

## Perception Gap

The editorial in your May issue goes straight to the heart of the debate on Japan-U.S. trade relations. The "perception gap" exists because, in general, Americans have not seriously attempted to understand in depth the economy, society and politics of Japan. I do not mean to imply that the "perception gap" is one-sided: the Japanese must understand that America is undergoing a painful economic readjustment now which will probably continue for the remainder of this decade. Nevertheless, I believe that Americans need greater education on the subject of Japan.

A fundamental maxim of warfare is "know thy enemy." Japanese electronics manufacturers have amply demonstrated their understanding of this principle by tailoring their products to the American market and thereby gaining a significant market share. American electronic products in general have not done well in Japan, on the other hand. In my opinion, a primary reason is that the American product is not tailored to the Japanese market. Is this a non-tariff barrier to trade? No, it is a parameter in product design.

The issue is complex. It can be successfully resolved only through mutual understanding, however. The "perception gap," if not closed, will lead to greater economic and political gaps which will be difficult, if not impossible, to bridge.

Robert S. Noland  
California, U.S.A.

## Journal Useful

Thank you for the *Journal of Japanese Trade and Industry*.

I am currently studying economics at the University of Southern California, but, while there is prolific theorizing on Japan, much of it very useful, much of the data underlying these analyses are often painfully out of date, and there is a frustrating paucity of current information.

The *Journal of Japanese Trade and Industry* fills this gap admirably. I was particularly impressed with Mr. Amaya's interview in which he stated, "Free trade is only a product born out of the process of history and such a product may also disappear in the process of history. Therefore, we should make efforts with religious care not to damage the fragile rules of free trade."

Yoshio Maruyama  
California, U.S.A.

## Instant Capsule Insight

The *Journal of Japanese Trade and Industry* provides its readers with a wide spectrum of interesting articles about Japan and about its trading partners.

The third issue was of particular interest to me because it featured "Japanese Technology Policy for the 1980s." I have sent copies of the May issue to my colleagues in the U.S.A.

The selection of articles and writers were well balanced, thus giving the reader an instant capsule insight to the Japanese environment.

Please continue to publish your journal in an objective manner. I look forward to your next issue.

H. Dick Yamashita  
President,  
MARCOM International Inc.

## CURRENT TOPICS

### General Subjects

## Second Package of Market-Opening Measures

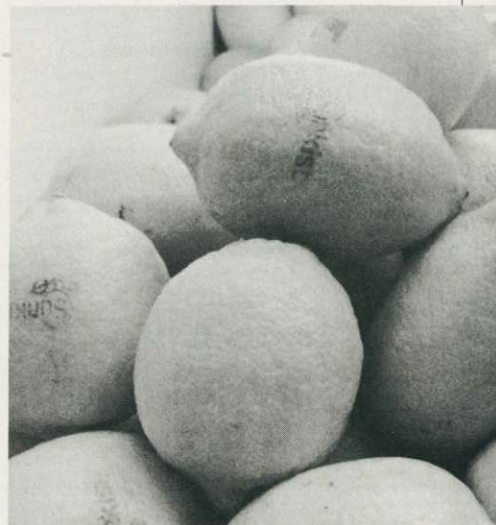
On May 28, the Japanese Government decided to implement a package of market-opening measures to ease trade friction with the United States and European countries. This is the second such package following one implemented in December last year. At the Versailles Summit held June 4-6, Prime Minister Zenko Suzuki explained Japan's efforts to open up her market to foreign products and sought the understanding of the heads of Western countries.

The focal point of the second package is the reduction of tariffs on a total of 215 items—198 industrial products and 17 agricultural goods. The package also abolished import duties on 96 items, including machine tools, and expanded the import quota for four agricultural and fishery products, such as pork for market adjustment and canned pineapple.

As for non-tariff barriers, the second package includes measures to (1) simplify import inspection procedures and (2) improve the distribution system and business practices. The package also includes measures to increase the number of stores selling imported tobacco from the present 20,000 to 70,000 by the end of fiscal 1983.

U.S. chief trade negotiator William Brock issued a statement welcoming the Japanese step, noting that many of the measures touched on issues of basic concern to the U.S.

EC Vice-President Wilhelm Haferkamp also praised the market-opening measures as the result of extraordinary efforts made by the Japanese Govern-



ment despite difficult domestic political circumstances.

Prime Minister Suzuki said that the second package of market liberalization measures was the "best and the maximum possible at present." He stressed that Japan would make continued efforts, saying "it is vital for Japan to make contributions worthy of her ability towards the revitalization of the world economy and expansion of world trade."

Despite the favorable reaction, problems remain, such as liberalization of farm produce imports. Therefore, it is still premature to conclude that the second package has removed all sources of trade friction with the U.S. and European countries.

As regards the liberalization of imports of beef and citrus fruits, the area of greatest concern to the U.S., it was decided at the Japan-U.S. consultations on agricultural produce held in Washington May 24-25 that the problem would be discussed once again at regular consultations to be held in October. As a result, the problem of agricultural trade between Japan and the U.S. has entered a brief recess. But it is considered certain that the U.S. will narrow down the issues to be taken up at the October meeting to the question of liberalization of beef and citrus fruit imports and press for Japanese concessions. Officials of the Ministry of Agriculture, Forestry and Fisheries believe the negotiations in October will be crucial to Japan's agricultural sector.

Japan's reduction of tariffs on industrial products, another important point of the second package, is regarded in Tokyo as considerable. Finance Ministry figures show Japan now has more tariff-free items than any other country. In addition, the tariff on computers, the item of greatest concern to the U.S., will be reduced to 4.9%, the final target rate, in April next year, four years earlier than the original gradual tariff reduction schedule set for 1987, decided at the Tokyo round



of multilateral tariff negotiations. The latest measures also include lowering tariffs on automobile tires and skis, which Japan imports from the EC in large quantities, to American and European levels. The Ministry of International Trade and Industry believes that Japan's tariffs on industrial products are now the lowest in the world as a result of the second market-opening package.

\*For detailed figures, please see p.10-12.

## Abe's Shuttle Diplomacy

Japanese Minister of International Trade and Industry Shintaro Abe developed what some people called "shuttle diplomacy" recently in successive overseas trips, rare for a man in his post.

He went overseas four times in a short span of one and a half months, staying abroad for 27 days.

From the Emperor's birthday on April 29, which was also Abe's birthday, to June 10, the Minister showed up at his office in Tokyo a total of only two weeks.

The series of tours started with visits to Saudi Arabia and the United Arab Emirates (UAE), followed by his participation in a ministerial meeting of the International Energy Agency (IEA), the Versailles summit of leading industrial countries and a visit to Tunisia.

Abe devoted his efforts to help settle the issues of energy, trade and advanced technology exchanges, as well as the problem of farm products, which is basically outside his jurisdiction.

Almost until the last moment, Japan had apprehensions that it might be exposed to concerted criticism at the Versailles summit because of its persistent trade frictions with the United States and Western Europe.

But the anticipated criticism was in fact averted as Western countries appreciated the second package of market-opening measures Japan announced on May 28.

The Ministry of International Trade and Industry (MITI), at Abe's initiative, managed to persuade other reluctant ministries to open the door wider to foreign goods, leading to criticism that it was becoming an arm of the U.S. Trade Representative's Office (USTR).

MITI took a major step of its own by removing or lowering import tariffs on 96 industrial items. The decision was based on the thinking that trade protectionism would by no means help improve the sluggish world economy.

Abe's conviction that maintenance of free trade and the opening of the Japanese market would lead to revitalization of the world economy was strengthened through the exchange of views with leaders of other countries.

In his talks with U.S. Chief Trade Re-

presentative William Brock, Abe explained the difficulties, because of Japan's domestic situation, in completely liberalizing imports of farm products, which are not under his jurisdiction.

He also laid the groundwork for market-opening measures by seeking U.S. understanding and sounding out possible U.S. reactions and thus helped the government, including a resisting Ministry of Agriculture, Forestry and Fisheries, finalize the measures.

It was Abe who spearheaded the move to allow foreign enterprises to take part in research and development of Japanese government-subsidized projects, including fifth generation computers.



Shintaro Abe, Minister of International Trade and Industry

The initiative was primarily in response to U.S. criticism that the Tokyo government was helping local private enterprises with subsidies. But it was also based on his strategy to help revitalize the world economy through the exchange of advanced technology. He shared with leaders of the world's industrial powers the view incorporated in the joint declaration at Versailles that revitalization and growth of the world economy depend on efforts and cooperation by countries promoting scientific and technological developments.

There were complaints among some Japanese industries concerned and even in some quarters of MITI that the governments of other industrial countries by and large are subsidizing private industries for technological developments and yet they are not opening such technology to foreign enterprises. Why does Japan alone have to open its technology to foreign enterprises, they argued.

But Abe rejected such arguments, saying they would not help improve the

situation at all, because he had already won support from Western leaders during the trips for his idea.

During his visit to the Middle East, Abe proposed to Saudi Arabian Oil Minister Sheikh Ahmed Zaki Yamani and UAE Petroleum Minister Mana Said al-Otaiba a dialogue between oil producing and consuming countries.

Encouraged by their support, Abe at the IEA ministerial meeting proposed dialogue with the Organization of Petroleum Exporting Countries (OPEC) and succeeded in including the proposal in a joint communique, after winning the support of 21 countries despite the hesitation of countries like the United States, Britain and West Germany.

The proposal was based on the thinking that stabilization of oil prices is necessary to revitalize the world economy.

Abe says he is ready to go abroad whenever necessary if it will contribute to improvement in the global economy, whether or not some people half-mockingly call it "shuttle diplomacy."

## Foreign Technology Advances Into Japan

Direct foreign investment in Japan in the January-April period totaled 292 cases valued at ¥36,900 million, exceeding by far the ¥19,000 million in the same period of last year, according to statistics released recently by the Ministry of Finance. The Ministry explains the increase as a result of improvement in Japan's economic fundamentals.

One of the striking features of foreign investment these days is that, unlike the past tendency of investing in order to secure a sales foothold, foreign investors are now seeking production bases. Of particular significance are the increasing instances of high technology advances, mainly involving American companies.

One of the most talked about cases is the recent decision of Corning Glass Works to purchase the research institute owned by RCA of the U.S. in Machida City, on the outskirts of Tokyo, inclusive of its staff and director, for research on optical fiber (expected to become the principal communications technology in the future). Corning Glass fathered the optical fiber and owns the basic patent rights, including the production process. Corning's aim in acquiring the research firm is to expand its business in Japan, which the company expects will grow rapidly into an attractive market. The research center, therefore, is a possible forerunner to a production base.

Many American semiconductor companies have already advanced into Japan. Both Texas Instruments and Motorola are already producing IC (integrated cir-

cuits). In the latest development, Motorola acquired all the stock of Aizu Toko Co., which was originally established jointly by Motorola and its Japanese partner. Moreover, MRC (Material Research Corporation), a semiconductor manufacturing equipment maker of medium scale, has decided to construct a plant in Oita Prefecture in Kyushu, known as "silicon island." Through the good offices of the Oita prefectural authorities, MRC has already secured a site. The initial investment is estimated at about \$2 million, according to Dr. Sheldon Weining, president of MRC.

Still another American semiconductor maker, INTEL Corporation, built a circuit design center for its marketing company INTEL Japan in December last year in Tsukuba Science City, Ibaraki Prefecture, north of Tokyo. Board Chairman Gordon E. Moore of INTEL Corporation, calling Japan the biggest market after the U.S., disclosed plans to construct a factory in 1983. The leading semiconductor maker, Fairchild, announced in February this year that it would construct an integrated IC manufacturing plant in Nagasaki Prefecture. Fairchild will start building the plant this autumn with an initial investment of ¥5,500 million. The plant is scheduled to go into operation in August 1983, with the product to be marketed locally. The total investment is estimated at ¥21 billion.

In other industrial fields, Genentech Inc., a major genetic engineering company, has announced it will establish in 1983 a 50-50 joint venture with Mitsubishi Chemical Industries Ltd. Initially, the two parent companies will conduct joint research. The new joint company will produce human serum albumin to be used in blood transfusion and export it to countries all over the world.

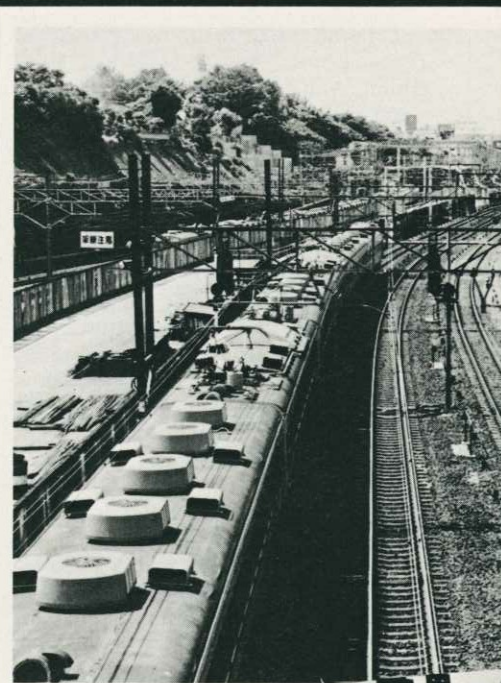
ASEA A.B. of Sweden is now studying the feasibility of constructing a factory to manufacture a sophisticated multi-purpose industrial robot, which even Japan has not yet manufactured despite its fame as the "robot kingdom" of the world. According to informed sources, its Japanese subsidiary ASEA-Gadelius is now looking for a suitable site.

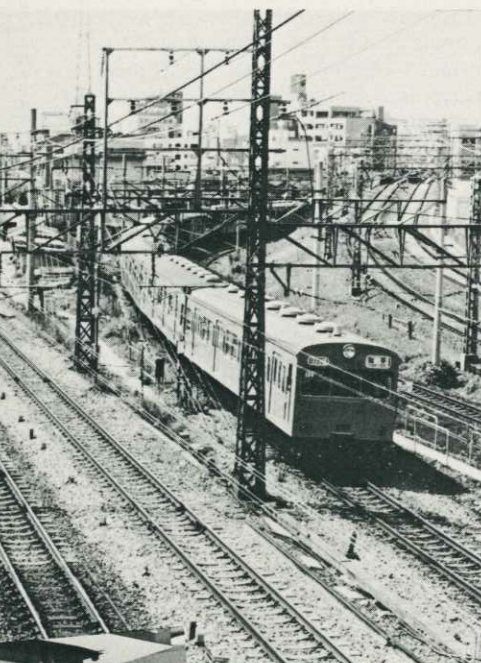
## Domestic Economy

### Fiscal Deficit & Administrative Reform

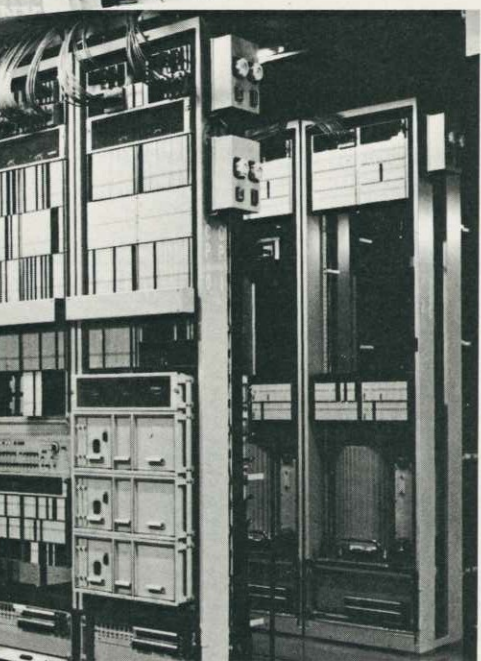
Japan's fiscal management faces a major crisis due to the sluggish trend in tax revenues resulting from the protracted business recession.

In compiling the fiscal 1983 budget, the government is adhering to a policy of promoting fiscal reconstruction through spend-





Drastic reform is under serious consideration concerning Japan's National Railways, Monopoly Corporation and Telephone and Telegraph Corporation.



ing cutbacks and administrative streamlining. However, it is impossible for the government to tide over the fiscal crisis only by such means.

The alternatives are apparently either to build up revenue by increasing taxes or issuing additional deficit-financing bonds, although the latter will only add to the fiscal deficit.

This would also destroy a pledge by the Suzuki Administration to dispense with deficit-covering bond issues in fiscal 1984 and carry out fiscal reconstruction without any tax increase.

However, indications are that fiscal authorities will have a hard time for some time to come in making both ends meet without issuing deficit-covering bonds or increasing taxes.

The revenue shortage resulting from slow growth in tax revenues is now expected to reach about ¥7 trillion in fiscal 1981 and 1982. How to cover the shortage is one of big political problems now facing the government along with the compilation of the fiscal 1983 budget.

The Finance Ministry has begun preparations for the next budget under a severe retrenchment policy. This calls for initial budget requests by the various ministries and agencies to be kept below the fiscal 1982 level so that general expenditures, excluding bond servicing expenses and tax transfers to local governments, can be held down.

Despite such attempts to minimize expenditures, there is no likelihood that tax revenues will increase fast in the coming months.

Among general expenditures, defense and foreign aid appropriations are exempt from the spending cutback in view of international commitments involved. So are energy, annuity and pension expenses, in consideration of domestic circumstances. This policy has already been clarified by the authorities.

The Finance Ministry is now studying the possibility of covering in the fiscal 1983 budget an estimated ¥2 to 3 trillion revenue shortfall in both fiscal 1981 and 1982, which it thinks cannot be covered by the fiscal 1982 supplementary budget.

The ministry is fully aware that, with such enormous fiscal deficits, it is impossible to make both ends meet merely by cutting spending. On the surface, however, the ministry has no intention of changing its "fiscal reconstruction" (dispensing with deficit-covering bond issues) policy...according to Finance Vice Minister Yasuo Matsu-shita.

It is believed the ministry is assuming such a stand because if it officially made clear a policy of issuing additional deficit-financing bonds and increasing taxes right now, this would become a major obstacle to the administrative streamlining effort.

In compiling the fiscal 1982 budget last year, the ministry succeeded in limiting initial budget requests by the various ministries and

agencies to the fiscal 1981 budget level. This was achieved with the aid of initial recommendations by the Prime Minister's Second Ad Hoc Council on Administrative Reform for an increase in the beneficiaries' burden in social welfare schemes and restraint on massive construction projects.

On the fiscal 1983 budget, a senior Finance Ministry official said, "We can hardly expect the Administrative Reform Council to play the same role in justifying spending cutbacks as in the fiscal 1982 budget."

Yet, it is certain that the ministry will fully utilize "administrative reform" in increasing welfare beneficiaries' burden despite their strong objections.

However, there is a limit to attempts by the fiscal authorities to force spending cutbacks on parties concerned.

Sooner or later, the government will be at a loss as to how to make both ends meet.

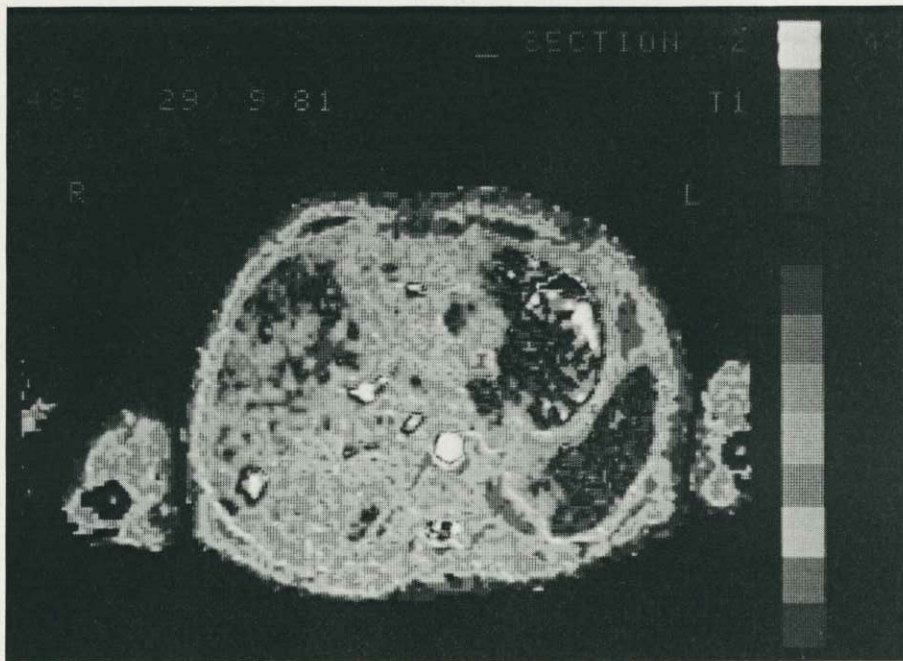
## Asahi Chemical Industry Develops NMR-CT

Asahi Chemical Industry Co. Ltd. has developed and is soon to produce commercially an NMR-CT (nuclear magnetic resonance-computer tomograph), a giant piece of electronic medical equipment enabling doctors to see moisture distribution in cross-cut sections of a human body from tomographic pictures.

Electronic medical equipment developed so far has consisted mainly of tomographs using X-ray (X-ray CT) and ultrasonic wave scanners. This is, therefore, the first time in the world that a full-scale NMR-CT using electromagnetic waves has been developed, removing the possible side-effect danger of radiation disease. Moreover, because bones do not interfere with tomographic pictures, the NMR-CT can be effective in early discovery and diagnosis of cancer and ulcers. After conducting clinical tests with the machine throughout fiscal 1982, Asahi Chemical Industry plans to market the NMR-CT sometime next year through its subsidiary Asahi Medical Co. Ltd. at a price around ¥300 million, as post-X-ray CT electronic medical equipment.

Asahi Chemical Industry developed the NMR-CT jointly with Aberdeen University in Scotland. The equipment uses the nuclear magnetic resonance absorption phenomenon generated by hydrogen against electromagnetic waves operating in a magnetic field of a given power. This phenomenon is used together with computerized image processing technology to take pictures of cross-cut sections of the human body. Difference in the moisture content between a normal section and a section affected by a disease can be recognized from the color tone of filmed pictures.

The magnetic field is 1,000 gauss



Newly developed NMR-CT spotting a stomach cancer spreading to the liver.

(about ten times the power of a magnet popularly used as teaching material at primary schools). The electromagnetic wave is 4.26 megacycles, the same as broadcasting radio waves. The NMR-CT, therefore, is a practical device of the "normal electronic induction universal type". It can detect even a minute cancerous cell measuring only three millimeters in length on one side.

Conventional electronic medical equipment always poses a danger of causing radiation damage to the human body. Therefore, a contrast medium has to be used when tomographic pictures are taken of the spine. The NMR-CT, however, can save tomograph operators much operational trouble. It is expected to make a great contribution to improving diagnostic techniques.

One problem at present, however, is an extremely high price. A complete NMR-CT costs ¥300 million as against ¥2-3 million for the ultrasonic wave scanner and an estimated ¥100 million for the X-ray CT.

## Additional measures to open up the Japanese market

### I. Reduction of Tariff Rates

Starting in April 1982 the Government of Japan implemented an across-the-board accelerated reduction of tariff rates, two years ahead of the schedule established under the Tokyo Round Agreements. It also decided to eliminate or reduce from April 1983 the tariff rates for 215 items, some of which are listed below.

#### (1) Across-the-Board Tariff Cuts for FY 1982

- a) Tariff items covered: 1,653 (implemented from April 1, 1982)
- b) Trade volume covered: 43% of dutiable imports (based on imports in 1980) excluding oil
- c) Average tariff rates: 6.75% on 1,653 items from present 8% (cut by 15.6%)

#### (2) Furthermore, despite an unfavorable domestic industrial climate, Japan is making its utmost effort to further reduce tariffs so as to open up her market even more.

##### (a) Tariff items covered

Action taken	Total	Agricultural products	Industrial products
Tariff elimination	96	—	96
Tariff cut	119	17	102
<b>Total</b>	<b>215</b>	<b>17</b>	<b>198</b>

