

Letters

Medium-Small Enterprises

Allow me to congratulate you on the steady improvement of the *Journal*. There is one topic in particular which I would like to see treated in a series of articles: the so-called medium-small enterprises (*chusho kigyo*) in the context of Japan's industrial policy. Recently, the ASEAN countries have expressed interest in attracting direct investment by these enterprises. On the other hand, the Japanese Government has been accused of using them as a pretext for protectionism. Some problems to consider could be:

—Do these enterprises contribute directly to technological development in general? If so, how?

—What access do they have to external funding through their specialized financial institutions and other financial institutions, such as local banks?

—Do they enjoy some special benefits at the local level (prefecture, municipality)? What is expected and achieved when they form a local organization in a particular industrial field?

—What the mass media call "bankruptcy" is a common occurrence among these firms. What actually happens in such a case? Some case studies would be enlightening.

A related problem would be the particular form of cooperation involving smaller companies, a form little known abroad, the so-called enterprise group (*kigyo keiretsu*), as opposed to the better known *kinyu keiretsu*. The matter of subcontracting could be brought up in this context, but mention should be made also of the workings of "groups" such as those formed by, say, several private railroads.

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The Journal is Bridging Communication Gap

The *Journal of Japanese Trade and Industry* serves an important purpose in bridging the communication gap between Japan and its trading partners. Its articles are timely, informative, and cover a broad range of important topics. The authoritative and objective character of the *Journal's* writing is particularly impressive.

As a Japanese trading company employee, I was especially pleased to read the excellent feature on "The Changing Role of Japan's General Traders" in your July issue. The article describes a complex subject very clearly and explains how the trading companies play an active role in promoting free trade flows and world economic development.

The July issue was not as successful in describing Japan's second package of trade liberalization measures. You emphasized the tariff reductions but said little about the non-tariff barrier measures which are of primary concern to the United States. American officials are waiting for Japan to take further action to clarify and implement the NTB measures. These measures promise to be most significant when they are enacted, and I hope you will discuss them further in subsequent issues of the *Journal*.

But despite the problems that remain, the Japanese market is generally open to foreign companies that make the effort. Your articles on foreign banks and foreign technology firms in Japan demonstrate this point very well. Articles by informed foreign businessmen are particularly valuable in promoting the knowledge and understanding which are so vital to improving Japan's trading relationships.

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CURRENT TOPICS

General Subjects

Expanded U.S. Economic Sanctions against the Soviet Union

U.S. President Ronald Reagan's decision to widen the economic sanctions against the Soviet Union threaten continuation of the Japan-Soviet joint project to develop oil and natural gas off Sakhalin. Moreover, Japanese exports to the Soviet Union are likely to be affected seriously. Japan has therefore been strongly urging the Reagan Administration to reconsider the broadened sanctions against Moscow.

The expanded ban includes industrial supplies and equipment manufactured not only by subsidiaries of American companies abroad but also by non-American companies under license with American companies. The original ban prohibited exports to the Soviet Union only of American-manufactured equipment for developing oil and natural gas and related machinery and equipment.

When the U.S. presidential decision was announced on June 18, Japan thought that Japan's Sakhalin oil and natural gas development project would be exempted, in view of the precedent set when this project was excluded from economic sanctions at the time of the Soviet invasion of Afghanistan, on the grounds the contract for the project had been signed before the incident. When they learned the Sakhalin oil and natural gas project was not excluded, the Japanese Government and industry were shocked.

Concluding that expansion of the U.S. ban on exports to the Soviet Union is tantamount to economic sanctions against Japan, the Japanese Government immediately sent to the U.S. Government letters signed by Foreign Minister Yoshio Sakurauchi and Minister of International Trade and Industry Shintaro Abe seeking immediate reconsideration of the Sakhalin oil and natural gas development project.

As a result of the expanded ban, the West Siberian natural gas pipeline project in which a consortium of European countries is participating is seriously hampered. The European countries strongly protested the U.S. action. They are now demanding retraction on the grounds that the U.S. is overstepping international law by including in the ban machinery and equipment manufactured by the subsidiaries of American companies in Europe and those manufactured by European



Japan-Soviet joint oil and natural gas development project off Sakhalin.

companies under licenses issued by American companies.

As regards the Sakhalin oil and natural gas development project, the Sakhalin Development Cooperation Co., the Japanese prime contractor for the project, agreed at the end of June to continue work after consultations with Moscow.

It was tentatively agreed between the Japanese and Soviet governments (1) that the development of the *Chaio* concession area in southern Sakhalin, where exploration has already been completed, will be started before the end of this year, (2) that exploration of reserves in the *Odopt* concession area in northern Sakhalin will be continued with Soviet technology alone, and (3) that Japan would continue to ask the U.S. Government to recognize as before the use of American technology in the Sakhalin oil and natural gas development project.

A survey conducted by the Ministry of International Trade and Industry has revealed that oil refinery equipment, drilling gear and other machinery and equipment affected by the U.S. ban would amount to \$200 million to \$300 million in value.

Accordingly, the Japanese Government on July 20 informed the U.S. Government through its ambassador in Washington, Yoshio Okawara, that Japan cannot accept the expanded sanctions and sought the U.S. Government's reconsideration. In its letters to Washington, the Japanese Government (1) declared that it cannot accept the export control regulations revised by the U.S. Department of Commerce in June in connection with the presidential decision because they make American law applicable outside U.S. territory and retroactive, (2) requested a reconsideration of the measures based on these regulations, and (3) requested a reconsideration of the application of the ban to the Sakhalin project.

It is believed in Japan, as stated by a highly placed Foreign Ministry official, that the expanded U.S. economic sanctions against the Soviet Union will widen the rift between the U.S. and Europe and between the U.S. and Japan and will weaken the Western alliance. Japanese officials say they will persist in explaining their view to the U.S.

The IBM Industrial Espionage Case

The arrest of employees of Hitachi Ltd. and Mitsubishi Electric Corp. by the Federal Bureau of Investigation (FBI) for trying to steal secret information from International Business Machines Corp. (IBM) has come as a great shock to Japan. The shock was magnified by the fact that Mitsubishi Electric and Hitachi are among the top-ranking enterprises of Japan, while IBM is a mammoth corporation that controls 60% of the world computer market.

When the outline of the espionage case was disclosed on June 23, many Japanese were surprised that the FBI had resorted to a "sting" operation, which is eschewed in Japan. At the same time, people were stunned to learn that Japanese computer technology, which they had believed to have almost caught up with the U.S., was nothing but a copy. Moreover, strong apprehension was expressed lest the industrial espionage case should have an undesirable effect on future Japan-U.S. relations.

Certainly, Japan-U.S. economic friction has occurred in many fields. And computer-related high technology certainly was regarded as a field in which Japanese and American interests would eventually collide.

Japanese mass media tried to explain the IBM case plainly to the public, taking the analytical approach that it was an outcome of trade friction between the two countries. They claimed the U.S. had employed emergency measures to give a knockout blow to Japan, which was gradually catching up with the U.S. They said that this was substantiated by the fact that the FBI used a "sting" operation to trap the Japanese.

Such analysis, however, gradually evaporated as time went by. The history of the global computer market and the present state of computer manufacturers throughout the world centering around IBM were studied more calmly. As a result, the earlier view that the IBM case was an outcome of U.S.-Japan confrontation in computer technology was rejected as too simplistic. Experts in the computer industry arrived at the conclusion that the IBM industrial espionage case was an outcome of the cutthroat competition among the computer industries of the world centering around IBM.

IBM has played an exceedingly significant role contributing to the development of the global computer industry. From the latter half of the 1960s, there appeared a great variety of peripheral equipment which could be plugged directly into IBM mainframes and which were equal or even superior to IBM products in performance but cheaper. Makers of peripheral equipment were called plug compatible manufacturers (PCM). These grew rapidly and built up a large market. Hitachi and Fujitsu, Ltd., Japan's largest computer maker, decided in 1972 to become PCMs. To pursue the manufacture of plug compatible equipment involved a great possibility of winning the competition with IBM but entailed a great danger as well. How to outwit the PCMs became a matter of great importance to IBM. For PCMs, the key to their success was to obtain information on IBM's strategy at the earliest possible time.

For more than 10 years, IBM followed the strategy of making quick shipments of a new model as soon as it was announced to the public and developing still another new model to replace it almost within one year in order to keep its rivals at a distance. At the same time, IBM took the strategy of announcing new models one



FBI officials arrest Hitachi employees.

after another, including "decoys," to confuse rivals. This strategy, however, did not work on Fujitsu and Hitachi, who were able to survive as PCMs. To the last, they continued their tactic of "snatching away IBM users" through their respective outlets—Amdahl in the case of Fujitsu and Palyn Associates in the case of Hitachi.

Judging from these circumstances, it can be surmised that the industrial espionage case was IBM's counteroffensive against Hitachi, one of the last surviving PCMs. Although IBM asked for FBI help, it did not need the U.S. Government's support. It is too hasty, therefore, to jump at the conclusion that the IBM case was a product of Japan-U.S. confrontation. Hitachi, which lost the information war over "IBM 3081 Series K," will have to surmount the consequences of its defeat with its own ingenuity and resources.

Economic Aid for South Korea

After much rough sailing, economic cooperation negotiations between Japan and South Korea have entered the final phase. It is now possible that, if everything goes smoothly, Foreign Minister Yoshio Sakaurauchi may visit Seoul in September to settle the protracted issue.

The economic aid negotiations started in spring last year when South Korea asked Japan for official development aid (ODA) amounting to \$6 billion, about 10% of the money needed to implement its fifth five-year program for economic and social development beginning 1982. The Japanese Government requested the request be scaled down because it was unrealistic. South Korea wanted \$6 billion to be furnished over five years, that is, \$1.2

billion per year. The Japanese Government pointed out that this was far out of proportion to the yen credit of ¥19 billion (\$76 million converted at the rate of ¥250 to the dollar) a year which Japan so far has been providing South Korea. The Japanese Government also pointed out that South Korea was no longer a developing country because its per capita GNP was above the \$1,000 level. To provide such a country with a huge amount of ODA would upset the balance with other developing countries receiving Japanese aid, it was argued.

At the Japan-South Korea foreign ministers' conference in August last year and also at the Japan-South Korea regular ministerial level conference held in September last year, the Japanese side proposed consultations to adjust the size of the aid and promised to make forward-looking efforts to respond to Seoul's needs.

Subsequently, the South Korean Government in spring this year presented a proposal asking for \$3.5 billion in yen credit and \$2.5 billion in commodity loans, totaling \$6 billion.

Consultations among the Foreign Ministry, Finance Ministry, Ministry of International Trade and Industry, and Economic Planning Agency resulted in a final Japanese counterproposal of \$1.5 billion in yen credits and \$2.5 billion in Export-Import Bank of Japan credit and commercial bank loans, totaling \$4 billion. The negotiations, however, have stalled because neither side would yield.

Early in July this year, when South Korean Foreign Minister Lee Bum Suk visited Tokyo, the virtually ruptured negotiations began moving again. During Lee's talks with Foreign Minister Sakaurauchi, the two agreed to settle the economic aid issue as soon as possible. Lee made a new

proposal, asking for \$2.3 billion in yen credit and \$1.7 billion in commercial loans, totaling \$4 billion. Lee asked for expansion of the scope of projects to which the yen credits and commodity loans would be applicable. Pointing out that Korea was short of domestic funds, Lee stressed the need to obtain the kinds of commodities that could be sold in his country to raise funds domestically. Thus, the focus of the Japan-South Korea aid talks has shifted to the substance of aid totaling \$4 billion as agreement was reached on the total amount.

As regards Seoul's new proposal, the Japanese Government replied as follows:

1) Because commodity loans are designed for developing countries, they are not applicable to South Korea which is a newly industrializing country.

2) However, it is possible to set aside up to 30% of the yen credit, which is essentially for project assistance as funds to meet South Korea's domestic financial needs.

3) It is also possible to set aside up to 15% of the Export-Import Bank credit as funds to meet domestic financial needs. Thus, South Korea's shortage of domestic funds can be met to a certain extent through the application of some of Japan's current systems.

4) In any case, definite conclusions can be reached only after examining each project for which the aid is sought.

It was agreed that the gap between the two sides would be narrowed through working-level negotiations.

Domestic Economy

Nissan and Honda in the U.S.A.

The construction in the United States of a truck plant by Nissan Motor Co. and a car plant by Honda Motor Co. has made such progress that the day is approaching when the first vehicles will be delivered to consumers.

Both companies are now training American autoworkers at their factories in Japan in preparation for the start of production.

Construction work on Honda's car plant in Ohio has already been completed, and production facilities are being installed. Some equipment have gone into trial operation and are being adjusted.

According to Honda's plan, the plant is due to start test operations in August and to go into full production in November.

Since February, American plant workers have been undergoing training at the company's Sayama plant. A total of some 300 workers are to be trained at the plant by September when the program will be completed.

The period of training is about one



Japan's Foreign Minister Yoshio Sakaurauchi (right) with his South Korean counterpart Lee Bum Suk in Tokyo.



Honda's car plant in Ohio, U.S.A.

month. Workers will be trained in the maintenance and operation of production facilities, product inspection and quality control.

Nissan is scheduled to bring its truck plant at Smyrna in Tennessee into operation in autumn next year. The company plans to train a total of 358 American workers in Japan between October last year and March next year.

The workers will be trained at Nissan's Kyushu, Zama and Murayama plants. They will also be sent to a factory of Kawasaki Heavy Industries, Ltd., a welding robot builder, and to a plant of Hitachi, Ltd., a computer manufacturer. The training period ranges from two to three months.

In the case of Nissan, Americans participating in the training program are classified into three categories—operation managers, supervisors and foremen. Honda is primarily training foremen.

Nissan said its training here is supplementary and the main instruction will be given in the U.S. In February, a training center was built at the American factory.

Both Nissan and Honda say the staffers who have undergone training in Japan will play the main role at their American factories. But there will be no discrimination whatever between staffers who have received training in Japan and those who have not.

On union affairs, Takashi Ishihara, president of Nissan Motor, has said it is up to the workers themselves to decide whether they will join the UAW. Kiyoshi Kawashima, president of Honda Motor, shares Ishihara's view.

It has been the policy of both Nissan and Honda to leave the operation and personnel affairs of overseas subsidiaries to the discretion of local managers. This policy will also be pursued in the management of their American plants.

Marvin T. Runyan, president of Nissan Motor U.S.A., the manufacturing subsidiary in the U.S., has said he is not very keen to introduce the Japanese style of

management at any cost.

This company is a U.S. enterprise, and the American style of management will be practiced, he says.

High Technology Conference

The first meeting of the working group to discuss Japan-U.S. cooperation in high technology, held in Honolulu July 7-9, brought to light a major issue involving future Japan-U.S. exchange and cooperation in high technology: namely, that American export of technology to Japan far exceeds Japanese export of technology to the U.S.

It also clarified aspects which are of interest to the U.S. in future high technology exchange, thus making it much easier for Japan and the U.S. to decide what policies to pursue and what countermeasures to work out.

The high technology conference was proposed by Minister of International Trade and Industry Shintaro Abe at a trade conference Japan, the U.S., Canada and the EC held in January this year at Key Biscayne, Florida.

Prior to the first meeting, the U.S. asked the Ministry of International Trade and Industry (MITI) to place on the agenda the following four items: (1) semiconductors and ICs (integrated circuits), (2) development of the fifth-generation computer and other computer matters, (3) data disclosure and communication apparatus in the telecommunication field, and (4) aeronautics and space.

Because the working group's first meeting came shortly after the IBM industrial espionage case was exposed, it was anticipated that Japan's lag in computer technology and Japan's free ride in technology might become subjects of heated discussions. However, the IBM industrial espionage case was not brought up either in formal discussion or in private conversation.

Seven MITI officials, including Kazuyuki Wakasone, director of the Electronics and Electrical Machinery Division, participated in the meeting. The U.S. was represented by Deputy U.S. Trade Representative Peter O. Murphy and Deputy Assistant Secretary of Commerce Clyde V. Prestowitz and six others.

It was agreed that "in order to make high technology industries contribute greatly to revitalization of the world economy, it is essential to maintain and expand the open market."

As regards the future schedule, it was agreed that the working group would meet about three more times and compile in October a list of proposals. In order to compile this report, it was agreed the working group would try to determine precisely high technology's position in trade and economy in relation to future industrial policy, analyze the progress made so far in joint research and development projects, simplify and secure access to the high technology market, and discuss access to government-promoted research and development projects and the problems concerning joint research and development and exchange of technology.

During discussions on pending semiconductor and IC problems, the U.S. delegates pointed out that the Japanese semiconductor production structure and market behavior pose very special problems. They brought up the problem of "market disappearance," complaining that when the U.S. starts production of a certain type of semiconductor, Japanese exports of the same type flood the American market. At the same time, moreover, the share of the U.S. products in the Japanese market shrinks drastically, they added.

As an example, they cited the case of Cray Research of the U.S., which succeeded in selling to Japan three supercomputers before 1979, but could not sell anymore since then as MITI had announced it would furnish subsidies to local makers to help them develop supercomputers.

The Japanese delegates explained the differences in the compilation of statistics on semiconductors between Japan and the U.S. They refuted the U.S. complaint regarding supercomputers, saying that MITI had started providing subsidies to help develop large-scale computers only in 1981 and that it takes a long time before supercomputers can be produced on a commercial basis.

The Japanese delegates took up the case of Fujitsu Ltd., which in October last year won the initial bidding for optical fiber communication cables for American Telephone and Telegraph Co. (ATT) but finally lost. The Japanese delegates expressed regret over the case, marking the first time the Japanese Government had commented on it.