but I myself and the majority of the Japanese do not have a sense that this is a reality. Other countries tell us to carry out the responsibilities of a great power, but the Japanese do not feel as if they are a great power, so this doesn't ring true. Since even the United States is telling Japan to take more responsibility, we must suppose that there is an even stronger demand from countries which are economically weaker than Japan such as the EC, Southeast Asia, and the Middle East. This is the basic nature of the problem."

[Question] More specifically, what is this perception gap?

[Hashimoto] "For example, in terms of statistics Great Britain has very bad unemployment and inflation. However, if you drive along the Thames River, you will see many beautiful houses with large lawns and more people than you can count enjoying themselves with their families on sailboats in the river on Sundays. No matter how far you go up the Sumida River in Japan, there are only small matchbox-like houses. And on Sundays, would you ever see families in sailboats? There are excellent restaurants along the upper Thames, but the most you will find along the upper Sumida River are noodle shops. I have no sense of Japan being a great economic power. We were beaten in war and have crawled up out of an environment of levelled cities where we were hardly able to eat."

This is one Japanese viewpoint. When Japan is subjected to one-sided criticism, it is not unusual for some Japanese to become defiant and say along with Hashimoto: "That's ridiculous! We had to drag ourselves up from burned out cities." The director of Public Information and Cultural Affairs at the Foreign Ministry may be making this kind of statement because his position puts him at the center of the tension. He continued to energetically defend the Japanese position.

"Japan has opened its markets more than America says. The United States says that it cannot do business in Japan. That's ridiculous! Last year the American who is president of the Japan MSD Company came to see me. He said that he had had great success in Japan. The company has developed medicines for use by doctors and hospitals, and not only medicines for human beings but also for cattle, horses, dogs, and cats. It has built new factories in a number of locations and is expanding. According to the president, the greatest reason for success is that no trouble has been created between the partners. They always speak openly to each other, and he and the officers of the joint venture live the same life as the Japanese. He says that for the year-end party, they go to a hot springs resort in the country and all get in the bath together. And they do dances wearing Japanese-style headbands. He cannot speak Japanese but he understands the Japanese mentality perfectly, so he was

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able to open up his market. He is bringing students from America to have them learn Japanese. He says that most Americans do not understand Japanese at all. He emphatically stated that 'the Japanese are not shutting foreigners out of their market.' I would like to have the Americans read a pamphlet entitled 'A Success Story in Japan.'

[Question] Even if the Japanese viewpoint is understandable, it will not do to reject all the claims of the other side in actual negotiations between the United States and Japan, will it?

[Hashimoto] "There are always economic tensions between the United States and Canada and between the United States and the EC. However, they are fighting in the same ring and under the same rules so they always reach a solution. However, the things that the United States is asking of Japan show a difference in the rules between the United States and the EC and those between the United States and Japan, don't they? Also, Japanese customs are 2,000 or 3,000 years old. There are certain minimum conditions that make it impossible to change the rules immediately on demand. We must make the other party aware of this. In other areas, it is necessary to move as close to the common rules of the free world as possible."

[Question] Which requests is it impossible to accept?

[Hashimoto] "One example is rice. The Americans want to sell rice from California. But can we reduce the Japanese rice farmers to nothing? This we cannot accept. If a war started and the sea lanes were closed off, what country would guarantee a supply of rice to Japan? It is clear that this is impossible. Because this is a consensus society, it is difficult to reach a decision on what should and shouldn't be liberalized."

[Question] It is reported that the prospects of the Danforth bill will become clear fairly soon. What measures do you think should be taken to solve the problem for the time being?

[Hashimoto] "Fortunately, there is a definite feeling now that both the related ministries and the LDP must take some sort of action. Postwar Japan has handled these kinds of crises very well. Since Japan is being criticized not for being a poor student of economics, but rather for being too good a student, the solution is comparatively simple. The proposed solution is being formulated right now, so I cannot divulge it in detail."

[Question] The Foreign Ministry is slow at catching information and slow in taking action when a problem develops. Some very strong criticisms are being made. There is a view that, irrespective of U.S.-Japan trade friction, the Foreign Ministry is creating friction inside Japan between itself and other sectors.

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Hashimoto responded to this immediately, perhaps because of his position at the center of this strong criticism. "Politicians, businessmen, and scholars all criticize the Foreign Ministry. But I am not surprised at this. That is because the Japanese have a common habit of self-abuse. This has been true since the Meiji period, whenever there is strong pressure from the outside. They find a scapegoat, saying that he is to blame. Furthermore, there is no feeling of affinity among the people regarding Foreign Ministry officials. In the past, most people never came near the Foreign Ministry except when applying for a passport. Now the prefectures and municipal areas handle passport procedures, so there is even greater distance. The Foreign Ministry differs from the Ministry of Agriculture, the Ministry of Finance, the Ministry of Health and Welfare, MITI, and the Ministry of Construction which have a close connection with the people. The people probably feel that diplomats marry girls from rich families, receive guests from foreign countries, and cavort at parties in white tie and tails. Also, the strength of bureaucrats comes from their authority to grant approvals, but the Foreign Ministry has none of that. Therefore, no matter how badly a person speaks of the Foreign Ministry, there will be no retaliation, so it is easy to criticize.

"The most important property of the Foreign Ministry is the diplomatic personnel themselves. It is useless to ask the diplomats to do a better job than politicians, businessmen, or the press. They are average Japanese. It is wrong to simply tell the Foreign Ministry to shape up while refusing to let oneself be the target of criticism. The people in the Foreign Ministry are rather timid, nice people in comparison with media people, politicians, or other bureaucrats. If the entire Japanese nation says that the Foreign Ministry is no good, they fall into a state of depression. Therefore, they should be treated with more finesse. If the politicians and the media would cajole them a little, they would work themselves to death."

[Question] Ambassador Mansfield is an influential man who served as the Senate majority leader for the Democratic Party in the United States. He makes contact with all sectors of Japanese society, including politicians, businessmen, and the mass media. Can you say that the Japanese ambassador to the United States is doing the same kind of thing?

[Hashimoto] "In just the last 2 or 3 months, Ambassador Ogawara and other Japanese Embassy officials have met with over 80 American legislators from both houses of Congress. The ambassador is continually having lunch and dinner with influential American politicians. He even meets often with Senator Danforth, who proposed the reciprocity bill. The Foreign Ministry is not good at communication and just has not advertised this in Japan. Just the same, we cannot say that things are fine just as they are. We will give due consideration to our shortcomings. Information is the life blood of the Foreign Ministry. The ministry has always been aware of this. Another thing we must do is to carry out the function of coordination between the other ministries. However, the execution of specific measures must be left up to the ministry involved."

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[Question] If it is that type of government organ, it cannot be expected to function well without the support of the Diet members and public opinion.

However the Foreign Ministry seems to have a tendency to keep them at a distance.

[Hashimoto] "I am sorry for that. We must get the Japanese people on our side. Public relations will not suffice for three thousand and several hundred employees of the Foreign Ministry to obtain the support of a hundred million people. Therefore, we must at least be supported by the Diet, the mass media, and the prime minister. The prime minister's office is the only organ which can make decisions from a high vantage point without being swayed by the positions of the various ministries. The mass media is stronger than the old Imperial Army and Navy put together. Therefore, the Foreign Ministry must produce good policies and obtain everyone's support."

In conclusion, he said the following. "What I would like to say to the leaders of every sector is not to make a big commotion and overreact just because of some demands from a foreign country. It is natural for the wind to buffet the front runner. We should not sigh and brood about this, any more than we should take the small country attitude of slandering our fellow countrymen. We must learn to take a tougher attitude."

The Japanese Are Too Nonchalant

[Interviewer] Jo Hashimoto is a uniquely patriotic bureaucrat from the Foreign Ministry. Takashi Hosomi is known as a flexible but tough internationalist even though he served in the Finance Ministry where many of the bureaucrats have domestic leanings. His statement was in sharp contrast to that of Hashimoto.

Takashi Hosomi was born in 1920 and is 61 years old. At present he is the president of the Overseas Cooperation Development Fund. He entered the Ministry of Finance after graduating from the economics department of Tokyo University in 1942. After serving as director of the Tax Bureau and as a finance officer, he was transferred to the Industrial Bank of Japan as an adviser and then moved to his present post. He is an authoritative commentator on international finance and economics. Takashi Hosomi spoke in a light tone but he emphasized that the present U.S.-Japan relations are in a serious state.

[Hosomi] "U.S.-Japan relations are now in a more serious state than before. What is worse is that the American perception of the Japanese has become cynical. They are calling us commercialistic. I sensed this strongly when I went to the United States in February."

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After this, he added that the Japanese have gotten carried away and over-emphasized the charge that the Americans are not trying hard enough. Now that America is imposing demands to open the market, insularity that the Japanese themselves were not aware of has come out in the open. With a look of great irritation, Takashi Hosomi criticized the non-international character of the Japanese.

"On the issue of farm products, the Japanese are always being pressed hard by the Americans and they always respond with tiny improvements. In other words, from the American point of view, the Japanese market is very hard to understand. The Japanese should have let the Americans know in advance how far they were willing to open the market and how far they were going to put a handicap on it."

[Question] But isn't the recent Japanese reaction excessive?

[Hosomi] "No, too nonchalant. We were taking the problem too lightly. With the Ezaki mission, we finally understood how serious it was.

[Question] I get the feeling that America is saying whatever it wants.

But he denied this. "No, Japan has done nothing to make America feel obligated. Up to now, we have just hung on the United States."

[Question] Why is there no progress in opening the Japanese market?

[Hosomi] "It is connected with streamlining the administration. There is a huge number of government officials who participate in regulating the market in direct and indirect ways. If the employment security of these officials is considered, it is not possible to open the market easily."

After saying this, he stated emphatically that it will be impossible to change the American perception of Japan unless a bold plan for carrying out liberalization measures is presented.

"In addition to opening the market, another thing we should do in our role as a great economic power is to increase our share of the defense burden. If the responsibilities and burdens of a great economic power are undesirable, we will have to lower our standards of living and live within narrower limits. Is that possible?"

After this statement, Hosomi pointed out that there was no tradition in the long history of Japanese political parties for political groups to think about national security or diplomatic strategy. Before the war these kinds of problems were handled by the military and the diplomats. After the war, the

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bureaucrats took power away from the politicians, and as a result, they lost the role of passing legislation on national security and diplomatic issues from an international point of view. Because of the traditions of party politics, it is easy not to think in terms of international issues.

[Question] Is it possible for Japan to carry out diplomacy as a major power?

[Hosomi] "In any case, it must be done. For this purpose, it may be necessary for members of political parties to take some blows from the United States as part of their patriotic mission. In this way, an international viewpoint may begin to grow in Japanese politics. The Ezaki mission succeeded as the first step in such a process."

In other words, Japan must cultivate new politicians to cope with the "international environment." According to Hosomi, a system must be constructed in which international interests and separate local interests compete with each other within the political parties.

[Question] So you are saying that the passive diplomacy of the past will no longer work?

[Hosomi] "It is impossible. At any rate, the United States is poor now and cannot do anything for us except provide a nuclear umbrella. Japan must make an effort in defense. But we must consider the dangers of an aggressive foreign policy losing its balance. There are many Yosuke Matsuoka's in Japan who could stir up anti-Americanism."

Hosomi concluded with the following observation, which he prefaced by saying that he was promoting his own personal interests.

"Japan could amaze the world if it doubled its ODA. The United States might not give us the credit due, but it would be good for the world."

Global Contribution by Japan

[Interviewer] The last person to be interviewed was Saburo Oki, an international economist who spends a third of his time overseas at international conferences. He is known for his balanced views.

Saburo Oki was born in 1914 and is 67 years old. At present, he heads the Foreign and Domestic Policy Study Committee. After graduating from the engineering department of Tokyo University, he entered the Communications Ministry. He has served as director general of the Economic Planning Agency, director of the Overseas Economic Cooperation Fund, and Foreign Minister.

Although he had just returned from Hong Kong the previous evening, there was no trace of fatigue in his expression, and he began to talk about the present difficulties in U.S.-Japan relations without a pause.

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[Oki] "Previous economic problems between the United States and Japan, whether it was textiles, color television, or automobiles, were always related to specific products. Now the demand is for a general opening of the market. The direct cause of this is the fact that Japanese exports to the United States in 1981 increased by 23 percent while imports from the United States increased by only 3 percent. This sparked off trouble immediately."

[Question] Is it accurate to say that the roots of U.S. criticism of Japan run very deep?

[Oki] "Recently I met with the former representative of U.S. commerce, Mr Askew, in Miami. He said that previously there were guidelines on both sides for taking the necessary steps in economic problems between the United States and Japan. However, now the problem is snowballing to such an extent that such guidelines no longer exist."

Because Saburo Oki's views are based on frequent contact with foreign officials, even his matter-of-fact tone was very convincing. He continued.

"Therefore, in the present U.S.-Japan trade problems, there is a tendency to forget the broad view. Even the U.S. side is concerned about this."

[Question] There are some odd aspects to the American claims. For example, the criticism of Japan based only on the trade deficit....

He said that was true and went on with reference to trade statistics.

[Oki] "The American claim is lacking in basic common sense on economic issues. First, there is the narrow focus on the trade deficit between only two countries, the United States and Japan. The United States certainly has a large trade deficit with Japan, but it has a surplus with the EC nations. Second, the United States is only looking at product exports. It should look at the current balance with service trade included. The United States has a large deficit in product trade but the non-trade balance shows a large surplus. In short, it should look at the overall current balance, not just at a bilateral product trade balance."

[Interviewer] Oki's observation was logical. As far as economic problems are concerned, the U.S. claim is illogical. However, the fundamental nature of the economic friction problem relates to political logic, not economic logic. Therefore, it will not solve the problem if the Japanese side continues to repeat its economic arguments. The problem goes beyond economics. One source of frustration for the United States is the problem of Japan's defense burden.

[Question] In the United States there is a concept of linkage between economics and politics, isn't there?

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[Oki] "The U.S. State Department and government officials officially deny this idea of linkage. However, the linkage concept exists as a real problem. There is an underlying idea in the United States of the 'free ride,' whereby Japan has been able to direct its economic power to the expansion of international competitiveness because of the small size of its defense burden."

Besides this idea of a "free ride," there is a growing fear of Japan that underlies criticism of Japan in the United States which cannot be ignored. Saburo Oki quoted from the Gibbons Report on this subject and pointed out that the United States is taking a serious view of the Japanese challenge in the field of high technology. Japanese industry is holding a knife at the heart of American industry.

Oki said that "Japan should do what it can to alleviate American frustration." Then he continued.

"Japan has come to hold a great deal of economic power in the world. Japan's present system and bureaucratic thinking seem very unnatural from the outside. Japan is wearing clothing which does not fit its large body any more. Former Treasury Secretary Solomon said that Japan is 'narrowly selfish.' It thinks only of Japan. There have been too many instances of words and actions which show no consideration for the problems of the entire world."

[Question] But is it possible for Japan to make a change in this area? Isn't it difficult for an international viewpoint to get into the Japanese decisionmaking apparatus?

[Oki] "No. that's not true. Japan is very sensitive to developments in foreign countries. The problem is that a way of thinking has become established in Japan since the time of the Meiji according to which Japan is a small country dependent on the outside world. We have reached the point at which this way of thinking will have to be pushed forward."

[Question] What should be done, specifically?

[Oki] "Japan should not make the areas of agricultural products and service industries into sacred precincts. However, because everything cannot be liberalized due to domestic conditions, what can and cannot be liberalized should be clearly stated."

[Question] What do you think about the problem of the defense burden?

[Oki] "Twenty years ago the ratio between the U.S. and Japanese GNP's was 10 to 1. Now it is close to 2 to 1. Because of this, there is good reason for the United States to demand that Japan increase its share of the defense burden. I believe that Japan made a major choice because of its experience in World War

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II. That was not to use armed force in international conflicts as stated in the preamble of the constitution. Japan's choice was to attempt long-term arms limitation and use military forces which are non-nuclear and used only for defense, as it moves toward the 21st century. However, in the short term, Japan must have the power to defend itself. Therefore, it should develop an effective defense-only system using electronics technology."

[Question] What percentage of the GNP is an appropriate goal?

[Oki] "It will be enough if it is slightly over 1 percent. In any case, research spending for defense technology should be increased, and a low-cost defense system should be developed. This level of spending shouldn't make the United States afraid that Japan will become a great military power."

Oki concluded his discussion as follows. "Japanese economic power should be used for world development. Therefore, the percentage of the GNP used for ODA should be increased to 0.7 or 1.0 percent. Unless Japan takes an active role in contributing to the world, it will be left in a blind alley in its attempt to solve bilateral trade problems. Now is the time for Japan to formulate global policies."

Five Proposals for Japanese Foreign Relations

[Interviewer] These are suggestions for future Japanese diplomacy. The first suggestion is a sharp increase in foreign aid, especially ODA (official development aid). Prime Minister Suzuki promised the world a large increase in foreign aid at the U.S.-Japan summit talks and at the Ottawa summit last year. Unless we are sincere and actually make an effort to carry out this increase, our position as a major economic power will be undermined. There were subtle differences of opinion among the people we interviewed about foreign aid itself, but there is not likely to be any objective to the idea of increasing foreign aid as a major policy direction. Koichi Kato's idea of using aid strategically is worthy of being considered. There are some doubts about the desirability of giving aid. However, while it may seem like money thrown away from the point of view of short-term foreign relations, it is possible that it will be unexpectedly useful for national security in the future. If we make a steady international contribution in this way, no matter how much Japan is criticized by the United States, it cannot be called "narrowly selfish" in international society.

Second is a defense effort. There is a principle of unarmed neutrality in Japan, but there are probably few people who would object to Japan defending itself. The problem is how Japan is to be defended. As has been seen, there were many different views presented in the interviews, but it seemed that there was no strong opposition to a strengthening of the present defense capability.

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There was certainly no one who advocated weakening the defense capability. The U.S. demand for a buildup of the Japanese defense capability has temporarily slackened off, but a chorus of voices calling for a buildup is expected to start up again. In order for Japan to fulfill its responsibility as a major economic power, it is necessary to go along with this to a certain extent. The problem is the speed and scale of the buildup. However, as was pointed out by Saburo Oki and Yonosuke Nagai, Japan should make a patient effort toward controlling military expansion in addition to the short-term buildup of its defense capability.

Also, it should be added that it is abnormal for Japan to decide whether to examine its national security in accordance with directives from the United States. We have reached the point where Japan should decide what to do for itself after considering the requests of the United States. Chief Cabinet Secretary Miyazawa has stated strongly that "it is wrong for Japan to determine its defense capability on the basis of American requests." That is true, but even so, it will not do to leave them out of consideration altogether.

It will take money to increase foreign aid and defense capability, but Japanese finances are strained. Still, Japan is better off than Europe and the United States. As pointed out by Hiroshi Kato, administrative reform will probably be necessary in order to squeeze out the money. Administrative reform needs to be carried out irrespective of overseas pressure. If this is not done, sooner or later Japan will lose its energy as a nation. If the pressure from overseas creates an opportunity for administrative reform, that may be our good fortune. The bureaucrats should stop opposing this from their narrow viewpoint.

The third suggestion is to improve the function of the Foreign Ministry. The responsibility of the Foreign Ministry for allowing the tensions between the United States and Japan to come to the surface is evident. Almost everyone interviewed criticized the Foreign Ministry. Even Mr Johnson, who is pro-Japanese, has said that there was a deficiency in public relations. It is impossible to defend the Foreign Ministry, no matter how hard Jo Hashimoto tries. At this juncture, the Foreign Ministry should make a major effort to improve its information-gathering function. Furthermore, this should not be left entirely up to the Foreign Ministry. There is a need for the entire nation to keep a sharp lookout and for all valuable information to be gathered in one place. This problem is also related to administrative reform.

Fourth is the opening of the Japanese market. Everyone has different things to say in reply to the United States. However, the insularity of the Japanese market is something that is recognized by everyone to a greater or lesser extent. The only issue is how much it should be opened. The problem is what "dramatic" measures to take. Just as Jo Hashimoto said, there are some areas

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in which Japan can make concessions and some in which it cannot. If this explanation is "convincing to the world," the problem can be solved in no time. As Takashi Hosomi emphasized, the bureaucrats must strictly refrain from deceptive stopgap measures designed to protect their prerogatives. At the same time, Japan must be forthright in stating its position to the United States. The problem can never be solved if Japan does not succeed in making the United States understand its special circumstances. As Haruo Suzuki and many others pointed out with respect to the issue of opening the market, for the time being Japan should liberalize symbolic items such as tobacco as fast as possible. As Koichi Kato suggested, Japan is the country which stands to gain the most from free trade. If that is true, Japan should take the lead over other countries as a champion of free trade and make an active effort to open its market.

Toshihiro Tajima and Hei Yoshii emphasized the point that the U.S. demand for liberalization of the Japanese market is gradually coming to focus on the service industries. As Toshihiro Tajima stated, the great issue now is whether the idea of an open financial system in Japan must be defended no matter what. Certainly, it is natural for the financial system of a country to be peculiar to that country. It is nonsensical for the United States to demand that Japan make its financial system the same as that of the United States.

However, since the Japanese economy is advancing internationally, it is wrong for foreign companies to have difficulty issuing bonds on the Japanese market even if Japanese companies are placed under the same conditions. Whatever may be said about complete liberalization of the financial market, the Ministry of Finance should make an effort to gradually liberalize the Tokyo market and internationalize the yen. Also, excessive administrative guidance should be eliminated sooner or latter.

The fifth suggestion is that Japan undertake a shift in foreign policy which combines the four areas mentioned above. In other words, it should shift from its traditionally passive foreign policy to a more active approach. Haruo Suzuki and others pointed out that the U.S.-Japan tensions were a problem of perception. However, it is a fact that although Japan commands 10 percent of the world's GNP, it is making no international contribution as a great economic power. This has caused not only the United States, but the whole world, to see Japan as a "peculiar, selfish country." In order to change this perception of Japan in a fundamental way, it will be necessary to break away from a passive style of foreign relations. As Jiro Tokuyama said, it is necessary to create a "grand design" and take positive action as we move into the uncertain future.

However, as Jiro Tokuyama emphasized, how can the "cowardly" Japanese bureaucrats come up with such a design? As Takashi Hosomi and many others stated, the establishment of political leadership will be necessary. In this respect, it is a good thing that some politicians have "taken blows" over this problem.

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Only on the basis of such aggressive diplomacy can Japan secure a position from which to state its case properly to the United States and other countries. As long as Japan remains passive and self-centered, it cannot say what it has to say. The U.S. fears about Japan in the area of high technology pointed out by Atsuyoshi Ouchi are certainly self-centered on the part of America, and there are other problems in the American claims which were pointed out by others. However, if Japan does not make any effort to establish a clear position for itself in international society, its complaints will be seen as self-centered sophistry.

At the same time, we should be aware of the danger involved in more active Japanese foreign relations. There is no tradition in Japan for the "constructive, positive diplomacy" spoken of by Nagayo Honma [a professor of the University of Tokyo]. We have sufficient experience with the way in which aggressive foreign relations can be connected to warped nationalistic emotions. However, Japan is no longer the kind of "small presence" which can afford to rely on passive foreign relations. In view of this, a more active foreign policy is imperative. The only way to insure the survival of Japan is to work steadily and patiently at building the foundations of a "new diplomacy."

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AMERICAN LEFT-HAND DRIVE SYNDROME

Tokyo SHOKUN in Japanese Apr 82 pp 168-179

[Article by Keitaro Hasegwa, international economist]

[Excerpts] America Has Neglected Industrial Effort and Has No Right to Criticize Japan

Is a Real Effort Being Made?

The "left-hand drive syndrome" is a phrase used in American companies in Japan. What does it mean? It is a phrase that makes fun of the marketing efforts of U.S. auto makers in Japan. In 1981, American auto manufacturers sold 7,742 cars in Japan. This is only 20 percent of the imported cars sold in Japan. In contrast, Japanese auto makers sold 1.8 million cars in the U.S. market in the same year.

The reason American cars do not sell in Japan is that they do not have the steering wheel on the right to suit the Japanese practice of driving on the left side of the road. Like the British, the Japanese drive on the left-hand side of the street, so all Japanese cars have right-hand drive. In America where cars are driven on the right side of the road, the steering wheel is on the left. The U.S. auto makers ignore these road regulations and attempt to sell their cars in Japan with the steering wheel on the left, so how can they expect them to sell? American businessmen who are succeeding in the Japanese market laugh at this stubborn marketing policy of the auto makers, calling it the "left-hand drive syndrome."

In response to this, the U.S. auto makers argue that "because of the small volume of sales to Japan, there would be no profit even if we made the effort to move the steering wheel to the left." But the successful Americans laugh at the auto makers. "So what did the Japanese auto makers do? They began to manufacture cars with the steering wheel on the left the moment they began to market them in the United States."

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Plainly stated, the American auto makers have no intention of making a serious marketing effort until the Japanese adopt the American system of driving on the right-hand side of the road, so American businessmen say that they have no right to talk about the insularity of the Japanese market.

Contempt for the Japanese

The U.S. auto makers do not show the "left-hand drive syndrome" in Great Britain, which also has the system of driving on the left side of the road. There is even a feeling that this shows that they look down on the Japanese.

In contrast to the strictness of Japanese industry's attitude toward quality, U.S. industry is much more tolerant. As a result, "more than half of the U.S. companies operating in the Japanese market cannot deliver products with the quality necessary to satisfy Japanese standards." For example, a U.S. semiconductor manufacturer delivered an IC which did not meet the Japanese customer's requirements for performance under high temperature. When the U.S. head office was asked to explain the cause of the defective performance, it took 3 months to reply. As BUSINESS WEEK put it: "It is not surprising that this company lost customers."

It is often pointed out that there are many cases of U.S. companies in Japan with poor management. This will also be seen in the examples of American banks in Japan, which will be referred to later. One influential U.S. semiconductor manufacturer was completely fooled by the Japanese person who was head of its Japan branch. The company sold its semiconductors to the dealership which he established at cost and the dealership delivered them to Japanese customers at a huge profit. As such examples demonstrate, U.S. companies have continued to operate very carelessly in the Japanese market.

U.S. companies either fail to study the Japanese market and discover the trends of Japanese demand, leaving everything up to local employees, or they repeatedly interfere in every small detail. It seems that they are unable to use anything but an extreme management policy: either laissez-faire or excessive interference. This fact is closely related to the lack of rationality in the strategies of U.S. industry for doing business in Japan.

Successful U.S. businessmen know that "do as the Romans do" is an inflexible rule of business and that following this rule is the onny secret of success in doing business in Japan. Looking down on the Japanese or even treating them as an inferior race is out of the question.

If U.S. companies would take this rational attitude, they could succeed in expanding their business in Japan.

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What About Banking?

Recently, the United States has been making a big issue of the imbalance in finance, insurance, and other services as well as the imbalance in ordinary trade. The United States is making an especially big issue of the Japanese treatment of banks. How are foreign banks operating in Japan?

The author has referred to the fact that the share of foreign banks in the Japanese market is diminishing. The operations of foreign banks became greatly liberalized by the revision of the Foreign Exchange Control Law in December 1980. In spite of this, the assets of foreign banks as of the end of March 1981 were 10,372,600,000,000 yen, just 4.3 percent of the 239,069,000,000,000 yen total for all banks in Japan during the same period.

One year ago, their assets were 9,272,100,000,000 yen, 4.1 percent of the 222,320,100,000,000 yen held by all banks in Japan, so there has been some growth in assets.

However, this is not true of lending. At the end of March 1981, there was 4.68 trillion yen in loans from Japanese branches of foreign banks, 3.4 percent of the total for all banks in Japan. The amount in the previous year was 4,449,200,000,000 yen and the percentage of the market was just the same, 3.4 percent.

Since the Foreign Exchange Control Law was revised in the direction of liberalization, the activities of foreign banks should have expanded greatly, but they have not increased their share at all.

The Japanese financial market is seen by most observers as having the greatest capacity for growth in the world. However, the foreign banks here do not seem to be increasing their growth capacity at all.

The reason for this is clear. Foreign banks are making no attempt to "do as the Romans" in Japan. This is the long and short of it. In 1950, three American banks which had been in Japan since the occupation, Citicorp, Bank of America, and Chase Manhattan; two British banks, the Hong Kong and Shanghai Bank and the Chartered Bank; the Deustch Bank; and three Asian banks including the International Commercial Bank of China, were given approval to establish branches in Japan. They already have a history of 32 years.

In spite of this, they are still not firmly established in the Japanese financial market. Even the largest Citibank, has only 973.3 billion yen in assets. This scale does not compete with even the medium-size regional banks, let alone the city banks, in Japan.

A particular weakness of foreign banks is deposits. Their balance of deposits at the end of March 1981 was only 1,318,200,000,000, only 0.13 percent of

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total assets. For the same period, Japanese banks had 157,795,600,000,000 yen in deposits, 66.0 percent of total assets, so the difference is tremendous.

Foreign banks lack the ability to gather deposits in Japan, so their main sources of funds for use in Japan are Japanese yen obtained on the Japanese call market and foreign currencies obtained overseas and converted to yen.

Not Following Local Customs

In such a state of affairs, there is no stability in bank operations. In 1980 Citibank had the best income of any foreign branch in Japan with 8.3 billion yen. However, this was only 0.84 percent of the total assets of 987.3 billion yen. Sumitomo Bank, the top earner among Japanese banks, had an operating profit of 29.2 billion yen during the same period. Its total assets are 16,721,500,000,000 yen, so the rate of profit was only 0.17 percent, an example of the extremely slim profits of Japanese banks.

The top foreign bank had deposits of 294.4 billion yen, only 30.2 percent of total assets. The amount of lending was also small, 544.3 billion yen or 55.9 percent of total assets.

Even these top class foreign banks with their 32-year history cannot compare with the better savings and loan banks and credit associations, to say nothing of the regional banks, in terms of the amount of deposits. There are even some of the lower ranking foreign banks, such as the large Swiss bank, Credize Suisse, with as little as 364 million yen in deposits.

Why is this? Foreign banks do not work desperately like the Japanese banks to get deposits. The foreign banker does not have phrases like "work day and night" in his dictionary. Even if the Japanese employees suggest to the branch manager from the head office that the bank take an aggressive operating policy similar to that of Japanese banks, he would probably just stare and shake his head. Japanese practices are completely different from those of other countries.

There are 69 foreign banks with 94 offices in Japan. In addition, there are 101 other representative offices. So the Tokyo financial market is counted as one of the most important financial centers in the world. However, almost none of the foreign banks operating in Japan attempt to "do as the Romans do." For example, the branch manager of all branches of foreign banks is, without exception, sent from the head office. Almost all of them never even try to learn Japanese after taking their posts. Also, they seldom go out to make sales efforts in Japanese companies. Even if a discussion with the Ministry of Finance becomes necessary, they usually have a Japanese employee go in their place.

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They live in luxurious apartments in the city with high rents of 500,000 or 700,000 yen a month which comes from bank operating expenses. They have a car with chauffeur to come to work in the morning. During the morning, they look over documents prepared by the Japanese employees and meet with one or two customers from their own country. Then they have lunch at a city hotel or expensive restaurant. Then they do about the same thing in the afternoon and go home exactly at the appointed time. On Saturday and Sunday, they play golf or spend time with their families.

They go back to their own country after 2 or 3 years, but when they arrive at their posts in Japan, they have already done a big favor to the person in charge of personnel at the head office. There are no executives who want to go to a "strange land" like Japan, and the personnel officer has a hard time making the appointment. Therefore, just by taking the post of Japan branch manager, they make the personnel officer greatly indebted to him. What will I have to do in Tokyo? There is nothing to do. Just sit there until your time is up.

This is the actual attitude of most branch managers of foreign banks in Japan. Their only hope is that no problems occur while they are serving here. These branch managers lack incentive and naturally have no intention of conducting aggressive operations.

It is inevitable that the foreign banks will gradually lose out in the tough competition in the Tokyo financial market. Also, in recent years, money has become more available and good Japanese companies are being very careful in selecting financial institutions.

The era for this lordly way of doing business of the foreign banks has passed. However, there are almost no people in charge of the Japanese operations of foreign banks who are aware of this. The resident branch managers in Japan, who are their source of information, have little comprehension of the actual situation in Japan, so it cannot be helped if their view of Japan is warped.

What Is Trade Friction?

The United States has made harsh demands on Japan to open its doors, but real trade problems involving the United States center on Europe and the developing countries more than Japan.

For example, the top U.S. steel maker, U.S. Steel, has made a claim to the Department of Commerce, with 3 million pages of supporting documents, that 43 companies in 11 foreign countries are dumping steel in the United States. However, no Japanese steel manufacturers were on the list. There have been serious tensions over steel between Japan and the United States since the early 1970's.

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In 1977, the so-called trigger price system went into effect and the lower limit of the import price was set on the basis of Japanese steel manufacturers' production costs. When the import price went below this standard, the Department of Commerce would investigate for dumping.

The Japanese accepted this trigger price system. Beginning around 1968, steel was a major source of friction in U.S.-Japan trade. There were repeated discussions between the United States and Japanese steel industries, and self-restraints on exports to the United States were used from 1968 on.

The Japanese steel makers were able to raise the export price of steel to the United States market with the institution of the trigger system and to raise the export price to other markets because there were prospects of maintaining sufficient profits even when operating at 70 percent capacity in the recession following the first oil shock.

The reason for this was that Japanese steel makers' production costs were reduced far below those of their American competitors because of thoroughgoing rationalization. For example, as a result of Japanese manufacturers' efforts at conserving energy, the energy consumed per ton of steel was reduced to half that used in the United States.

With this difference in cost, the Japanese were actually able to maintain stable profits because of the trigger price system. The establishment of the trigger price system was a big plus for the Japanese. Therefore, the Japanese felt that it was very much in their interest to observe the trigger price system. Naturally, the main focus of trade tensions moved to European, Korean, and South African steel manufacturers. Japan succeeded in eliminating trade tensions with the United States. As far as steel was concerned, Japan overcame the problem of trade tension.

With respect to cars, the United States was hit with a severe gasoline panic due to the second oil shock. American consumers suddenly began turning to small Japanese cars with good fuel economy, and this soon dealt a serious blow to the American auto industry. In 1978, 12.9 million cars were produced, but this dropped to 11.48 million in 1979, 8 million in 1980, and 6 million in 1981.

Japanese auto production, on the other hand, grew from 9.27 million cars in 1978 to 9.63 million in 1979, 11.04 million in 1980, and 12 million in 1981. There was a total reversal of the U.S. and Japanese positions. The U.S. auto industry, with the cooperation of the United Auto Workers, made a strong appeal to President Carter and an agreement was made with the Japanese in May 1981. The Japanese agreed to voluntarily restrain exports to the United States below a level of 1.68 million cars per year. Now the view is growing in the United States that the Japanese export effort is not a direct cause of the U.S. recession.

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The U.S. auto industry is going through the worst recession in 50 years and is beginning to advocate a total ban on imported automobiles. However, the unprecedented recession itself is the cause of the slump in the auto industry. And a growing number of observers are saying that the lack of effort by both management and labor to raise productivity was a more long-term cause of the slump. Just as in the case of television, the Japanese auto industry is likely to be able to avoid friction as long as it observes the voluntary export restraints which were determined by Nissan, Honda, and then Toyota.

The United States is also being severely criticized as a source of trade friction in certain industries, and these are becoming serious problems in Japan, too. They are petrochemicals and synthetic fibers. Because of the second oil shock, the price of naphtha, an important raw material for the petrochemical industry, leaped dramatically. This created a tremendous cost advantage in the United States where natural gas is used as the raw material. According to the London ECONOMIST, the price difference for ethylene, an intermediate product in the petrochemical industry, is three to one. With the weapon of low material costs, the U.S. petrochemical industry launched a tremendous export effort and quickly dealt a fatal blow to its competitors in Europe.

In the accounting for 1981, Imperial Chemical Industry, the largest private company in Great Britain, showed a loss for the first time in 50 years, and there was a change in management. Many other European petrochemical and synthetic fiber companies are operating in the red, and critical eyes are being turned on the advance of U.S. exports.

In Japan also, the petrochemical industry is counted as a "structural recession industry," and it has completely lost its traditional markets such as those in Southeast Asia to the advance of American exports.

No Appeal From Aluminum

Aluminum refining is one of the most troubled industries of the "structural recession industries" in Japan. In 1977, 1.31 million tons of raw aluminum were produced, but this fell to 1.11 million tons in 1980 and 800,000 tons in 1981. It is expected to fall below 400,000 tons in 1982. The refining capacity, which was 1.4 million tons in 1980, is scheduled to be cut to under 600,000 tons.

The production costs of the Japanese aluminum refining industry are approximately a dollar per pound, almost double the American cost of 50 or 60 cents. Because of this, there is a big difference between the domestic price of 450,000 yen per ton for raw aluminum compared to the import price of 370,000 yen.

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The import volume of aluminum ingots was 460,000 tons in 1977, 680,000 tons in 1979, 940,000 tons in 1980, and more than 1.1 million tons in 1981. The cumulative debt of the Japanese aluminum refining industry is running above 1 trillion yen.

American aluminum exports were 107,432 tons in 1979. In 1980, they tripled to 326,557 tons. In spite of this, the Japanese aluminum industry made no appeal for import restraints against the United States. The aluminum-related labor unions complained of their difficult circumstances to the U.S. labor unions. However, they were treated very coldly. The American side did not listen to their complaint. Their response was: "That is no concern of ours."

It is a little-known fact that Japan is the only advanced industrial country which has not concluded a mutual fiber arrangement (MFA) to restrict imports of fiber products.

It is well known that the United States concluded a fiber export agreement with Japan in 1972. It was an agreement forced on Japan by the Nixon administration in connection with the reversion of Okinawa. However, since 1978, Japan has had a huge trade deficit in fiber products and raw materials. The United States still has not followed the example of Europe in carrying out the mutual fiber arrangement. It is notable that the industry has not called for protectionist trade policies, and even the labor union has not asked for import restrictions.

Japanese industry is making an effort to maintain free trade in terms of actual policies, not just as a pretense.

Even when an industry such as aluminum is badly hurt, it maintains a policy of "keeping the company alive even if it means eliminating plants," and actively moves into overseas operations in order to survive. The same thing can be said for the fiber industry.

This is a consistent pattern in Japanese industry, and it differs greatly from the attempt of the U.S. auto industry to use protectionism to cover over its mistakes in operating strategy such as the long-term neglect of rationalization, the failure to introduce robots, and the failure to perceive the consumer shift from large to small cars. This is a strong statement, but I do not think it is excessive.

Nontariff Barriers and the Bureaucracy

The government has taken an active position in abolishing nontariff barriers, adopting 67 specific measures such as simplification of import procedures by the end of January and the acceptance of test results from foreign countries.

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The LDP established a special study committee for international economic measures with Masumi Ezaki as chairman. It has gathered specific examples of nontariff barriers from related industries and made a strong appeal to the government to take the present measures. Ordinarily, separate proposals are circulated from the bottom up through the bureaucratic system, requiring approval at each level and final approval by the cabinet minister before being carried out. This time, the proposal went straight from the top to the execution stage. Such measures would be unthinkable under a tight bureaucratic system.

The Special Study Committee for International Economic Measures is considering 90 items in all. The 69 items are only those which are clearly irrational and do not require extensive revision of laws and regulations. However, there are 20 different laws involved and it will still take quite a bit of time before the necessary revisions are passed.

In any case, the effort made by the government was quite extraordinary. Prime Minister Suzuki himself gave directions for "formulation of improvement measures to simplify import inspection procedures by the end of January."

Unfortunately, this government action is scarcely recognized abroad. U.S. Secretary of Commerce Baldrige said that it "eliminated \$200 million of a \$20 billion trade deficit with Japan." The only praise was little better than none at all.

That is to be expected. The real intent of the United States and Europe in demanding the opening of the Japanese market is to get the greatest effect with the least effort. It is only natural that their reaction would be the opposite of that expected by the Japanese.

For example, with almost no exceptions, the barriers which made operations difficult for import dealers in Japan have been eliminated. The improvements extend to representative nontariff barriers such as inspection standards for cosmetics, designation of domestic sporting goods, and the customs inspection system.

Actually, most of these nontariff barriers were the result of the conservatism of the bureaucrats, who attempted to preserve old rules which had failed to keep up with technological progress. Japanese importers had been hindered by this bureaucratic resistance for some time.

One example is double labeling with the metric system and the yard and pound system. In 1961 MITI made it obligatory to put labels on imported products which show the contents in terms of the metric system. It gave directions to the prefectures and metropolitan areas to paint over the parts of the label not using the metric system. Therefore, import dealers had to take the time

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to ink out parts of labels and paste on metric system labels on each imported product which was labeled in ounces or inches. Of course, this increased the cost and raised the domestic price of imported goods. The image of "expensive foreign goods" was created in large part by such excessive costs which were unrelated to quality.

At a time when there was a large difference in quality between foreign and domestic products, imported products sold well because people thought that they were high in quality as well as price. Now that the competition in the Japanese market has become tougher and the quality of domestic products has risen to equal or surpass that of imported products, it is only natural that sales of imported goods have fallen off.

Now import dealers are forced to work desperately to cut costs in any way possible. One example of this is that labels without the use of the metric system are becoming more common with the "tacit approval" of local government offices.

MITI actually decided in 1968 to accept labels without the metric system measurements or double labeling, but this decision was only given verbally. So it is quite vague in comparison to the prohibition of double labeling which was announced in an official notification document. This immediately led to confusion in local government offices which handle these matters (ASAHI SHIMBUN of 21 January).

The prohibition of double labeling was an administrative measure to insure the establishment of the metric system. However, now that the metric system is firmly established, it is meaningless to black out labels which do not use the metric system. This is certainly a reason for criticizing "government practice" for applying old rules to new situations.

The Problem Is With the United States

This sort of "government practice" exists all over Japan. We can understand the anger of Americans, who think of government officials as "civil servants" working for the public good, when they come into contact with a legalistic "government practice" which conceives of the function of a government official as "faithful application of the law." The Japanese people feel the same way.

However, let us think about this, Japan is an independent country. The government officials of developing countries which have recently gained independence are incredibly arrogant. In all of these countries, the customs office is obnoxious. Ordinary travelers as well as businessmen are given a great deal of trouble when passing through customs even when they have no intention of smuggling. The difference with Japan is the intent of the

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officials in being so particular. In many cases, the reason for making an excessive search is, if not to obtain a bribe, to get a tip or gift. This is not true in Japan. Here the reason for obnoxious behavior is an attempt to faithfully uphold the law. That is a big difference.

Paying a bribe makes things easier, so businessmen can simply count it as part of their costs. And they can justify it by saying: "After all, it's an undeveloped country." However, this is not possible when troublesome requirements are made on the basis of law. It is impossible for private individuals to change the laws, so they must "respect" troublesome laws. This is much more expensive than bribing a customs official to keep his eyes closed to something. The nontariff barriers have become a big problem because of a delay in correcting laws and regulations to fit reality. These corrections will make it easier to do business domestically also and will be a big plus for the Japanese economy.

However, there are problems with the claim that the abolishment of nontariff barriers on the Japanese side will lead to improvement in the trade balance and import expansion. As I have stated, the reason for the delay in foreign participation in the Japanese market is the "left-hand drive syndrome," the fact that U.S. and European manufacturers have ignored the actual circumstances of the Japanese market. Even if the Japanese eliminate the nontariff barriers, it will not have the effect of expanding imports unless the manufacturers make more of a marketing effort. But in spite of this fact, the Japanese will probably receive the usual criticism of "lip service only" if they announce the elimination of nontariff barriers with great fanfare as part of an import expansion policy.

The Japanese approach is not the problem. In the midst of a world recession, U.S. and European manufacturers are searching for every possible way of expanding sales. However, they dislike going to any trouble and there is little hope that they will stir themselves into action.

United States Lagging Behind

Trade tensions between the United States and Japan began with textiles in the 1960's and continued with steel, television, and automobiles. There has been a problem with the U.S. demand to open the market to agricultural products, but Japan has been able to avoid further serious difficulty with advanced technology industries such as semiconductors and optical communications up to now. The United States did not create any problems in the 1960's and 1970's when it had absolute superiority in the IC and LSI fields.

There was a brief "U.S.-Japan semiconductor war" but it cooled down at the beginning of the 1980's. The reason for this development is that companies from both the United States and Japan are establishing facilities in the other

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country. Large U.S. manufacturers such as Texas Instruments and Motorola have established plants in Japan and major Japanese companies such as Nippon Electric and Toshiba have done the same in the United States. With such mutual extensions of business, there is no other course but to maintain free trade.

However, the Japanese side has rapidly built up force and is beginning to put pressure on the U.S. market. For example, the Japanese have been able to take over 70 percent of the U.S. market for the 64K RAM (random access memory) integrated circuit which is thought of as a first-generation VLSI (very large scale integrated circuit).

The Japanese mass-production system is moving ahead quickly with the second generation circuit, the 256K RAM. A production capacity of 5.5 million chips per month is scheduled to be in operation by 1982. The U.S. production capacity is only 700,000 per month, so a huge difference of one to eight has developed in the relative strength of the United States and Japan. Japan is planning to start mass production on the third-generation megabit RAM in 1984, and the U.S. lag is becoming even more evident.

When Japan goes into large-scale mass production, the market price of these VLSI's will drop abruptly. At one time the 64K RAM cost 20,000 yen per chip, but the price dropped to one-tenth of that very quickly. Because competitiveness is supported by cost reductions achieved through mass production, manufacturers which are slow in starting mass production will eventually be left out of the competition.

Japanese semiconductor manufacturers are all general manufacturers, so if they decide on semiconductors as a strategic division, they can use the profit earned in other divisions to move into mass production. However, in the United States, most of the manufacturers are specialized, so they are seriously hurt by price reductions which result from mass production.

In 1981, because of the combination of price reductions and the worst recession in 50 years, Texas Instruments' profits were cut in half and Motorola showed a decline of 70 percent. Once applauded as growth industries, they have deteriorated rapidly.

Because VLSI's are very important as essential parts in modern weaponry, the U.S. Government is very concerned over this decline of U.S. manufacturers. It is beginning to provide active cooperation to support the steady advance of technological development. Now it has taken the approach of restricting low-cost imports from Japan, and the Japanese side is showing great concern about this tendency.

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There are many different types of integrated circuits. There is not a large number of specific products which are used on a large scale, but the electronics industry needs many different varieties of semiconductors. In terms of making a profit, it is impossible for any manufacturer to produce all of them, so a horizontal division of labor develops naturally.

This horizontal division of labor also rules the semiconductor trade between the United States and Japan. Both the United States and Japan export a large volume of semiconductors and integrated circuits; there is no on-sided excess of imports or exports. Also, because of rapid automation in the production of integrated circuits, it is behind the times to rely on low-cost labor in the assembly process. The U.S. manufacturers which had built assembly plants in the countries of Southeast Asia are now building plants in Japan where there is a work force with high technical skills, and corporate strategies are being adopted which focus on production in Japan. Therefore, indiscriminate restriction of Japanese-made products would seriously hurt these U.S. ventures in Japan.

It would also mean protection for Japanese companies in the United States, and they would inevitably come to dominate U.S. companies in the domestic market just as they did in color television. An attempt to protect American industry would backfire and give extra benefits to Japanese industry.

Here we can see the effects of reciprocal business ventures. There will probably be no abrupt move to restrict imports in the semiconductor industry for some time.

World Recession and the Japanese Response

The world is in a serious recession. There are more than 10 million unemployed in the United States and the EC. If it continues at this rate, the unemployment will be greater than that in the early 1930's. It is rapidly becoming the worst recession in 50 years.

There are trade tensions throughout the world over such items of general use as steel, petrochemicals, synthetic fibers, and fiber products. Objectively speaking, it is not too much to say that Japan is gradually moving away from the center of tension.

Right now world trade is shrinking. The volume of trade in 1980 was 0.4 percent less than that of the previous year. A reduction of 1.3 to 1.5 percent is estimated for 1981, and a greater shrinkage is inevitable in 1982.

Internationalization grew in the 1960's and the 1970's and there was an increase in mutual interdependence between all countries. As the tendency toward reduction in world trade takes definite form, it may be inevitable for

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all countries to break away from interdependent relationships. During the Great Depression of the 1930's, there was a reduction in world trade just as there is now. Most nations took protectionist trade measures, and the results of this led to World War II. This bitter experience is still fresh. It would be very wrong for all the nations of the world to implement protectionist trade measures at the same time.

There are certain conditions that make Japan an easy target for trade friction. As is evident from the cases of fibers, petrochemicals, and aluminum, Japan is a country which will maintain free trade even while making great sacrifices. Therefore, other countries, especially the United States, can rest on the assumption that no matter how much Japan is attacked, it will never resist strongly and shut out the products of other countries.

In other words, Japan's hands are tied by the principle of free trade. It is the only country that is not expected to fight back no matter how much it is kicked around. Therefore, even though there are other countries with which there are greater trade problems on specific products, it is still possible to make Japan the target of criticism.

Also, Japan has an amazing capacity for response which is never seen in other countries. In the case of color television, when exports to the United States were restricted, Japanese companies established production facilities in the United States and took over the market. The same thing can be expected for automobiles. From previous experience, it is natural to draw the conclusion that simple import restrictions cannot suppress the vitality of Japanese industry.

The United States is now demanding that Japan open its market to agricultural products which is considered impossible for domestic political reasons. Even in the area of agricultural products, the United States is actually having worse trade problems with the EC. The EC had a \$13 billion surplus of imports from the United States in 1981. If the trade war over agricultural products becomes worse, there is a danger of retaliatory measures from the EC.

Japan has an \$18 billion surplus of exports to the United States, and Japanese food prices, without even considering the famous example of beef, are well above other world levels. However, if Japan actually liberalized agricultural products on a large scale, the United States would soon be in trouble. For example, if citrus fruits were completely liberalized, there is a danger that American oranges and grapefruit would soon be shut out by citrus fruit from Israel and Africa where production costs are lower.

The same thing can be said for beef. U.S. consumption of beef is rapidly declining because of the terrible recession. The unemployed and people with reduced incomes are switching to chicken and pork rather than beef in order to

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hold down their living expenses. The U.S. livestock industry is attempting to escape from a difficult situation by expanding exports to Japan. However, if liberalization is forcefully carried out, it is very likely that U.S. beef will be dominated by cheaper beef from Australia and Argentina.

Also, if the Japanese livestock industry is destroyed by import liberalization, it will be a serious blow to U.S. farmers who export feed grain to Japan. In spite of this, the United States is demanding liberalization of beef and orange imports to Japan because it is aware that Japan cannot implement this liberalization because of domestic political concerns, and it can use this as basis for obtaining Japanese concessions in other areas.

Nontariff barriers are spoken of, but in reality, they do not exist. It is undeniable that there are some bureaucratic practices which cling unnecessarily to old rules, but this is not the whole problem. The main problem is the presence or lack of incentive. The main cause of trade friction is the difference in vitality between Japan and other countries.

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AMERICAN WAY OF BUSINESS

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[Article by Fumitoshi Takahashi, reporter from the ASAHI SHIMBUN economics department]

[Excerpts] The U.S.-Japan economic war that surfaced conspicuously in the early 1970's has been called "a war with no declaration of war" from the Japanese side. However, it has become clear in the recent demands on Japan that it is an attack on Japanese culture, traditions, and language--in short, an attack on "the Japanese being Japanese." In Japan, "people walk on the right and cars are driven on the left," so the steering wheel is on the right side of the car. The present demands are like asking us to change the rules of the road so that American cars with the steering wheel on the left can be used just as they are. They are a gross insult to a sovereign state. In addition, Japan is threatened with becoming an orphan among the nations of the world if it does not comply.

However, the "strong America" policies advocated by the Reagan administration have also created problems with its allies among the free nations of Europe. Is it not America which is creating a feeling of alienation among the members of the "tripartite alliance" of the United States, Europe, and Japan?

The basic problem is the failure of the Reagan economic policies. We must not react to the American provocation and repeat the mistakes of Pearl Harbor. It is a common political practice to find a scapegoat on which to shift attention when a weakness appears in one's own country. There is the additional factor of off-year elections this fall in the United States. Therefore, we must be careful to avoid mistakes and take a completely rational approach.

Working level consultations between the United States and Japan, in which discussions are held between bureau chiefs of the various government ministries and agencies, are held fairly frequently, and ordinarily they do not attract much attention. However, the third meeting of the U.S.-Japan Trade Committee held on 9 and 10 March in Kasumigaseki, Tokyo, attracted a great deal of attention from the political and business sectors in Japan.

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The leader of the U.S. contingent, Deputy U.S. Trade Representative McDonald, called together a group of Japanese reporters just before his visit to Japan. He told them: "The United States side will show a list at the trade committee meeting of demands to remove nontariff barriers which will lead to several billions of dollars in increased exports to Japan." He took a very high-pressure attitude. The Suzuki government wants to resolve the trade tensions between the United States and Japan before the Versailles summit (eighth summit meeting between the major advanced nations) to be held in the beginning of June, so it placed a great deal of importance on this meeting of the trade committee as a forum for understanding the specific demands of the United States.

However, contrary to plan, the United States did not present a list of demands. It simply asked for "a decisive opening of the market befitting a great economic power." It never used an expression such as "some dramatic measures."

Of course, after the meeting, the United States representative voiced his usual criticism before returning home. "As usual, the Japanese are trying to get by with a minimum of concessions and no continuous effort at opening the market could be seen."

The fact that the United States did not take the tough approach expected probably shows the use of a diplomatic technique of alternating hard and soft approaches. Before the McDonald group came to Japan, a series of tough statements by Congressmen and government officials had already stirred up the Japanese media so part of the U.S. objective had been accomplished. However, there may have been some concern that the flood of anti-Japanese criticism from Washington, which extended to unique Japanese systems and practices such as administrative guidance, the election system, and the practice of retired bureaucrats taking influential business positions, had stirred up anti-American feeling in Japan. In other words, they may have had second thoughts about an excessive manipulation of information in the information society of which we are a part and pulled back a little.

Just as the Japanese effort to open its market is underrated, the American pressure on Japan has been amplified beyond the reality. A false image exists on both sides. The danger is that this false image may take on an independent existence and the reality may be lost from view. And until a decisive juncture is reached, everyone may forget that the image is false.

The Cause of Tension Is the Reagan Military Expansion Policy

The greatest reason for increased trade tensions is that Japan's economic position has risen, while that of the United States and Europe has shown a relative decline. For this reason, tensions between Japan and the United States and the EC (European Community) became evident, especially in the latter

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part of the 1970's. However, looking back, we notice a pattern of temporary relaxation of tension after 1978 followed by another flareup. The yen rate rose to 180 yen to the dollar for a short time, and this led to a decrease in exports. Now, however, the change in the exchange rate that should occur with a surplus of exports from Japan has not appeared.

Simply put, the mistaken Reagan economic policy which aims at military expansion has accelerated a domestic recession and growing unemployment, and this has led to a large Japanese trade surplus with the United States.

Some time has passed since the American economy began to decline and lost its power to protect the world economy, but now America has become the cause of agitation in the free world. Because of high interest rates in the United States, the countries of Europe have lost the possibility of using lowered interest rates as a means of overcoming their economic difficulties. Chancellor Schmidt of West Germany has pointed out that the Reagan economic policies have led to a world economic crisis and has warned that the European countries are in danger of falling into political and social instability.

There are already 2 million unemployed in West Germany and France and 3 million in Great Britain. And because unemployment is especially severe among young people, there has been an increase in terrorist incidents.

This is not all. When the European countries criticize the high interest rates and government deficit in the United States, the United States charges that the European countries are weak in implementing economic sanctions against the Soviet Union and Poland. Trade tensions have occurred not only between the United States and Japan. The U.S. steel industry has charged the EC with dumping, and problems have appeared between the United States and Europe also.

The failure of the Reagan economic policy is causing a rift in the alliance between the United States and Japan and between the United States and Europe.

The Danger of Denying Identity

The result of all this is the propaganda which holds Japan to blame for everything. While the Europeans point to the errors of Reagan economic policy, they go along with the United States in treating Japan as the bad guy. As a result, everything from Japanese customs procedures, inspection standards, administrative guidance and the distribution system, recession cartels, and the government monopoly corporations to problems of the "weighting of votes" of Japanese voters, the integration of the lowest social class, and the use of retired bureaucrats in business have been held up as causes of the shutting out of foreign goods.

Certainly, if the Japanese changed to the American system of driving on the right side of the road, it would be much easier to sell American cars with the

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steering wheel on the left in Japan. Japanese manufacturers build cars with the steering wheel on the right for domestic use, but they also build cars with the steering wheel on the left to fit the customs of the country to which they are to be exported. The Japanese think that it is natural for the purpose of export to adapt the product to the consumers of the country of destination. But the American attitude is: "It's strange to use right-hand drive, so change!"

The actual occasion for the renewed flareup in U.S.-Japan trade problems was the visit to Japan of Secretary of Commerce Baldrige in October of last year when he pointed to the increasing Japanese trade surplus with the United States and asked for the elimination of nontariff barriers. When he returned to Washington, he made a statement to the effect that the problem was the structure of the Japanese economy and Japanese culture, traditions, and language. This comes down to a matter of him not liking the Japanese themselves and their language. Of course, the Japanese Government protested and the statement was withdrawn, but judging from the recent statement in a Congressional hearing by Under Secretary of Commerce Olmer, this is the true position of the department.

To hold up the culture and customs of an allied country to ridicule in this way is to deny the identity of that country. This is the great danger.

With respect to the reciprocity bill which has repeatedly appeared in the U.S. Congress, the Reagan administration says: "The problem lies in the Japanese market which has touched off thinking about reciprocity." However, the present U.S.-Japan trade problems cannot be solved simply through concessions by Japan.

The decline in the vitality of the U.S. economy and the rise in Japanese strength became clear to everyone in the early 1970's. Since then, trade tensions have occurred over a number of products, the main ones being textiles, steel, color television, automobiles, and now semiconductors. The Americans have decided that no progress can be made on specific products, so they are asking Japan to do something about the chronic trade imbalance (Japanese surplus and American deficit). They are demanding that Japan take corrective measures, but that "Japan should decide what to do!" However, although the American balance of trade shows a deficit with Japan, it shows a surplus with Europe. Since the EC has protectionist measures in place against the agricultural products which America is eager to sell, it does not make an issue of the deficit with the United States. Therefore, the United States has adopted the strategy of one-sidedly attacking Japan. The EC, however, has taken a clear position against the U.S. reciprocity proposal.

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Chronic Pressure To "Strengthen Defense Capability"

The U.S.-Japan trade imbalance has become rigidly structured. It is no longer the kind of problem that can be solved by a little effort from both sides. It is the same sort of problem as the chronic Japanese deficit with the oil-producing countries of the Middle East and resource-rich Australia. Even though Japan buys oil and raw materials from these countries, the amount that Japan can export to them is limited. There is no way to fill in the gap and there will always be a deficit. This is set off by the surplus in trade with Europe and the United States. Also, American consumers have come to rely on Japanese products.

Secretary of Commerce Baldrige has said: "If Japan completely opens its market, the deficit with Japan will be reduced by \$8-15 billion in 5 years." This is no more than \$3 billion a year. However, the deficit for last year alone was \$18 billion. Since in reality a debt of more than \$10 billion per year has become permanent, opening the Japanese market will have little effect.

The attempt to adjust a trade balance bilaterally is itself inappropriate among advanced industrial countries, but the United States does not seem to think so. However, it is clear by now that the U.S. trade deficit with Japan would not disappear even if Japan opened its market completely. That means a pattern in which America continuously puts pressure on Japan. This is why Japanese concessions give rise to more pressure from the United States.

On the other hand, since there is no immediate prospect of eliminating the trade deficit with Japan, the pressure on Japan to strengthen its defense capability will also become chronic. Japan made a large increase in defense spending in the 1982 budget, but this did not make any difference in the trade imbalance. It is no use complaining about this, because it was clear from the start that this is what would happen. We cannot choose between the defense problem and trade problems. America must have concessions in both areas. And now that the trade deficit with Japan has become permanent, it is taking the position that it is a natural right to demand both. In fact, while the U.S.-Japan Trade Committee was meeting in Tokyo, on 9 March, an extraordinary special debate on the Japanese defense problem was held in the U.S. House of Representatives and the insufficiency of the Japanese defense effort was criticized. It is doubtful that the U.S. pressure on Japan to strengthen its defense capability will weaken with the 1983 budget or even after that. Equal emphasis on the demands for "an open market befitting a great economic power" and "a defense effort commensurate with economic strength" will continue to create a disturbance in Japan.

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Reform Should Be Undertaken by the Japanese Themselves, Not Under Outside Pressure

What approach is best under these circumstances? First we must make changes in a diplomacy that has been like an extension of domestic relationships and develop a foreign policy that corresponds to the rapid changes that have taken place in Japan.

Ten years ago, at the time of the U.S.-Japan textile negotiations, the Japanese textile industry as well as public opinion did not have an objective awareness of Japanese economic strength. However, at the time of the auto export restrictions last year, the difference in international competitiveness between the U.S. and Japanese auto industries was recognized, and we ultimately agreed to voluntary restrictions. Some tension with foreign countries may be the fate of the Japanese economy, but our basic awareness has switched 180 degrees in the last 10 years. If we continue to hold back what we want to say and say something inoffensive and use a lot of energy to keep things going well, we cannot maintain friendly relations in any real sense. It is the proper function of foreign relations to frankly discuss potentially explosive situations building up inside our respective countries and eliminate problems before they reach the crisis stage.

For this, political leadership is necessary. Because of the involvement with economic policy, there has recently been an evident rivalry among the Ministry of Finance, MITI, and other bureaucratic organs as well as with the Foreign Ministry. As a result, a difference of opinion has emerged within the government. In addition, it is the usual practice for a bureaucrat not to deal with a problem unless it is placed on his desk. With this approach, there will be a repeat of failures like the mission to the United States headed by Masumi Ezaki, the chairman of the LDP Special Study Committee for International Economic Measures. Although he went to present the 2-year speedup of tariff reduction and the abolishment of 69 nontariff barriers as gifts to the United States, he ended up failing to get credit for the effort and being subjected to new demands for concessions.

Second, we must reform the "Japan Incorporated" system by ourselves. It is a fact that the Japanese business world, which distinguishes between "insiders" and "outsiders" and is based on harmony and loyalty only between the people inside, is not an open society. For this reason, behind-the-scenes consultations are the lubricating oil of the business world. Such consultations have the function of "directing the traffic of complicated business talks and 'fairly' distributing contracts to bidders."

The practice of hiring retired bureaucrats for important positions in business leads to a cozy relationship between business and the bureaucracy which has the authority to grant approvals and licenses. It is a fact that foreign enterprises cannot enter into such relationships.

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Behind-the-scenes business consultations and the hiring of bureaucrats in business are practices which are continually being criticized among the Japanese themselves as a domestic problem unrelated to trade friction. Even the "weighting of votes" which was pointed out by the United States is something that we ourselves consider illogical. It is incidental, but a fact, that the present electoral system provides support for maintaining the 22 restricted import categories of agricultural products. It should be reformed to create greater fairness for the voters rather than for the purpose of eliminating trade friction.

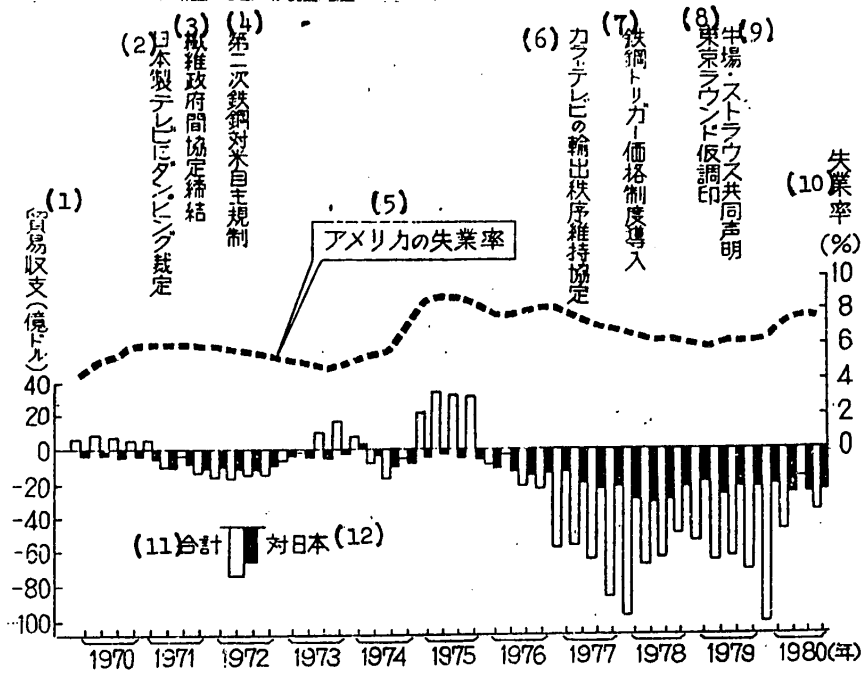
Third, an effort must be made to raise our standard of living. The average wages of Japanese workers have surpassed those of Britain and France and have drawn even with West Germany. They are still a step below those of the United States. However, when we consider the systems of paid vacations and 5-day work week, it is undeniable that Japan is behind these other countries. It is also necessary to improve the overall living environment including housing, parks, and sewage. This will cause the cost of Japanese products to rise, and naturally, the international competitiveness of Japan will not be as great as it is now. In both tangible and intangible forms, the gains should outweigh the losses.

If these reforms are all achieved one way or another, before we know it we should discover ourselves living within a framework of international harmony without creating a disturbance. I am advocating a new kind of "expel the barbarians" concept. The Japanese themselves should make reforms, not because they are demanded by foreign countries but for the benefit of Japan.

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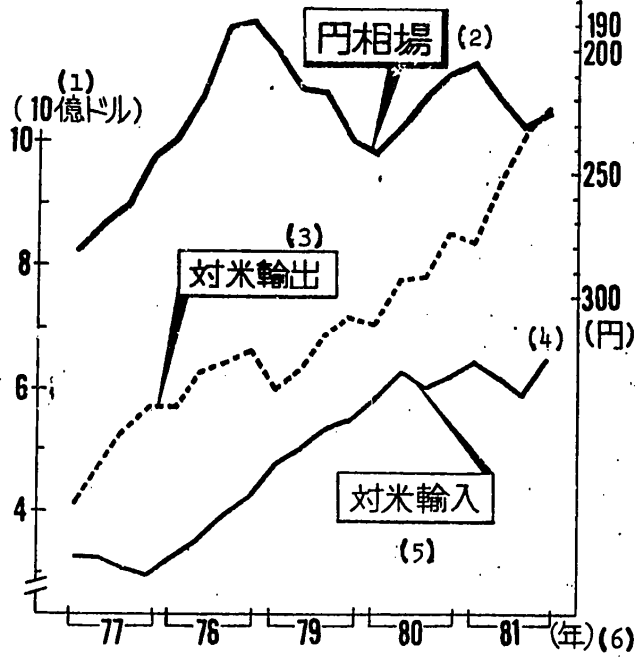
FIGURE APPENDIX



Fluctuations in the U.S. Economy and U.S.-Japan Relations

- Key:
1. Trade balance (in hundred million dollars)
 2. Dumping arbitration against Japanese television sets
 3. Conclusion of intergovernment agreement on textiles
 4. Second voluntary restraints on steel exports to the United States
 5. U.S. unemployment
 6. Agreement to maintain order in color television exports
 7. Implementation of steel trigger price system
 8. Provisional signing of Tokyo round agreement
 9. Ushiba-Strauss joint statement
 10. Unemployment rate
 11. Total
 12. With Japan

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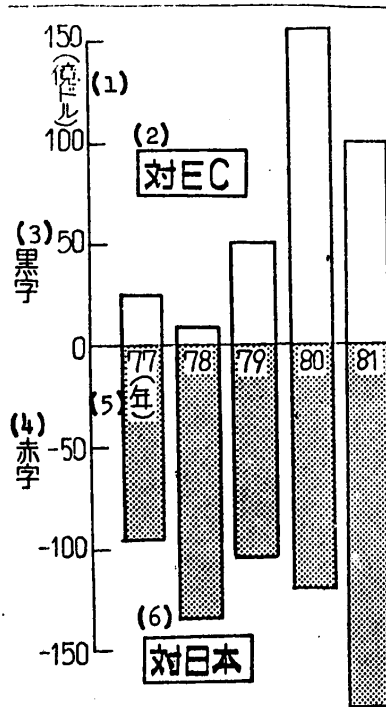


Japanese Trade with America and the Yen Exchange Rate

- Key: 1. (billion dollars)
2. Yen exchange rate
3. Exports to America
4. (yen)
5. Imports from America
6. (year)

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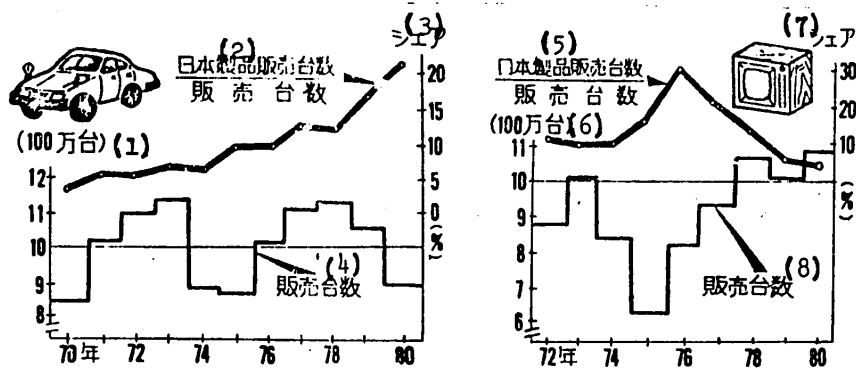


The U.S. Balance of Trade (from U.S. Department of Commerce statistics)

- Key:
- 1. (hundred million dollars)
 - 2. With the EC
 - 3. Surplus
 - 4. Deficit
 - 5. (year)
 - 6. With Japan

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Market Share of Japanese Autos and Color Television Sets
in the United States
(from the 1981 Economic White Paper)

- Key:
1. (million vehicles)
 2. Japanese automobiles sold
Total automobiles sold
 3. Market share
 4. Total automobiles sold
 5. Japanese television sets sold
Total television sets sold
 6. (million sets)
 7. Market share
 8. Total television sets sold

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U.S.-JAPAN ECONOMIC FRICTIONS

Tokyo KOGYO SHIMBUN in Japanese 10 Mar 82 p 3

[Interview with Yoshizane Iwasa, chairman of the Keidanren Foreign Relations Committee; interviewed by Akio Matsumoto, member of the editorial staff]

[Text] Explanation of "Steady Effort"; Flexible Response Necessary

[Question] Because of the huge U.S. trade deficit with Japan, trade tensions have flared up again between the United States and Japan. In particular, protectionist trade legislation has repeatedly been presented in the U.S. Congress in the name of reciprocity. How do you view the stormy state of U.S.-Japan relations?

[Iwasa] The irritation and frustration felt by the United States toward Japan is quite severe. I have been working for dialogue and harmony in U.S.-Japan economy from the standpoint of the private economy for the last 20 years, and the present situation closely resembles the tension between the United States and Japan in the 1970's. I am now in the process of reviewing the minutes of meetings between U.S. and Japanese businessmen in the early 1970's. The present attitude of U.S. businessmen and government officials toward Japan is no different from that 10 years ago.

In the early 1970's, President Nixon was having difficulty in handling the end of the Vietnam War. The aftereffects of the Vietnam War weighed heavily on America. Corporations had lost faith in the future and the entire country felt frustrated. The heavy burden of war expenses had resulted in a loss of confidence in the dollar, and the deficit in international trade was getting worse. There were disturbances in the universities and increased drug use. It was a time of apprehension and confusion. In the midst of these conditions, the Japanese trade surplus with the United States reached a peak of \$4.2 billion in 1971. The people of the United States were already frustrated by the effects of the Vietnam War and this rubbed them the wrong way. In terms of the overall scale of trade at the time, this was the equivalent of \$10 billion now, so the effect of the imbalance was severe.

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In the present situation as well, the Americans are showing increasing frustration at a combination of unfavorable circumstances. In addition to a huge trade deficit with Japan last year of \$18 billion, there is recession and mass unemployment and a slump in major industries.

The reciprocity bill submitted in Congress is the response of politicians facing elections in November who are sensitive to the problems and feelings of people in their electoral districts. We could say that frustration directed at Japan has resulted in a political explosion.

[Question] Washington responded sternly to the LDP Ezaki mission (headed by Masumi Ezaki, former minister of international trade and industry) which visited the United States representing the prime minister. Secretary of Commerce Baldrige threatened: "There is no time left. If you do not take some dramatic measures quickly, it will be impossible to prevent passage of a reciprocity bill."

[Iwasa] I heard the phrase "Japan should take dramatic measures" many times during the period of U.S.-Japan trade friction 10 years ago. Japan should not panic or put up emotional resistance in response to this pressure. We should take it calmly and take definite action in response. In contrast to the situation 10 years ago, the remaining import restrictions have been cut down to 27 categories. With the exception of agricultural products and two or three special areas of industrial products, there are almost no restrictions left. Because tariff rate reductions have been carried out 2 years ahead of schedule, Japanese tariff rates are among the lowest in the world. The schedule for capital liberalization has also been moved up, and there are no business categories which are off limits to investment. Our defense spending has been criticized in terms of a "free ride," but a great effort is being made in this area also in spite of difficulties in administrative reform and criticism from the opposition parties of excessive military buildup. Of course we are implementing self-imposed restraints on auto exports following similar action in textiles and steel. This continuing steady effort should be clearly explained.

[Question] When the government implemented improvements in 69 nontariff barriers, it felt like it was the same as taking a leap from the platform of Kiyomizu Temple, but the United States said that this was insufficient and did not approve at all. Also, the list of Japanese trade barriers presented to a Congressional hearing on Japan by the administration included such things as the electoral district system and administrative guidance and other things which constitute excessive interference in Japanese internal affairs or items which have already been taken care of. We seem to be poor at public relations and it seems that we have failed to make an effective effort at dissolving misunderstanding.

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[Iwasa] Perhaps it is the Japanese or the Japanese mentality or our traditional customs, but we do not stand up for ourselves enough. We are very poor at advertising our own efforts and strong points. Since ancient times, we have been good at importing culture from overseas and adapting it to Japan, but we have not been skilled at exporting Japanese culture overseas. This situation cannot be changed overnight.

As you have pointed out, Japan has taken substantial measures such as making improvements in 69 nontariff barriers, but unfortunately it is not sufficiently recognized. It is a fact that many of the nontariff barrier problems involved details of procedure such as import inspection procedures and standards. However, the fact that Japan has responded with small measures and has been slow in making decisions has given the unfortunate impression that "Japan is a sneaky, sly country that will not do anything unless you apply pressure." We need to reflect on the way our approach has increased the misunderstanding of Japan as a closed society. We should do what we can, but there are things that we cannot do, and we should not give in to demands that will destroy or destabilize Japanese society.

[Question] One can understand that maintaining relations with the United States is essential to Japanese security, but when it comes to negotiating with the United States, we fall in line totally with Washington. In the present U.S. economy, the snow belt in the north and east is a very strained region with mass unemployment and many industries in a structural recession. This is where there is strong criticism of Japan. In contrast, the sun is shining on the sun belt region of the south and west. There is low unemployment and great prosperity and a good feeling toward Japan. Looking at this map of changes in the U.S. economy and society where the south and west are high and the north and east are low, don't we see the need for a flexible approach to the United States?

[Iwasa] Certainly, the United States is a large country and it is dangerous to evaluate and respond to it only in terms of the political power in Washington and the economic power in New York. The United States is now going through a period of revolutionary historical changes and there are growing differences of success and failure between regions and industries. The basic industries of the snow belt, especially the Detroit auto industry, are losing their footing and are faced with almost 20 percent unemployment. In the sun belt of the south and west there is a rush to advanced technology industries. The region is in a period of prosperity and unemployment is around 5 percent so there is almost full employment. If we take measures for Congress with this regional difference in mind, we will find differences in the degree of frustration felt by the Congressmen facing elections this fall. In the sun belt region, Japanese industry has a good reputation. Also, when we appeal to Americans who are experts on Japan, we must carefully gear our approach to

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the individual. There are experts on Japan who are friends of Japan and others who know Japan well but who are responsible for many anti-Japanese statements and actions. There are others who do not know Japan well but are friendly to Japan. We must analyze this carefully and make our approach accordingly.

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NO IMMEDIATE REMEDY FOR TRADE FRICTIONS

Tokyo YOMIURI SHIMBUN in Japanese 3 Apr 82 p 7

[Article by Rinjiro Sodei, professor at Hosei University]

[Text] In common terms, the present relations between the United States and Japan are like those of the head of an old merchant house and a chief clerk who has succeeded with his master's help. America is like an old store with an established reputation which is declining because of many years of poor management but cannot give up its paternalistic attitude and pride. Japan, on the other hand, received help in the beginning, but now it is convinced that its present prosperity is the result of its own hard work. Because of its quick rise to success, Japan has the narrowness of vision and the vulgarity common to the nouveau riche.

If this analogy were pushed further, we might conclude that the difficulties in U.S.-Japan relations would likely be solved to a great extent if Japan would only comply with America's requests and repay its obligation. However, the actual situation is not that simple. The basic cause of the problem is the decline of the American economy produced by policies from the great historic mistake of Vietnam to the present military buildup and other factors such as high interest rates and a decline in the will to work, which have nothing to do with Japan.

In spite of this, Japan was singled out as the enemy because it was the perfect scapegoat for American politicians. Congressmen who are up for reelection this fall are in a mood to do anything to protect their seats in Congress. When we look under the paternalistic attitude America has taken toward Japan since the occupation, we find an attitude of racial prejudice coiled up there.

Therefore, if the Japanese side reacted in the same way by making charges of a "new yellow peril policy" or a "return of the anti-Japanese sentiment of the 1920's," matters could get out of control. For this reason, there is no other course but to show understanding of the American position and speak softly.

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Since the causes of the problem lie on the American side, there are no "dramatic measures" available for Japan to take. It is necessary to implement the measures such as abolishing import restrictions on agricultural products, which America is demanding as a way of covering up the real problems, and make this clear as soon as possible.

The LDP is said to be planning to send Diet members who have confidence in their linguistic ability to the United States to explain the Japanese position, but it is doubtful that this could be effective. Learning to understand American feelings might be educational for the Diet members, but the Americans to whom they would be speaking would not be the same as the support committees in their own electoral districts. There is a good probability that they would repeat the mistakes of someone like Foreign Minister Sakurachi who used to use the puzzling self-introduction: "My name is 'Cherry'." The embassy and consulates in the United States would have to waste a lot of time taking care of them. If Japan has something to say, it would be much more effective to send someone of the caliber of Chief Cabinet Secretary Miyazawa, who has a real command of English, and have him make an appeal to the American people on a morning television news program.

In any event, a last-minute patching up will not work. It has often been pointed out that Japan has a weak "transmitter" for explaining itself to the outside world. Japan's public relations with regard to foreign countries are far inferior when compared with the scale of American activities. There are U.S. Culture Centers located in all the major Japanese cities to disseminate information about the United States. An official Japanese Culture Center was opened in Washington only last year, and it is only recently that MITI began to publish an English-language magazine to explain the actual circumstances of the Japanese economy.

While there is a flood of information from the United States coming into Japan, the Japanese system for correctly analyzing this excessive mass of information and using it to make policy is still quite weak. The system for receiving information is weak, and the exchange of information between the vertically organized government ministries and agencies does not go smoothly. Even though there are more foreign correspondents in Washington from Japan than from any other country, we are still starving for information and for the analysis of information.

I believe it is necessary to have observers in Washington from many different fields, in some other capacity than that of foreign correspondents, who stay there for 5 or 10 years. Otherwise, we will always have a lot of "current affairs experts" with uncertain credentials who join with special interest groups and promote things that the American people do not necessarily want, such as making the security treaty bilateral or imposing a security tax on products imported into Japan.

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Finally, I understand that there are people in the government who are convinced that the trade tensions between the United States and Japan can be eliminated if we comply with the Reagan administration's demand for taking an increased share of the defense burden. This is an extremely dangerous, near sighted approach. Many people in the United States are charging that the present administration's plan to expand defense, especially by expanding nuclear armament, will destroy the American economy. Japan should take the path of providing economic aid to the developing countries and seeking detente with the Soviet Union, not that of joining the anti communist movement of the Reagan administration and buying expensive weaponry. It would ultimately be to the advantage of U.S.-Japan relations if Japan could cool the ardor of the United States.

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THINKING PROCESS IS ROOT OF FRICTION

Tokyo SHUKAN TOYO KEIZAI in Japanese 20 Mar 82 p 11

[Interview with Kiyoshi Sakai, executive director of the Optical Industry and Technology Promotion Association, by editor]

[Text] The flames of trade tension are burning higher and there is even a sense that Japan is the subject of persecution. Isn't there something fundamentally wrong about this situation? When Mr Sakai was serving in MITI, he was involved in international economics for many years, and he served in the Japanese consulate in New York for almost 4 years, so he is well versed in U.S.-Japan trade issues.

[Question] What do you think is the core of the U.S.-Japan trade problem?

[Sakai] I believe a difference in ways of thinking is at the root of the problem. Americans and Europeans think that anything that is good for them will go over in any other country. The Japanese have the opposite preconception: that foreign countries will always be different from Japan. Therefore, when the Japanese try to sell something in a foreign country, they make changes in it. When the Europeans and Americans cannot sell something in Japan, they think that it is because Japan is doing something suspicious. This difference in approach has remained the same from the past to the present.

[Question] What should be done?

[Sakai] It is necessary once and for all to clarify the balancesheet of responsibility for both sides. If Japan is found to have certain responsibilities on this basis, then it must carry them out. However, as long as we continue to make small, one-sided concessions, it will be impossible to solve the overall problem.

[Question] What is the responsibility of the American side?

[Sakai] It will take time, but the United States must make plant and equipment investment to increase its supply strength both qualitatively and

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quantitatively, and make a full effort to increase productivity and improve labor relations. Even if it takes time, there will be no solution to the problem unless America moves in this direction. The same thing goes for Europe. There is an even greater need there than in America for increased productivity. Also, they must make a greater effort in exports.

[Question] What About Japan?

[Sakai] As quick measures for the time being, it is natural that Japan should voluntarily restrain concentrated outpourings of exports, abolish the remaining import restrictions, and simplify import procedures in addition to expanding domestic demand. Also, the foreign exchange rate should be made more active. If the yen rate increased, it would absorb a large part of the trade imbalance. Therefore, we should repeatedly press the Japanese position against American policies which keep the yen from rising.

As long-term measures, we should promote local production abroad to help expand employment in other countries and contribute to the world in the areas of new technology and culture. As Japan grows larger, it is important that we have the people of the world feel that it has good things to offer.

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DIFFERENCES IN SITUATIONS

Tokyo JITSUGYO NO NIHON in Japanese 15 Apr 82 pp 82-86

[Article by Jiro Tokuyama, executive managing director and president of the Nomura Management School]

[Text] American Pressing for Repayment of Debt

Everyone knows that the recent tensions over trade and defense have reached a deplorable state, but be that as it may, this year is marked by an ominous groundswell building up all over the world.

The "household affairs" of the Soviet bloc countries, Europe, and the developing countries, as well as the United States and Japan, have become extremely difficult and complicated and are getting worse. Although there were some minor conflicts before now, there was still a margin of prosperity in the world so America's attitude toward Japan was not so severe. Even though it talked tough, the threats were seldom carried out to the letter. However, this year the United States is in a recession, and although the fundamentals of the Japanese economy appear to be all right with just a glance at the domestic situation, there is a creeping recession that is not so benign as it seems.

Previously, the American negotiation tactic with Japan was to talk tough in the beginning and later to work out some sort of compromise. This year, there was a total change. Of course, the United States has many misunderstandings and misconceptions about Japan, but it understands Japan much better than does Europe. However, this time the United States is taking a firm position of not allowing "selfishness" on the part of Japan. It seems to be demanding immediate repayment of all prior debts.

As always, both sides have reasons for their positions. However, before Japan attacks its opponent, it needs to reflect on its own past actions. First of all, it is a fact that Japan is not making a contribution to the world befitting a great economic power.

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Since the United States is in an election year, there are people making strongly political statements, and the present situation is characterized by the large number of frustrated people among the general populace. Japan must take appropriate action with sufficient attention to timing.

Time for the Prime Minister To Make a Decision

Certainly, Japan has moved up the schedule of promised tariff reductions and has made improvements in 69 nontariff barriers. And it is announcing that it will make further efforts. However, I do not believe that this alone will satisfy the United States. The U.S. market is taking 25 percent of Japanese imports and it is supplying a large amount of Japan's food and livestock feed, as well as protecting Japan under the terms of the Mutual Security Treaty, especially by providing a nuclear umbrella. It is clear that Japan could not go on if any of these things were cut off.

The United States is having difficulty with the problem of relative military superiority with regard to the Soviet Union, and its economic recession is getting worse. It cannot afford to be as indulgent toward Japan as it has been in the past.

Regardless of the position of the administration, the U.S. Congress will not be satisfied unless Japan takes the "dramatic" action called for by the United States. In other words, Japan must do something about the quota system for oranges and beef, the symbols of the closed Japanese market, as well as a wide range of items including tobacco, advanced technology fields, finance, insurance, distribution, and data communications.

Japanese consumers cannot understand why they must eat beef, rice, and wheat which costs several times the price on international markets. They cannot agree with something that is so wound up with vested political interests.

Up to now the Japanese Government has taken only stopgap measures which put off the problem a day at a time. Now it is necessary to take more drastic measures. This cannot be done with the bureaucrats' usual time-consuming consensus system of making decisions in which the decision is built accumulatively through a strict process from the bottom up. Also, nothing can be done if it is obstructed by the group ego of a few politicians. The only solution is for the prime minister to make bold decisions in a "top down" manner on the basis of strategic thinking from a broad point of view.

Unfortunately, however, I do not believe that it is possible to expect "dramatic" action from Japan's top leadership. At any rate, it is necessary, for better or worse, to ask why a dramatic "opening of the country" is not possible for Japan. We should put a spotlight on the realities of the Japanese society and economy and deepen our own understanding.

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Special Japanese Understanding of Peace

First let us consider why Japan has become so insular. Although the discussion may be somewhat roundabout, let us reflect on the reasons for the total system in Japan being that way.

First, after being defeated in the war, the Japanese promised the world that they would renounce war, cease to attempt expanding their territory through war, and live in peace within their island country. I believe that was fine as far as it went.

However, the problem now is the difficulty of defining "fairness." If the United States and Japan both had the same land area, population, and resources, it would be easy to define fairness.

However, the United States has twice the population of Japan but 27 times the land area. Also, it is rich in resources. If the U.S. ratio of population to land area were applied to Japan, only 8 million people could live in this island country. However, almost 120 million Japanese live here. In other words, the given conditions are much worse for Japan in comparison with the United States right from the start. Japan and the United States did not line up at the same starting line and begin running with a shout of "Ready, set, go!"

I am afraid that many Americans are not aware of this difference in the given conditions and unconsciously act on the assumption that the United States and Japan both started under the same conditions. There are probably many different views of Japan. Be that as it may, modern Japan built up its unique system after the war by thinking up ways to live in harmony under the strained conditions of a train filled to capacity.

Under conditions of a lack of opportunity and ways for losers in society to make a comeback, "packages" were created within the total system of Japan such as the National Railways family, the MITI family, and the Mitsubishi, Mitsui, and Sumitomo groups. Mutual tacit agreements that "we will not touch your territory" were made, and the Japanese were somehow able to function harmoniously.

Also, the Japanese are not the kind of people who could lie under the palm trees in the South Pacific, eating bananas and taking it easy. They like to work and are bright and energetic. Therefore, if the type of competition found in the United States and Europe were suddenly implemented in Japan, a fight would break out in the "crowded train" that would lead to bloodshed. If we started having open duels like the Americans do, there would be many casualties.

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Therefore, the Japanese prize peace and hesitate to interfere in each other's territory. The large companies use the system of lifetime employment, so the employees work together and make sure that no one gets off the train until they get to the destination. These groups naturally consolidate and become stronger while at the same time they become insular and exclusive.

The Japanese are accused of being unable to say "yes" or "no" clearly and of making decisions which are "iridescent." However, this is a logical method of avoiding friction built up from the living wisdom of many years. From outside Japan, it seems very irrational, but is very sensible under Japanese conditions.

Japan on the Verge of Sinking

When Japanese leaders speak, they always urge their employees to become international or to have international awareness. However, when these employees of the top companies go overseas, they preside over workers who are clearly discriminated against in status as "local hires." They work with their eyes on Tokyo and do not adapt to the local society. They send their children back to Japan to receive the education that will equip them for life in Japan's closed society. If the leaders really want Japan to become more open, rather than using words they should take action on the system under their own feet.

However, this entire system is based on Japanese-style logic and designed for functioning without trouble under the strained conditions Japan has been under. Now that international relationships have become more closely interdependent, this Japanese system has become a problem, and the situation is not as simple as before. It cannot be entirely changed overnight, but to begin with, it is at least necessary for us to become aware that we are living in this kind of Japanese system.

The Japanese elite go from college to certain government offices and large corporations. They spend their whole lives in the same group, competing with and comforting their fellows, so they never know what it is to be alienated. Although they may have a conceptual understanding of the feelings of people who are alienated or outsiders, they have no real understanding of them at all. Therefore, the Japanese elite can proudly and ingenuously say that Japan is making great progress in liberalization and is no longer closed at all.

Group solidarity and insularity can be seen in the strength of group solidarity among veterans of the old army and navy, the abnormal practice in the universities of excluding foreign professors, and the insularity of bureaucratic and political cliques. Group solidarity and insularity are two sides of the same coin. To put it in extreme fashion, the Japanese groups not only exclude foreigners, they also exclude each other.

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I have already stated that this propensity is the result of the particularly desperate conditions found in Japan. If this is correct, our measures for internationalization and the shift to a more open system which America is demanding cannot be undertaken impetuously. These changes will require quite a bit of time.

Although it may be an exaggeration, we can say that Japan is on the verge of sinking. But in spite of this, most of Japan's political leaders have their attention taken up with domestic matters and do not understand the importance of Japan's position in international society.

Aim at International Constituency

Probably what I have said is vaguely agreed upon by most sensible Japanese. We are placed in difficult conditions. However, we cannot change the trend toward internationalization, so some action must be taken.

There are probably many methods which could be used. For example, in order to get free from Japan's strained conditions, Japanese politicians should have long-range vision and, forgetting the national boundaries of Japan, cultivate a "Japanese constituency" in other countries, including at least Australia and New Zealand, the Anglo-Saxon countries which have the most vitality of any countries on the Pacific perimeter; Mexico, which has a population of 70 million people, is beginning to produce oil, and is interested in Japanese technology and business methods; the ASEAN countries, the semideveloped countries of Asia; the United States and Canada. If the politicians can spend as much money and effort as they do in their domestic electoral districts, they should be able to make an effort to build a constituency in the arena of international politics. Even though Japan has become the second largest economic power in the world, it does not now seem to have any bargaining power or power of persuasion.

In an election for a temporary seat on the United National Security Council, Japan is even defeated by countries like Bangladesh. When Nagoya was a candidate for the site of the Olympic games, there was not one country which voted for Japan.

If we think of this in terms of the relationship between executives and their subordinates in a company, the problem is quite clear. Unless you have some authority yourself it does no good to argue with your boss. If you are a computer expert and feel that "the company computer system could not function without me" you may have some bargaining power. If you are not too arrogant, your opinion may have some effect in the company.

Japan may have certain opinions about the emergence of trade tensions, but the other side has its own views, so it comes down to the matter of bargaining power.

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Even though it is necessary for Japan to build an international constituency, it is not necessary to do so in far away and hard-to-understand places such as Africa and the Middle East, poor countries like India, Pakistan, and Bangladesh or the countries of South America where there is extreme inflation and frequent changes of government. My "Pacific perimeter thesis" holds that this can be done best among the Pacific nations with which we are most familiar. However, I do not advocate joining together with the Asian nations alone.

A "Living" Sense of Defense

There have also been tensions over defense, and it has been charged that Japan's defense effort is not commensurate with its economic power when compared with the anti-Soviet military buildup of the United States. However, this argument depends on differences in viewpoint on the Soviet threat.

In both Japan and Europe, there is an antiwar philosophy and a strong dislike for war. However, European experts on Japan say that, compared to the movement in Europe, the antiwar movement in Japan is still on a sentimental level.

Japan was bombed by B-29's and atomic bombs, but it did not have the same "bloody" experience of war as Europe. In Europe, many people had the experience of seeing enemy soldiers tramp into their own homes, rape their wives and kill their daughters with a bayonet. The horror of places like Auschwitz staggers the imagination.

Japan, however, surrendered unconditionally, and although there have been a number of little spats since the occupation, Japan has prospered greatly since the war ended. Some people say sarcastically that it was a good thing that we lost to America. There are even some people who have forgotten the hardships of the war. If northeastern Japan and Hokkaido had been occupied by the Soviet Union, Japan would probably have the same concern with defense as West Germany. The Japanese who were taken prisoner in Siberia and "prayed to the dawn" are very serious about defense. Those Japanese who had bitter war experiences feel the necessity of defense very strongly.

I do not know the Soviet people well. However, both Kissinger and Brezinski, even though they do not get along well personally, said that Secretary of State Haig should not have talks with Foreign Minister Gromyko at this point. They have a strong distrust of the Soviet Union. When I see the sincere concern of these two men, I feel that there is something extraordinary in the American fear and distrust of the Soviet Union.

The Japanese are surrounded by the four seas and did not have a raw, bloody experience of war, so it is natural that they do not feel the same fearful threat as the Americans in their view of the Soviet Union. Also, it is said

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that the sea around Japan is the equivalent of 40 army divisions, and the Japanese do not understand the fear felt by West Germany, which is adjacent to the Soviet bloc on land.

In considering Japanese armament, the potential enemy should be identified, but just like the recent Diet debate over a 1 trillion yen tax cut, it is considered sensible for domestic reasons not to make this clear. As long as the Socialist Party continues to advocate the position, rare in today's world, of unarmed neutrality, it will be difficult to clearly unify domestic opinion.

Obtain a Commitment from America

I make this explanation to Americans: "Please remember the Vietnam War when the soldiers on the front could not fight effectively because public opinion was divided in the United States. At least 40 percent of the Japanese, those who support the opposition parties, have different views on defense from those in the ruling party. Therefore, even if we had a greater military capacity, we could not use it effectively." However, recently, they have taken this as nothing but an excuse.

From the American point of view, when a U.S. aircraft carrier is patrolling the Indian Ocean, Japanese tankers pass through those waters one after another, almost no ships but the Japanese. So they say that they wonder who they are doing this for. Then when they come into port at Yokosuka, they are greeted with "Yankee, go home!"

Now an oil pipeline is being constructed and the United States and Europe will no longer need to pass through the Holmes Straits. From their point of view, it will no longer be necessary to protect the Holmes Straits. If worse comes to worst, just what is Japan going to do?

Another very important thing is that Prime Minister Suzuki recently met with President Reagan and promised to make a greater defense effort, using the words "greater effort." The next day in a speech at the Washington Press Club, he said that Japan would protect the sea lanes within 1,000 nautical miles of Japan. These two statements by the prime minister constitute a public commitment.

In foreign relations, credibility is of absolute importance. The free nations want the United States to be strong, but do they desire a strength that is mostly military? Of course, according to America, strong military power is necessary to back up diplomacy. But from our point of view, the credibility of American diplomacy is the most important thing, and we are troubled when American foreign policy changes or when Secretary of State Haig and Secretary of Defense Weinberger make differing statements. For example, the United States at one time showed clear displeasure at Japan moving closer to Beijing. Then, one day, Nixon and Kissinger suddenly shook hands with Beijing. This was a bitter experience.

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Now the United States is asking Japan to build up its defense. If the United States and the Soviet Union suddenly decide to undertake arms reduction because of economic difficulties in their "household affairs," we wonder just what position Japan will be left in. Trustworthiness is important in foreign relations. I believe that it is important for Japanese and American leaders to discuss this matter with intellectual courage, obtain commitments from each other, and make a record of the agreement.

We cannot stand for our leaders continuing to go to America and pleading "please take care of this matter" as if they were coming from a local to a national government office to lobby for some concern. We would like them to have serious discussions and make judgments on the situation based on a sound understanding of the international situation and a sense of history. We cannot stand for diplomacy which is like the singsong reading of documents prepared by "the staff" which often occurs in the Diet.

Proposal for "Dramatic Action"

I have stated a number of views on trade and defense aspects of U.S.-Japan relations. As a concluding opinion, in terms of a specific strategy for Japanese survival, I believe that "dramatic action" must be taken in all these areas even if it means extensive domestic sacrifice in Japan.

Working-level trade discussions were held between U.S. and Japanese officials on 9 and 10 March. As a result, the Foreign Ministry decided that separate reports would be made to the chief cabinet secretary by June rather than a comprehensive proposal. I believe that it is necessary to reflect on the effect on the usual practice up to this point of acting in small increments.

In past history, Plenipotentiary Jutaro Komura (foreign minister) concluded a peace treaty with the Soviet Union even though he was called a traitor by the people of Japan. Even before World War II, Prince Saionji and other brave patriots counselled avoiding trouble with the United States and Great Britain, even though they were attacked by young reformist bureaucrats and restless young army officers, because they were concerned about national survival. Recently, MITI Councilor Amaya (serving at the time) concluded negotiation with the United States over automobile exports in line with the national interest although he was sharply criticized by certain people.

Emotional views are usually well received, but in spite of this, I believe that we should make a rational, calm assessment of Japan's position in the world and its actual power, and take bold measures to insure our national survival.

In the present situation, can Japan survive if it makes enemies of the United States and Great Britain? It is time to consider carefully whether it would

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be good for Japan to take the isolationist path again. The matter of beef and oranges has become a large symbolic problem. Why not take drastic measures to eliminate this problem in consideration of the national interest? Of course, the maximum aid should be given to those people in Japan who would be hurt by such measures. Positive measures should also be taken in the fields of finance, insurance, and data communications.

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NEED FOR JAPANESE SELF CONFIDENCE

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[Interview with Toshihiro Tomabechi, president of Mitsubishi International Corp and concurrently president of the Japan Chamber of Commerce of New York, Inc by NIHON KEIZAI SHIMBUN's senior staff writer Akira Kojima, who until recently was a correspondent in New York]

[Question] What do you think of the protectionist moves in the United States from the viewpoint of a man actually doing business in America?

[Tomabechi] For a man living in the United States for a long time, the current protectionist moves in America feel highly abnormal to say the least. The situation is completely different from that in 1971, when frictions developed over textile products and that in 1978 when color TVs, steel products and motor vehicles got involved in trade disputes. In those times, trade frictions were caused by specific commodities and both the Japanese Government and private circles were able to pinpoint their problems and take measures specifically designed to solve them. At present, however, Japan has to deal not with any specific problems, but with an imponderable sentiment that "Japan is unfair." Any stopgap measures under the circumstances will be of no use. When some Americans talk about the closed nature of Japanese markets, they are guided not only by simple misunderstanding but by perverse willingness to embrace distorted views.

[Question] What do you think are the reasons for the rapid ballooning of anti-Japanese feelings in the United States?

[Tomabechi] It is only two years since former President Jimmy Carter called Japan the closest of his country's allies. The speed with which the Americans' sentiments toward Japan have changed is simply staggering. Some of the most conspicuous reasons for the drastic change are: 1) election year politics in strong need of a handy scapegoat for the country's ills, 2) huge unemployment running up to 9.5 million, 3) \$18 billion deficit in trade with Japan, and 4) growing misgiving about the Reagan Administration's economic policies.

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Deeper down, the Americans are now firmly convinced that, in order to force Japan to change its policy, they have to tighten their pressure more stringently than ever. Another reason obviously is the Japanese people's notorious sense of amae (dependence). Having been helped to their feet by the United States in the immediate post-war years, the Japanese unconsciously consider the Americans their big brothers or teachers. So, they often tend to depend on the United States, thereby unwittingly touching off the belief among the Americans that "Japan is a free rider."

[Question] Are "Japan hands" also riding on the crest of protectionism?

[Tomabechi] That certainly is a problem. Although they personally sympathize with Japan's predicament, many "Japan hands" are unwilling to express their true feelings in the face of the powerful anti-Japanese feelings whirling in the United States. At a meeting in Washington, D.C. an American scholar deeply versed in Japanese affairs told me that the Americans and the Japanese are now in two completely different mental states: the former, frustrated and angry from mounting troubles both within and without the country, are getting so hysterical that they are losing their reason, while the latter, still largely complacent and self-centered, are paying too little attention to others' troubles. The dominant feeling in the United States is that, if Japan does not properly respond to the Americans' distress signals, it will have to willy-nilly follow the road to retaliation by way of the reciprocity principle and isolationism. The trouble is that such a sentiment is by no means limited to Washington but is rapidly spreading all over the United States.

[Question] How should Japan cope with the United States if it is really losing its reason?

[Tomabechi] Japan should first of all shed all the vestiges of its sense of dependence on the United States. It should have strong confidence in itself. It is because of the lack of confidence that Japan often fails to act swiftly and positively, thereby giving the impression to foreign observers that Japan, in spite of its economic superpower status, refuses to take responsibility and a leadership position in world affairs. True confidence in itself leads a nation to become relaxed, enabling it to make candid statements of its position rather than to make poor attempts at self-justification.

[Question] What concrete measures do you propose?

[Tomabechi] I have been in the United States for many years and in the recent year and a half, I have observed a strong and rapidly expanding mood among leading Japanese corporations to seriously plan for co-prosperity with the United States from a long-range point of view. Short-term economic frictions between Japan and the United States are bound to crop up one after the other. If the two countries go into truly long-term relationships based on close

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business cooperation, joint ventures and technological exchanges, however, they will be able to prevent the problems from adding up to the present serious state.

[Question] Americans are apparently impervious to the logic that Japanese products are selling well because of their superior quality?

[Tomabechi] There is no denying the fact that Japanese products have strong competitiveness anywhere in the world. The fact, however, must not be forgotten that Japan will be the first to suffer if protectionism gets to such an abnormal pitch that the Americans and other foreigners refuse to buy Japanese goods regardless of their high quality and low prices. When trouble starts, Japanese industries, be they manufacturing or services, will be too late to respond, as they certainly try to justify their positions and lose their opportunities for timely solutions. Japanese leaders are strongly urged to solve the problem from the national point of view before the problem gets out of hand.

[Question] What do you think of the Americans' demands to Japan to open up its service sectors, including money?

[Tomabechi] When the Americans talk about the closed nature of the Japanese money market, they do not mean individual controls and regulations. They refer to a far more basic problem--namely, internationalization and opening-up in the true sense of the words. The Americans believe that, if the Japanese market is open enough, they will be able to easily float their bonds and, freely purchase Japanese stocks. They further believe that, if they can do so, demands for the yen will increase appreciably, greatly stiffening the exchange rate of the Japanese currency.

[Question] The United States remains a truly formidable country, although its economic prowess is a little bit on the bearish side at the moment. Don't you think that the Americans are unnecessarily worked up over Japan.

[Tomabechi] The Americans have an uncanny power to get really united once a problem gets to a certain point. That's the true strength of the United States. The United States is a unique society where idealism and practicality lead a mixed existence. Americans are liable to go out of their way to get themselves in trouble because of their strong devotion to idealism. Strict environmental regulations and antitrust policies are two examples in point. Although these two policies are seriously hurting them, the Americans are unwilling to forsake them because of their idealism. Pre-war Japan was largely ignorant of this special trait of the Americans and committed a fatal error. The pre-war Japanese simply believed that a nation agog with decadent jazz music would not be able to rise up to a real fight. The United States has not lost its capacity to get really united when there is a true need. The Japanese should never take the Americans lightly.

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