



Japanese Exports Slashed by Strong Yen

Japanese exports, hard hit by a steep appreciation of the yen, suffered the first substantial postwar setback in 1986, according to a report by the Ministry of International Trade and Industry. The MITI report differs from the dollar-quoted trade statistics released by the Ministry of Finance, in that it gives the value of both exports and imports in yen terms.

While exports in dollar terms rose 19.1% to \$209 billion in 1986, those in yen terms fell 15.9% to ¥35,293 billion from ¥41,956 billion in 1985. The report cited "a rapid and substantial appreciation of the yen" as the main reason for the decline. Most of Japan's star export items suffered significant drops, such as motor vehicles (down 11.9%), semiconductors (down 7.1%) and VCRs (down 21.1%), it said.

Imports in yen terms also decreased 30.6% to ¥21,567 billion from ¥31,085 billion the year before, the report said. Lower prices of crude oil and other primary commodities as well as the appreciation of the yen were mainly responsible for the reduced import value.

Itemwise, crude oil imports decreased 58.6%, foodstuffs 13.1% and manufactured goods 7.7%. With most of Japanese import contracts quoted in dollars, a higher yen tends to reduce the value of imports in yen terms.

As manufactured goods imports actually increased considerably in volume, their value in yen terms did not fall as sharply as the yen appreciation (more than 40% from ¥238.53 per dollar in 1985 to ¥168.03 per dollar in 1986), the report said.



JIS Eyed for Optical Parts

The Ministry of International Trade and Industry (MITI) has drafted a set of standards for components used in optical communications equipment. The draft, covering 31 items, was prepared in cooperation with the Optoelectronic Industry and Technology Development Association, composed of major Japanese electronics companies.

The proposed standards specify sizes, testing methods for various components and other details in the fields of optical fibers, light transmitters and receivers and optical connectors. MITI plans to enact the standards for incorporation in the Japanese Industrial Standards (JIS) starting in March after obtaining endorsement from the Japanese Industrial Standards Committee.



Communications White Paper

Japan needs to promote the balanced development of various means of communications and increase training of information and communications specialists, according to the 1986 government white paper on communications.

The report analyzes both the physical and human aspects of building the communications infrastructure needed to support social and economic activities and improve the people's standard of living as the nation evolves toward a more sophisticated information-oriented society.

The white paper, "In Pursuit of a Quantum Leap in Communications Infrastructure," stresses the need for efforts to expand the individual functions of such communications networks as the postal service, telecommunications and the broadcast media, both radio and television. It says these individual means of communications should be integrated into a comprehensive, multilateral network to meet the diversified and sophisticated needs of users. It notes that the marriage of various communications networks is already under way, as seen in the digitalization of the integrated services digital network (ISDN), and increased use of electronic mail delivered by facsimile.

On the personnel front, the paper noted that system engineers, programmers and other data communications specialists are in short supply. Pointing to the uneven distribution of such specialists among different businesses and regions, it calls for major efforts to train skilled personnel and rectify the imbalances in availability and geographical distribution.



Record 83 Million Pay Hatsumode Visits

A record 83 million people visited shrines and temples throughout Japan during the first four days of the new year, according to a National Police Agency report. The number of visitors to shrines and temples January 1-3 declined some 3,160,000 from last year, to 76,340,000, the lowest in five years. The turnout on January 4, however, more than made up for the slump.

In Japan, people pay New Year visits, known as *hatsumode*, to shrines and temples on the first three days of the new year to pray for happiness during the coming year. This year

January 4 fell on a Sunday, giving Japan four holidays instead of the traditional three.

The Meiji Shrine in Tokyo had 4,230,000 visitors during the four days, making it the most popular place in Japan for *hatsumode* for the eighth consecutive year. Kawasaki Daishi Temple in Kawasaki drew the second-largest crowd with 3,910,000, followed by Shinshoji Temple in Narita with 3,870,000, Sumiyoshi Taisha Shrine in Osaka with 2,890,000 and the Atsuta Shrine in Aichi Prefecture with 2,740,000 visitors.

Police attributed the record turnout not only to the long holidays but also to the economic slump, stemming in part from the recent appreciation of the yen against the dollar, which led the people to pray for better business. Apparently reflecting the poor business climate, offerings consisted mostly of ¥100 or ¥10 coins. There were very few ¥10,000 notes, police said.



Transportation White Paper

Passenger traffic increased in Japan in fiscal 1985 (April 1985 to March 1986), while the volume of cargo transportation declined slightly from a year before as the economy slowed in the second half, according to the 1986 government white paper on transportation.

In the passenger sector, the crash of a Japan Air Lines plane in the summer of 1985 caused the first drop in air transportation volume in three years, while the Japanese National Railways enjoyed increased volumes for the third consecutive year, even despite a fare hike during the year. During the period between the August 1985 JAL plane crash and June 1986, the paper estimates, about 4,400,000 air passengers shifted to JNR and other railways.

Gross domestic transportation volume increased 1.7% over the previous year in absolute numbers, and 3.1% in man-kilometers, the number of passengers transported multiplied by distance. Noteworthy were decreases of 1.2% and 1.1% in numbers and man-kilometers, respectively, for air passenger service. In domestic cargo services, gross tonnage transported dipped 1.3% for the fifth decline in as many years. Total ton-kilometers were down 0.1%.

The white paper concludes that reduced fuel costs since the yen began its precipitous appreciation in the fall of 1985 have been more than offset by negative factors, especially reduced demand for cargo transport, reflecting slower economic activity. The impact on shipping and shipbuilding, already hard hit by structural recession, was so serious that both industries are being compelled to cut personnel and equipment, the paper reports.



Long-term Agricultural Vision

Japan should review its food control system and pricing policy and reform its agricultural structure in order to boost productivity. So says the Agricultural Council in an interim report titled "A Basic Direction for Agricultural Administration toward the 21st Century," submitted to the Minister of Agriculture, Forestry and Fisheries. The Agricultural Council is an advisory body to the prime minister.

In its report, the council emphasized the need for farmland to be concentrated in the hands of "core farmers," and the farm product price formula revised from the present uniform standard for all farmers to a formula pegged to the costs of large-scale farmers.

Among major problems facing Japanese agriculture today, the report cites delays in expanding the managerial scale of cultivating rice and other crops, and an imbalance in the rice supply-demand situation. It also notes a striking gap in prices between Japanese and foreign agricultural and dairy products, and mounting foreign pressure for increased access to the Japanese market.

It urged that greater attention be paid to the supply-demand balance, and recommended that farm products be differentiated by quality in order to improve functioning of market mechanisms. The Agricultural Council will continue studying the food control system and price-setting policies for rice, wheat, barley, rye and soybeans. A final report is expected by the end of 1987.



Offshore Market Opened

The Tokyo offshore market opened on December 1 amid hopes it will give the yen a greater role in international finance. Participating in the new market are 181 authorized Japanese and foreign banks. Trading between the nine largest Japanese commercial banks totaled \$2.2 billion on opening day. Interbank trading accounted for the bulk of the turnover, with dollar-quoted transactions through brokers totaling \$200 million and yen-denominated deals ¥40 billion.

An offshore market, separated from the "onshore" domestic financial market, is a place where nonresidents can deposit, lend and borrow funds. Unlike the onshore market, there are usually no restrictions on interest rates nor any of the usual capital and tax requirements such as deposit insurance, reserves for deposit withdrawals, withholding tax on interest or stamp duties. This allows participants in the offshore market to raise funds at lower cost. It also encourages expansion

of capital management opportunities and diversification of currencies traded.

Unlike other offshore markets, however, the Tokyo market retains some restrictions. Banks with offshore accounts there are still subject to corporate tax and stamp duties, and securities firms and individuals are excluded entirely. Nevertheless, the new market offers participants some benefits, including 24-hour fund transactions that enable them to profit from small interest swings. Previously, such interest arbitrage was impossible once the New York market closed until the London market reopened. Major banks with footholds abroad can also cut costs, while smaller banks that have not yet expanded overseas can make Eurocurrency deals on their own at home.



Capital Spending Up 3.8% in FY 1986

Capital spending by major Japanese firms excluding the shipbuilding and food industries will grow only 3.8% over the previous year in fiscal 1986 (ending March 31, 1987), down from the 6.0% gain posted the previous year, according to a survey by the Industrial Structure Council, an advisory panel to the MITI minister. The cause of the slowdown is a 6.4% decline in manufacturing-sector investment, the first drop in three years. But direct investment abroad is projected to surge more than 30% in dollar terms.

The survey, conducted in September 1986, covered 1,800 firms capitalized at ¥100 million or more. Together they accounted for 24% of Japan's total private capital spending in fiscal 1985. Their planned capital investment in fiscal 1986 totaled ¥13,553.6 billion (about \$87.4 billion at the rate of ¥155/\$), with the manufacturing sector accounting for ¥6,017.3 billion. Behind the slump in manufacturing investment is the yen's sharp appreciation, which has cut deeply into export earnings of such major industries as steel, automobiles, electronics and electrical machinery. The non-manufacturing sector—excluding leasing—is expected to boost capital spending 14.4% to ¥4,510.8 billion in fiscal 1986. Leasing industry investment will rise 12.4% to ¥3,025.5 billion, reflecting rapid progress in office and factory automation, the survey found.



Foreign Students to Rent Company Housing

Major Japanese companies will lease rooms in their employee dormitories to foreigners studying in Japan starting in March 1987. The idea was proposed by the Japan Committee for Economic Development (Keizai Doyukai),

an influential business organization, as one way for Japanese private enterprises to play a more active role in assisting foreign students and researchers.

Sixty-nine companies have expressed their readiness to rent company apartments to foreign students. About 20 companies, including Nomura Securities Co., SECOM Corp., Nissan Motor Co., Kajima Corp. and Tokyo Electric Power Co., will start the program in March.

In the initial stage, some 100 to 200 foreign students will be able to use the facilities. The rent will be the same as that company employees pay, and will be much cheaper than market rates. They will also be able to use dining rooms and other facilities used by company tenants. Housing has long been a bottleneck in accepting more foreign students in Japan. The Keizai Doyukai project is expected to help ease the problem.



World Economic Report

Japan should display leadership in resolving the world's economic woes, from balance of payments imbalances to swollen Third World debts, according to an annual report on the world economy in 1986 prepared by the Economic Planning Agency.

The report says the world economy is enjoying inflation-free expansion at a time of low interest rates, depressed crude oil prices and a drop in the value of the dollar against other currencies. But disinflation has not had its expected effect in correcting trade imbalances due to a time lag caused by the so-called J-curve effect and the absence of visible declines in real interest rates.

As new tasks for the world economy, the report stresses the need for international cooperation in the following areas: adoption of trade policies for more open markets, action to cope with the Third World debt problem, collaboration in furthering the development of poor countries and correction of payments imbalances. This last challenge requires efforts by countries with trade deficits to reduce their budget deficits and by surplus nations to expand their domestic demand. Japan should take the initiative in tackling these issues, the report concludes.

Correction: The Japanese 1986 fiscal year runs from April 1986–March 1987. The *Journal* apologizes for any confusion arising from a misprint on page 10 in our last issue.