CURRENT TOPICS

General Subjects

Government Making All-out Effort To Remove Non-Tariff Barriers

The Japanese Government is making an all-out effort to remove non-tariff trade barriers, including the simplification of import testing procedures, which have been severely criticized by Western countries. These efforts follow the action taken at the end of last year to advance by two years the schedule for lowering tariffs agreed upon in the Tokyo Round of multilateral trade negotiations.

Regarding non-tariff barriers, the Ministerial Conference for Economic Measures on January 30 decided to take measures to improve the situation concerning the majority of 99 items brought to its attention. These included items listed up in December by the Manufactured Goods Import Council, an advisory body reporting to the prime minister, and 48 based on complaints filed by Europe and the U.S.

Regarding tariffs, it was agreed at the Tokyo Round negotiations in 1979 that tariffs would be lowered in annual stages between 1980 and 1987. The Government decided to speed up the process and implement in 1982 the cuts scheduled for 1983 and 1984. As a result, the average tariff rate for the 1,650 items covered under the Tokyo Round Agreement will be lowered to 6.75% in 1982 from the 8% in 1981. This brings Japan's average tariff rate for all import items to 3.2%.

Regarding non-tariff barriers, the Japanese Government and the ruling Liberal-Democratic Party's Special Committee on International Economic Policy, chaired by Masumi Esaki, have been studying ways to remedy the situation. As a result, the Ministerial Conference for Economic Measures decided the same day to take drastic measures to simplify the import testing procedures. The main points of these measures are as follows: (For details, see page 10.)

1. With respect to 99 items put to study:

(A) Improvements will be made ..... 67 items
(B) Items subject to further study ..... 9 items
(C) Cases based on misunderstanding ..... 15 items
(D) No changes will be made ..... 8 items

Steps being taken of the 67 items include (1) recognizing animal tests conducted in foreign countries with respect to drugs and cosmetics, (2) accepting foreign-made sporting goods, such as tennis ball and metal bats for baseball, for use in official competitions held in Japan, and (3) accepting quality rating of U.S.-made *sake* rice wine.

2. Establishment of the Office of Trade Ombudsman

It was decided to establish the Office of Trade Ombudsman (O.T.O.) as an organ to handle complaints regarding access to the Japanese market, including matters concerning import testing procedures. The O.T.O. will be headed by a deputy cabinet secretary and its members will comprise administrative vice-ministers of all government agencies concerned.

At the same time, it was decided that all ministries and agencies concerned will set up their own sections to deal with grievances. Following this decision, MITI inaugurated the "Office of MITI Trade Ombudsman" on February 1 within the Import Division of the International Trade Administration Bureau.

Reciprocity Damages Free Trade System, Abe Urges

International Trade and Industry Minister Sintaro Abe attended a trade conference of major industrial countries in Key Biscayne, Florida, in mid-January in a bid to find ways of defusing international trade frictions. The meeting was attended by top trade officials from the United States, Japan, Canada and the 10-nation European Community. Abe later conferred with U.S. government officials including President Ronald Reagan in Washington.

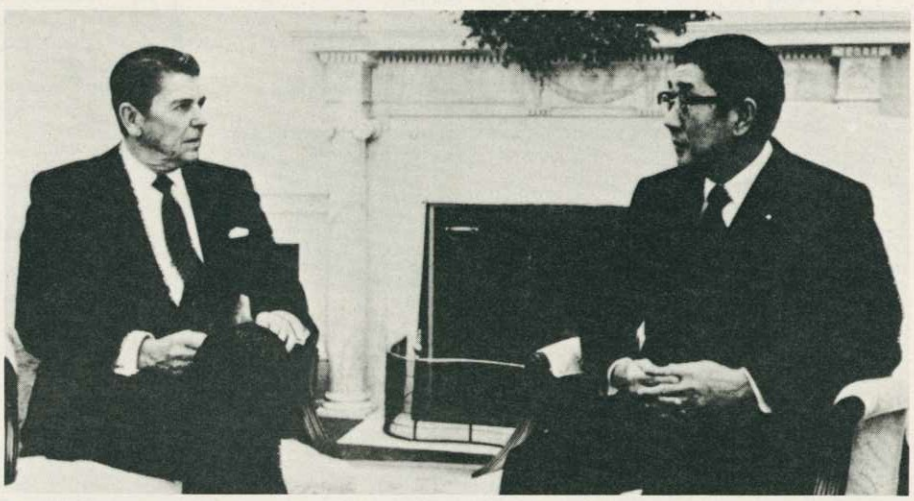
The talks established that protectionist pressures undoubtedly are prevailing in the U.S. congress and that there are strong calls within the administration for Japan to open its market wider to foreign goods. With this trade conference as a starting point, the Japanese government is likely to face stepped-up pressures for specific measures to ease trade friction. There is an especial danger that U.S. lawmakers who have previously advocated the free trade system could turn protectionist and make harsher demands on Japan as mid-term congressional elections in November approach. The Japanese government is thus being urged to work out substantial measures that can meet the U.S. demands.

In an effort to allow foreign goods greater access to the Japanese market, the government has so far come up with such measures as the removal of non-tariff barriers including simplification of import procedures and the reduction of tariffs under an international agreement two years ahead of schedule. These measures, however, have not fully satisfied the United States.

Under such conditions, Japan's huge trade surplus with the United States, put by Washington at $18 billion in 1981, may not be reduced for some more years.

Now that the United States has not only stepped up pressure on Japan to reduce its trade surplus but also made wider requests for liberalization of such service sectors as banking and data communications, cooperation in high-technology products and exchange of military technology, the entire Japanese government, not just the Ministry of International Trade and Industry, has to seriously tackle the trade problem.

More lawmakers in the U.S. congress support a policy of reciprocity, limiting foreign access to the U.S. market in the case of countries that restrict access of



International Trade and Industry Minister Shintaro Abe holds talks with U.S. President Ronald Regan at the White House on his way home from a Trilateral Commission meeting in Key Biscane.

American goods. Abe strongly called on the United States to avoid such moves, contending that the idea of "negative reciprocity" could damage the free trade system and lead to an escalation of retaliatory actions among nations.

The auto trade problem between Japan and the United States is very likely to come to the fore again this year as the United States has asked for a review of the agreement reached between the two countries last year. The United States has cited a bleak prospect of automobile demand in the country as the reason for the request. In May last year, the auto issue was believed to have been resolved as Japan agreed to voluntarily restrict its automobile exports to the United States.

The Japanese government considers Abe's visit to the United States as an important initial step toward resolving the bilateral trade friction. With Foreign Minister Yoshio Sakurauchi scheduled to visit Washington in March, the government is now trying to solve the problem while carefully watching developments in the United States.

In view of growing U.S. congressional sentiment against the alleged closed nature of the Japanese market, there is a possibility the U.S. government will resort to protectionist policies to block Japanese goods from the American market, depending on what relaxation measures Japan adopts.

Therefore, the Japanese government, with the Ministry of International Trade and Industry in the vanguard, will have to devote considerable energy to efforts to ease trade frictions at least in the first half of this year.

Rescuers seen taking out a trapped worker from the Yubari coal mine

Aftermath of Major Coal Mine Disaster

— Now Nearly Impossible to Attain 20-million-ton Target of Coal Production —

Last October's disaster at the Yubari coal mine in Hokkaido, which killed 93 miners, was the nation's third largest since the end of World War II.

It greatly shocked the government, which had worked out a policy of raising the country's domestic coal production level to 20 million tons a year from the present depressed level of around 18 million tons.

The company was forced to apply for court protection to begin reconstruction under the corporate rehabilitation law two months after the disaster.

The business situation had become so bad the company could no longer fully pay monthly wages and faced early bankruptcy.

If the Yubari mine, owned by Hokutan Coal Mining Company, was allowed to close down, it would inevitably affect operations of two other mines operated by the Hokutan Group—Mayachi and Horonai.

If all had gone well, the combined production level of the three mines would have been 3.5 million tons a year. Even if part of the Yubari mine is reopened, it is almost impossible to recover the pre-disaster production level of 1.16 million tons a year.

And even if production at other coal mines in Japan is increased, it is now considered extremely difficult to attain the 20-million-ton target.

The Ministry of International Trade and Industry (MITI) and the Natural Resources and Energy Agency last August decided on the target of 20 million tons, based on the advice of the Coal Mining Council, with a view to securing stable energy sources by 1) reevaluating coal as an alternative to oil, and 2) by reducing Japan's heavy dependence on imported energy.

Japan's coal production sharply dropped from a peak of 55.41 million tons in 1961 to 18.95 million tons in 1980.

Coal mining in Japan is carried out under poor conditions. The average depth of excavated coal beds is 650 meters and the coal has to be transported to the pithead over an average distance of 6,200 meters.

All mines in Japan's main northernmost island of Hokkaido, producing 60% of the nation's total coal output, have high levels of methane gas locked in the seams.

Working conditions in other Hokkaido mines are similar to those of the Hokutan Yubari mine in which a methane gas explosion caused the disaster.

Therefore, MITI has been promoting safety measures, including the introduction of central control systems to monitor methane gas density.

Most of the Japanese coal mine companies are suffering heavy deficits and the government has been extending a generous helping hand to the companies so they can attain the 20-million-ton level. The measures include subsidies of about

¥1,400 per ton, for a total of about ¥30 billion a year, to make up a price gap with cheaper imported coal.

Against this background, the impact of the disaster at the Hokutan Yubari coal mine, regarded as one of the most modern mines in Japan, on the national coal industry and the government, is serious. Criticism has emerged of the government's policy seeking rapid expansion to a 20-million-ton production level, saying it was too ambitious.

To raise the present production level from 18 million tons, miners have to go deeper underground with increasing danger of disasters.

Those who are critical of the government policy question whether it is necessary to continue domestic production of coal under such conditions when cheaper foreign coal is available.

Per-ton prices of imported coal are ¥2,000 to ¥5,000 cheaper than those of domestic coal.

According to an estimate by MITI, imports of coking coal and steaming coal were expected to reach 65 million tons and 13 million tons respectively during fiscal 1981 ending in March more than or/four times the domestic production level.

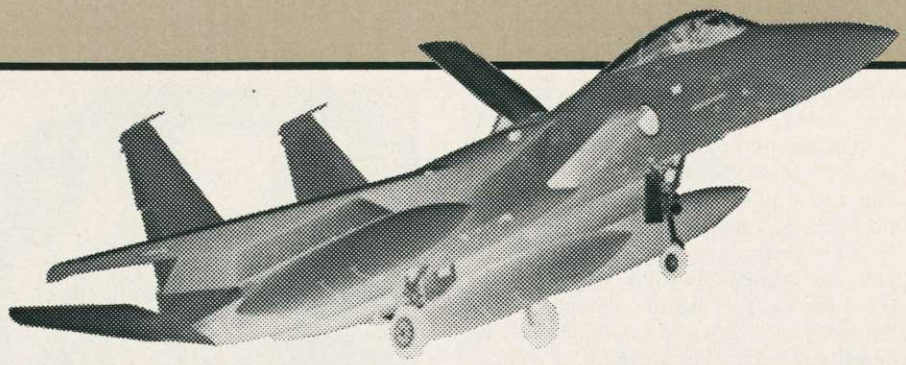
In the future, imports of steaming coal from overseas are expected to sharply increase. The power industry and trading firms are making a strenuous efforts to develop steaming coal deposits in Australia, Canada and the United States for use in Japanese power plants, which are now switching from oil to coal.

The time is thus considered ripe for reviewing Japanese coal production policy to establish the most reasonable production level from a standpoint of securing domestic energy sources.

Domestic Economy

Japan's Defense Budget Leaps 7.754% for Fiscal 1982

The Japanese Government has presented to the Diet (Parliament) its draft budget for fiscal 1982, compiled under the catchword of "administrative and fiscal reforms." As Prime Minister Zenko Suzuki has declared he will stake his political career on these reforms, the budget takes the line that fiscal 1982, beginning in April, is the second year of placing the fiscal reconstruction program on the right track and freeing public finances from any new deficit-covering bond issues by fiscal 1984. The budget thus features substantial cuts in spending. As a result, the general-account budget totals ¥49,680.8 billion, an increase of 6.2% over the original budget for fiscal 1981, the lowest increase in 26 years. The fiscal loan and investment program, generally known as the second budget, amounts to ¥20,288.8 billion, an increase of 4.1% or the lowest in 24 years. These figures testify to the austere character of the government's spending plans.



F-15 jet fighter, one of the hottest items of discussion for fiscal 1982 budget

However, defense spending has been allowed to increase by an exceptionally large 7.754% out of greater considerations given to Japan-U.S. relations. By contrast, appropriations for social welfare benefits have been given smaller increases than in fiscal 1981, as the government adopted the principle of letting the beneficiaries, namely, the public, foot the bill. Opposition parties charge that the "administrative reform" budget in reality imposes sacrifices on the people, while treating defense spending as a "sanctuary" free from the general retrenchment policy.

In addition to the preferential treatment for defense spending, the budget also has given priority to spending on economic assistance to developing countries, which has been allowed to increase by 10.8%, programs to secure stable supplies of energy resources, up 13.2%, and science and technology promotion, up 4.7%. These figures, it may be said, reflect the government's policy of ensuring "overall national security."

Compilation of the fiscal 1982 budget began under the slogan of "reconstruction of public finances without a tax increase." However, when the outlook became clear that national tax revenues in fiscal 1982 would leave a shortfall of about ¥700 billion, planned taxation of industrial and business enterprises was raised by ¥348 billion and various items of non-tax revenues were scraped up to secure the necessary national revenue. It is true that some additional cuts in spending were made, but actually these took the form of deferring part of expenditures to later years and increasing the burdens of local governments and taxpayers to make both ends meet.

On the other hand, in line with the government's basic policy of seeking "sustained economic growth led by expansion of domestic demand," the budget provides handsomely for promotion of housing construction. As for public works spending, where no increase had been allowed for three straight years, steps were taken to boost business by arranging for a front-loaded execution of government contracts and concentrating disbursements on projects that have large "ripple effect". However, analysts doubt if such business-stimulating measures, which appear to be trying to please everybody, really will be effective.

The government projects a 5.2% real economic growth rate for fiscal 1982. But it readily admits this is a target, deliberately set at a relatively high level. What is more, about 2.2% of this figure represents the effect of a high starting point considered to be brought about by the economic upturn in the latter half of fiscal 1981. Actually, however, the growth rate for fiscal 1981 is now likely to be about 0.5 percentage point lower than the government's revised outlook of 4.1%. This will tend to pull downward the economic growth rate for fiscal 1982. Thus, there is a strong possibility the fiscal 1982 economic growth rate will be slightly below 4% as predicted by many private research organizations.

From this point of view, a loud outcry is expected from sections of the Liberal-Democratic Party and the Government, calling for a new package of economy-boosting measures. The economic trend in Japan will thus depend largely on how the Government will finally decide between the seemingly conflicting demands of fiscal reconstruction and business expansion.

Tokyo Gold Exchange

—Foreign Corporations Eligible for Membership—

The Tokyo Gold Exchange made its debut on March 9 amid a "gold fever" in Japan as futures transactions on gold bul-

lion are being authorized for the first time in this country.

Preparations had been underway for some time for the opening of much-heralded Exchange, and its chairman has already been appointed informally.

One major characteristic of the exchange will be that it starts the day's trading well ahead of the world's major gold markets because of time differences, and it will allow registration of foreign corporations as members.

A substantial portion of gold trading is currently carried out in London for spot contracts and in New York for futures transactions.

The two markets play the leading role in setting prices and international distribution of gold. In Asia, Hong Kong is the central market for both spot and futures trading.

The Tokyo Gold Exchange was opened for two major reasons.

First, Japan's gold demand has been soaring in recent years. Gold importers and local distributors have been calling for establishment of a local exchange where yen-based settlement of accounts is practicable for futures contracts, allowing them to avoid risks in foreign exchange

The inaugural meeting of the Tokyo Gold Exchange

fluctuations.

Japan's annual gold demand ranged from 13 to 68 tons until 1973 when import of gold was finally liberalized.

From 1973 to 1977, demand moved in the range of 100 to 130 tons, followed by 170 tons in 1978 when restrictions on gold export were lifted. Last year, demand was estimated to have reached 250 tons, or some 25% of the free world's output, against a background of rising investment in gold by the Japanese.

Another factor is that a lot of troubles have occurred in relation to futures trading on unauthorized gold markets. Taking advantage of a lively interest in gold among individual investors, a number of unscrupulous dealers have swindled money out of such investors, touching off widespread criticism.

Faced with a crop of troubles, parliamentarians of the ruling Liberal-Democratic Party and officials of the Ministry of International Trade and Industry (MITI) last summer launched an investigation and finally decided to immediately establish a gold exchange for futures trading that can be trusted both at home and abroad.

On the Tokyo Exchange, futures gold will be traded for one to six months ahead, with a basic trading unit of one kilogram. Margin requirements will be over 20% of the value of trading. Trading hours are from 9:00 a.m. to noon and from 1:00 p.m. to 5:00 p.m.

A foreign corporation will be eligible to become an Exchange member if it sets up a subsidiary in Japan with net assets of over ¥20 million ($88,880), a senior MITI official said.

This obviously reflects the government authorities' intention to develop the new Exchange into an internationally prestigious gold market as well as the universal nature of gold as a commodity.

In Japan there are now seven exchanges handling commodities like rubber, sugar and grain, but so far no foreign corporation has been granted membership.

Opening the door of the Tokyo Gold Exchange to foreign members may be termed an epochal decision.

Members will be charged a ¥1 million ($4,440) entrance fee, a ¥500,000 ($2,220) credentials fee and will pay annual member dues of ¥120,000 ($530).

Dream Ceramic Engine Almost Ready

Development of a "dream" ceramic engine that will greatly save fuel is rapidly progressing toward the practical stage.

Kyoto Ceramic Co. Ltd., a leading industrial ceramics maker, has recently developed and manufactured a ceramic engine on an experimental basis jointly with Isuzu Motors.

They successfully ran a car equipped with the engine in Kagoshima Prefecture, southern Japan, toward the end of 1981, the first time a full-fledged ceramic engine has been operated in the world.

The engine used for the tests was a three-cylinder, 2,800cc diesel unit, and fine ceramics was used in eight vital parts of the engine, such as cylinders, pistons and cylinder heads. These were made of hardened silicon nitride treated with intensive heat up to 1,700-1,800 degrees centigrade.

"Ceramics" in general terms means a solid inorganic material, and everyone is already familiar with such ceramic products as chinaware, glass and cement, made from minerals and clay found naturally.

In recent years, ceramics has also been produced from such non-oxide elements as silicon nitride and silicon carbide. These are called "new ceramics" or "fine ceramics" to distinguish them from conventional "old" ceramics such as chinaware.

Ceramics, being baked, is superior in heat resistance, heat insulation, corrosion and wear resistance.

Present metal engines, made of iron or aluminum, cannot resist heat higher than 800 degrees centigrade and also waste 30% of their combustion energy because they have to be cooled by air or water to prevent overheating.

Ceramic engines, with a heat resistance capacity up to 1,200 degrees centigrade, therefore, can produce fuel savings of 30% as they reduce heat loss.

As ceramic engines do not need a cooling system and ceramics is three times lighter than iron, the whole weight of the engine block can be reduced by one-third.

Another attraction is that we do not have to worry about shortage of resources because silicon, carbon and nitrogen, the raw materials involved, are abundant in the earth and atmosphere. In Japan not only the Kyoto Ceramic-Isuzu group but also NGK Spark Plug Co., Ltd., Toyota Motor Co., Ltd. and Nissan Motor Co., Ltd. are developing ceramic engines.

Kyoto Ceramic has been receiving aid from a fund for important technological research and development set up by the Ministry of International Trade and Industry (MITI) in Fiscal 1981.

However, there are still problems to be solved before the ceramic engine can be put into practical use.

The biggest problem is the fragility of ceramics. The uniformity of strength of any metal material normally can vary up to 10% but in the case of ceramics the range is 30-50%. So, it is required to further improve the uniformity of strength of ceramics because now they break up outright without going through the plastic deformation stage invariably seen in metals.

Kyoto Ceramic, which is leading the ceramic engine development race, says: "The big question is how to obtain this quality uniformity of ceramic engines when they are mass-produced." Still, the company is confident it can reach the stage of practical use in three to four years.

3-cylinder, 2,800cc diesel engine with fine ceramics in eight vital parts