



## New Economic Package

A new set of economic measures formulated by the Japanese government should give developing countries easier access to Japan's huge domestic market. The package, announced Dec. 14, will reduce tariffs on 33 agricultural products two years ahead of the schedule agreed upon in the Tokyo round of multilateral trade talks. Imports from developing countries of these products, including shrimp and canned pineapples, account for 25% or more of Japan's global imports of the products. Tariff cuts for 40 other agricultural items will be brought forward one year and those for 1,132 industrial products by two years. Tariffs on 11 products, including steel slat and billet, will be eliminated in the interests of Japan's trading partners in general and the less developed nations in particular. Less developed nations will also benefit from a revised preferential tariff scheme whose improvements include raising import ceilings on industrial products by an average of 8.0%. When these measures take effect April 1, Japan will be far ahead of the United States and the European Communities (EC) in moving up tariff cuts. But the package leaves out some controversial measures desired by developing countries, including tariff cuts on boneless chicken demanded by Thailand and those for bananas requested by the Philippines. The government will continue to discuss these issues.



## Tax Reform Plan

A tax reform plan for fiscal 1985, adopted by the government in December, calls for limited tax hikes, including increases in business taxes, which will boost government revenues by ¥316 billion (\$1.3 billion). The plan also envisages tax incentives for basic research and development, but shelve controversial new levies on office automation equipment and a cut in the rate at which corporations can set aside tax-free reserves for retirement allowances. Among the measures to take effect April 1 are a reduction in the rate of tax-free reserves for bad debts and a 2% tax hike for publishing and 32 other taxable operations of nonprofit corporations. Local governments will raise the uniform residence tax—collected from residents at a flat rate irrespective of income—and tax seven categories of

business undertaken by news organizations. Tax cuts include raising the tax-free limit for admission fees to promote cultural activities. Based on the reform plan, the government's fiscal 1985 budget calls for revenues of ¥38.55 trillion (\$154 billion), up 11.4% from the previous year.



## White Paper on Science & Technology

Japan must redouble its efforts to promote basic research on the science and technology on which the country's prosperity will depend in the 21st century, recommends an annual government report released Dec. 18. The White Paper on Science and Technology reports on the need to create new technology for the future, as well as on recent trends in science and technology and government measures. Putting special stress on the first theme, the report notes that the number of papers published in Japan on such fundamental research themes as new materials, the life sciences, and information and electronics is much smaller than in the United States. Japan spent only ¥858.3 billion (\$3.4 billion) on basic research in fiscal 1982, about 30% of that in the U.S. The ratio of such expenses to total spending on science and technology is lower in Japan than in Britain, France or West Germany, and has been falling gradually at universities and government research institutes. Government spending on basic research accounts for a smaller portion of overall science and technology expenditures in Japan than in other industrial countries, a ratio that is also on the decline. The report urges the government to move actively to reverse the trend and step up basic research in science and technology.



## Report on World Economy

The strong U.S. economic recovery that helped revitalize the world economy was led by rapid growth in corporate capital spending supported by technological innovation and low inflation, according to the annual report on the world economy released by Japan's Economic Planning Agency on Dec. 14, 1984. The report says slower growth in savings was the main cause of high U.S. interest rates, outweighing the impact of the swelling federal budget deficit. And it expresses concern lest the budget deficit and huge current account deficit jeopardize con-

tinued U.S. economic expansion. In order to assure sustained world economic growth without fanning inflation, the report says, it is important for the United States to hold down the budget deficit and encourage lower interest rates, while Japan should become a capital supplier to supplement savings shortages elsewhere in the world, especially in the United States. The detailed analysis of the American economic recovery is a distinguishing feature of the 1984 report.



## Panel Advises Review of Defense Limit

The Peace Problem Research Council, a private forum commissioned by Prime Minister Yasuhiro Nakasone to review Japan's national defense and security policies, submitted a final report Dec. 18 calling for a reassessment of the 1976 ceiling which limits the country's defense spending to 1% of the gross national product (GNP).

The 11-man forum, chaired by Professor Masataka Kosaka of Kyoto University, also proposed that the government reconsider the current national defense program adopted in 1976 in light of Japan's changing strategic environment.

Reflecting the desires of the prime minister, the report seems to advocate revamping the 1976 defense buildup guidelines and boosting the combat readiness of the Self-Defense Forces, although it also urges that Japan's military power remain exclusively defense-oriented under the peace Constitution.

The report further emphasized that Japan should never again become a military power and called for maintaining national security from a comprehensive viewpoint, taking in diplomatic and economic as well as military considerations. This stance was apparently adopted to soften the shock of the proposed policy change.


Opposition parties have strongly criticized the study group's proposals, and are likely to take up the issue in the Diet.



## Call for Wage Freeze Dropped

Giving some thought to economic recovery, management has in effect retracted its call for a wage freeze ahead of the annual spring negotiations with labor,


indicates a report by the Japan Federation of Employers' Associations (Nikkeiren). The report, while reiterating Nikkeiren's traditional policy of limiting wage hikes within labor productivity gains, said this year's negotiations "will be held with some consideration given to corporate capability to pay and future business trends." It is a clear departure from Nikkeiren's insistence in the past two years that there should be no wage hike. This is taken to reflect management's perception that improving corporate profits will have to be taken into account in this year's wage talks. But the report, citing a U.S. economic deceleration which clouds Japan's economic prospects, precluded any major wage hikes as demanded by labor. Labor has already put forward a unified demand for a raise of not less than 7%. Pay increases averaged 4%-plus in 1983 and 1984.



### Japan's Nobel Prizes

Two separate international awards, each intended to be a Japanese version of the Nobel Prize, will be inaugurated this year to honor contributors to the development of science and technology. Winners of the Japan Prize will be awarded by the Science & Technology Foundation of Japan with a presentation ceremony scheduled for April 20 in Tokyo. A total of 432 cases from 70 countries—166 Japanese and 266 foreign—have been nominated in the three fields covered this year—biotechnology, medical engineering, and information and communications. There will be two winners, each to receive a cash prize of ¥50 million (equivalent to about US\$200,000 at the rate of US\$1 = ¥250).

The other new award is dubbed the Inamori Prize after its inaugurator, Kazuo Inamori, president of Kyocera Corp., a high-tech concern specializing in fine ceramics. This year's winners will be announced in mid-July and presented with cash awards of ¥45 million (US\$180,000) each at a ceremony in Kyoto on Nov. 10. Administered by the Inamori Foundation, the awards will cover three areas—high technology; basic science; and creative arts and moral sciences. The 1985 prize will go to winners in three of the fields specified this year, including electronics, telecommunications, lasers, computers and artificial intelligence for the first category, mathematics for the second, and music for the third.



### Japan to Scrap the Withholding the Tax on Euroyen Bond

The Japanese and U.S. governments announced Jan. 7 that Japan will abolish withholding tax on interest earnings on Euroyen bonds floated by Japanese residents and held by foreign investors. Currently, a 20% withholding tax is imposed on the interest Japanese firms pay investors—both domestic and foreign—in yen bonds offered in the Euromarket. Japan allowed domestic companies to issue Euroyen bonds from April 1, 1984, but none have been floated due to the withholding tax that reduces investment returns. Japan and the U.S. agreed to review the withholding tax in a report by the working group of Joint Japan-U.S. Ad Hoc Group on Yen-Dollar Issues, last May. Under the January agreement, the withholding tax will be levied once Euroyen bonds sold outside Japan are recycled into the country and are purchased by Japanese investors. The Japanese government will enforce the new measure from April 1, 1985. Legislation to implement the agreement will be enacted during the current session of the Japanese Diet. The agreement was announced in the form of a report by tax and treasury officials of the two countries to Japanese Finance Minister Noboru Takeshita and then U.S. Treasury Secretary Donald Regan.



### NTT Bills Pass

The Japanese Diet has passed a set of three bills aimed at privatizing Nippon Telegraph & Telephone Public Corp. (NTT), Japan's enormous telecommunication monopoly, and liberalizing the country's telecommunications business. The legislation, approved Dec. 20, is designed to invigorate the industry through the introduction of free competition, while the privatization of NTT is a key step toward administrative reform promoted by Prime Minister Yasuhiro Nakasone. Under the new laws, NTT will go public April 1, 1985, making a fresh start as Japan's largest private enterprise, capitalized at nearly ¥1 trillion (\$4 billion) and employing 320,000 workers. Submitted to a special Diet session last April,

the bills went through numerous refinements, including the exclusion of new telecommunications undertakings by a privatized NTT from the list of items subject to approval by the Minister of Posts & Telecommunications. Other modifications included provisions calling for "fair" telephone services, promotion of public welfare and protection of citizen's interests, and agreement to consider lifting a ban on strikes by NTT employees after three years.



### Japan-Soviet Economic Meeting Held

The Japan-Soviet Economic Committee and its Soviet counterpart, the Soviet-Japan Economic Committee, held their first joint meeting in five years in Tokyo December 12-14 to discuss bilateral economic issues.

The ninth joint meeting ended with agreement to continue to study projects under way or planned in the Soviet Union with Japanese cooperation.

Participants also discussed Soviet proposals for promoting development projects in Sakhalin and concluding a long-term economic cooperation agreement. Moscow has already concluded similar agreements with the United States and European countries. It insists that a pact with Japan is necessary to establish stable economic relations between the two countries.

The meeting also took up a Soviet proposal for Japan-Soviet cooperation in constructing chemical plants and other big projects in which the Japanese side is very much interested for Moscow's 12th five-year plan. The chemical plant projects include one exceeding \$1 billion in value which will be undertaken on a "turnkey" basis, a new form of economic cooperation for the two nations.

It was meaningful for the Japanese and Soviet sides to get together and hold discussions after years of silence. Japanese participants said the meeting helped patch up relations between the two countries, which have been strained ever since the Soviet invasion of Afghanistan and ensuing Japanese economic sanctions. The talks could even pave the way for individual Japanese companies to hold trade negotiations with the Soviets.