Publisher's Note

Yellow Flag

By Naohiro Amaya

The first postwar world exposition was held in Brussels in 1958, and a relatively young Ministry of International Trade and Industry (MITI) official named Naohiro Amaya was assigned to the Japan pavilion. All of the Japanese exhibits attracted considerable attention, but there was also strong interest shown in the Japanese pavilion's fleet of five Japanese cars—perhaps the first Japanese cars seen in Europe. One Belgian working at the pavilion seemed somewhat surprised to see that, as he put it, "You make automobiles in Japan too, do you?" Another Belgian, referring to these cars' need for frequent repairs, suggested, "These are ought-to-mobiles, not automobiles."

Twenty-three years later I had become Vice-Minister for International Affairs with the Ministry and the most important issue before us was what to do about the flood of Japanese auto exports to the United States and Europe. Unhappy with the idea of export restraints, the Japanese industry argued that these Japanese cars were selling well because of their superior workmanship, low prices, good mileage, dependability, and unconditional maintenance and repair warranties. "American and European consumers *want* to buy our cars. We're not forcing them on anyone. In a market economy, the corporation has a duty to sell what the consumer wants. How can MITI want us to hold back on our exports? This goes completely against all the tenets of capitalism."

This was their brief, and it was logically sound as far as it went. Still, I could not help but contrast this to the embarrassment we felt about our early models at the Brussels exposition. The "ought-to-mobile" of 23 years ago had evolved into one of the highest quality automobiles in the world. This was a remarkable achievement—nothing less than a miracle.

As a Japanese I naturally rejoiced in this miracle, but at the same time I could see how our success might strike other people as a bolt from the blue or a surprise attack. What made the miracle possible?

First and foremost were the unrelenting efforts by management and labor alike. God had simply helped those who helped themselves. Could that be the only reason, however? Obviously not. No matter how hard the Japanese auto industry might have worked to improve its products and boost sales, it could not possibly have achieved its present success had not the circumstances been favorable.

Until 1965, MITI protected the Japanese auto industry from international competition by restricting auto imports into Japan. Could Japanese auto companies have survived the competition had imports been liberalized earlier, around 1955, for example? I wonder. This protection was a factor in allowing the budding industry to blossom. Yet even this would not have been possible without the right set of circumstances.

MITI was able to restrict automobile imports until 1965 because of GATT's Article 14 allowing for the protection of infant industries. In Japan's case, Article 14 was applied to the postwar years of industrial reconstruction, and Japanese automakers should not forget their debt to the GATT system in shielding them from competition for so long.

GATT is also to be thanked for the free trade system which allowed Japan to export in the latter half of the 1960s and the early 1970s. When they were still too weak to compete effectively, Japan's automakers had Article 14 protection, and when they were strong enough to compete internationally they had GATT opening the way for them in the name of free trade.

Now halfway through the 1980s, Japanese automakers enjoy an unparalleled competitive edge and logically welcome unbridled freedom. Yet I wonder at the wisdom of applying cold capitalistic logic only at this point. Logic is all well and fine, but we should not forget the special circumstances that enabled us to get this far. When Japan's auto industry was weak, the stronger American and European competitors were willing to make allowances such as through the GATT provisions. Now that the shoe is on the other foot, it is important that we be willing to return the favor and bend our capitalistic principles in the greater interest.

At the same time, we should realize that there is no guarantee that Japan's auto industry will continue to bask in the warm glow of success forever. Just as pride goeth before a fall, Japan's auto industry should be careful that its current glory not blind it to the larger picture and should conduct itself with the humility befitting one who has succeeded largely as a result of circumstances.

Letters

China's Lure

The lure of the China market has attracted Western and Japanese businessmen for nearly two centuries. There were two magnets which drew them to this ancient land: huge untapped natural resources and a vast population.

Many of us remember the phrase "oil for the lamps of China." The idea was that one could get rich by supplying the Chinese with so basic a commodity as oil for illumination. Since then, a thousand other commodities created by the modern industrial/electronic age vie for the expanding China market.

We ought not, however, forget China's recent history. The China market has gone through many phases, beginning with domination and exploitation by the major Western powers and Japan. World War II marked the end of this period.

Expectations that the Nationalist government might bring stability were dashed by the civil conflict which followed. In 1949, China took a new road, that of Moscow-style economic centralism. Beijing called the tune while the rest of the country danced to its music. This period, dominated by the late Mao Zedong, climaxed in 1958–60 with creation of rural communes and the unsuccessful Great Leap Forward. With this failure, the Deng Xiaoping realists took over, were purged in the 1966–76 cultural revolution, but are now back in control. It is only in the past few years that China has begun to progress surely toward modernization.

The *Journal* is to be congratulated on its thoughtful assessment of these questions. It recognizes the importance of China and the China market in the uneasy world of the 1980s and its probable impact on the 21st century. The writers know their subject thoroughly. Understandably they hesitate to make predictions. That is not their metier. Despite the overall tone of optimism, the words of Keidanren President Yoshihiro Inayama should be heeded: China's potential for development is enormous but it won't happen in one fell swoop, only through the slow process of corrective readjustments.

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The *Journal* welcomes letters of opinion or comment from its readers. Letters, including the writer's name and address, should be sent to: the Editor, Japan Economic Foundation, 11th Floor, Fukoku Seimei Bldg., 2-2 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, 100 Japan. Letters may be edited for reasons of space and clarity.

CURRENT TOPICS

Market Access Related Bills Going to Extra Diet Session

In a bid to accelerate market access measures planned under the action program announced July 30, the government submitted a package of bills on tariff cuts and improvement of product standards and certification systems to the extraordinary session of the Diet convened October 14. Diet action was originally expected at the next regular session in December. But in view of mounting criticism of Japan's swelling trade surplus in the United States and elsewhere, the government is seeking to implement some measures ahead of schedule. This, coupled with steps adopted in early October for expanding domestic demand and boosting imports, is designed to show the rest of the world that Japan is serious about improving its market access and expanding its imports.

The action program calls for reducing or abolishing tariffs on 1,853 mining, manufactured and agricultural products, effective April 1, 1986 (a year later for wine and several other items). The government now plans to roll the date forward to January 1, 1986. Moreover, while the action program does not include computers, the government will add about 20 computer-related products to the list of tariff eliminations in line with a proposal Japan made at subcabinet-level talks with the U.S. in August.

The program also envisages 88 measures to improve standards and certification systems singled out by Japan's trading partners as non-tariff barriers. Of the measures, which include the introduction of self-certification and simplification of import procedures, 31 require revision of related laws, including statutes on fire prevention, consumer product safety, and aviation. Revision of the laws is being sought at the current Diet session. Some of the 88 measures have already been put into force; the rest will be carried out within the next three years. This timetable will be further brought forward when the package bills are cleared by the Diet.

The U.S., which is running a huge trade deficit with Japan, has urged the country to expand domestic demand as a way to correct the imbalance. In this connection, Shin Kanemaru, secretary general of the ruling Liberal-Democratic Party (LDP), has proposed drafting a five-year program to boost domestic demand and a ¥1 trillion (about $4.2 billion) tax cut aimed at easing the burden of education expenses. But the government, given the financing problems involved, is leaning toward demand-boosting measures without financial constraints, including the promotion of housing construction through relaxing government regulations and encouraging adoption of the five-day workweek to stimulate leisure spending.

In an attempt to boost imports of manufactured products, the Ministry of International Trade & Industry (MITI) in August urged 74 leading Japanese businesses to increase their own purchases abroad. Similar requests were made to another 60 back in April. Referring to the continuing series of measures for alleviating trade frictions, a senior MITI official said, "Japan has done as much as it can." He expressed hope that foreign companies will take advantage of the measures to expand their business in Japan.

Fiscal 1986 Budget Requests Up 7.4%

Japanese government ministries and agencies are seeking ¥56.39 trillion (about $235 billion at the exchange rate of ¥240/$1) in budget appropriations for fiscal 1986, up 7.4% over the fiscal 1985 budget. Finance Minister Noboru Takeshita reported the final tabulation of budget requests for the new fiscal year, beginning next April, to a Cabinet meeting September 10. According to Takeshita's report, general expenditures—which exclude debt-service and tax grants to local governments—were up only 1.5% from the old budget. Requests for two major programs of concern to foreign countries showed sharp increases, however, with defense spending up 7.0% and official development assistance (ODA) rising 10.4%.

Behind the solid 7.4% increase in total appropriations requests was a 26.9% surge to ¥12.97 trillion ($54 billion) in debt-servicing costs—government bond interest payments and redemptions. The balance of outstanding government bonds is projected to swell to ¥142.2 trillion ($592.5 billion) by the end of fiscal 1986. Fiscal 1986 debt-servicing costs account for 23.0% of the total budget, up from 22.2% in fiscal 1985. These ballooning expenses are weighing heavily on government finances.

The Finance Ministry is putting all its energy into cutting the requested spending down to size in order to meet the central goal of fiscal reconstruction—terminating issues of new deficit-covering bonds in fiscal 1990. One hurdle to be cleared is a planned ¥1 trillion ($4.2 billion) cut in the amount of new bond offerings budgeted for fiscal 1986. But that is not the government's only problem. A hefty 6.9% increase in tax grants to local governments totaling ¥10.36 trillion ($43.2 billion) is another factor contributing to the swollen budget requests for the coming fiscal year.

In contrast to the sharp increases in requests for defense spending and ODA, the Health & Welfare Ministry's budget, mostly allocated to social security, showed a moderate 4.1% rise. The Construction Ministry's budget, covering most public works spending, fell 2.2%. Programs related to citizens' daily lives are headed for another year of austerity, with Japanese National Railways (JNR) fares bound to rise and Japan's elderly perhaps being expected to pay a larger portion of their medical bills out of pocket. With few new sources of revenue in sight, the Finance Ministry is likely to propose other revenue-boosting measures that will translate into higher bills for consumers, including hikes in the consumer price of rice and national university tuitions.

The requested fiscal 1986 defense budget envisages many new programs, including Japan's first deployment of a battery of "Patriot" surface-to-air missiles. It also calls for a 15.0% increase in R&D spending focused on the development of new missiles.

Meanwhile, total appropriations requested under the fiscal loan and investment program, a companion budget financed by Japan's national postal savings system and other government-controlled funds, totaled ¥21.36 trillion ($89 billion), up 2.4% from fiscal 1985. It is the smallest increase ever requested under the program. Nonetheless, the Finance Ministry intends to slash the sum to the fiscal 1985 level of ¥20.86 trillion ($87 billion). In view of strong calls for expansion of domestic demand, the ministry is considering giving priority to public works projects in adjusting the program.

The ministry plans to complete draft versions of the general account budget and the fiscal loan and investment program in late December and get them into final shape before the turn of the year. Draft budgets are subject to a week of

Finance Minister Noboru Takeshita (right) reported the final tabulation of fiscal 1986 budget requests to the Cabinet.

negotiations between the ministry and other government departments—which strive to restore all or part of their slashed spending plans—before the Cabinet gives its final authorization. With mounting calls for expansion of domestic demand to boost imports and reduce Japan's trade surplus, as well as an uncertain political schedule which includes an expected Cabinet reshuffle this fall, the budget compilation may be delayed into the new year.

Tokyo Stock Exchange Opening Doors To Foreign Firms

The controversial issue of allowing foreign securities firms to join the Tokyo Stock Exchange (TSE), one of the key financial problems pending between Japan and the United States, is nearing resolution following a TSE decision to increase the number of exchange members from the present 83 to 93. The TSE is expected to select the 10 new members, including several foreign securities companies, by year-end.

The dispute arose in May last year at a meeting of the Japan-U.S. Yen-Dollar Committee, when the U.S. side urged Japan to open TSE membership to foreign interests. It was decided to meet the U.S. request within a year and a half, prompting TSE President Michio Takeuchi to term it "a faster pace than expected."

The process was spurred forward late last year when a merger of two member firms left one seat vacant and raised the possibility that a foreign brokerage house could slip in. But in the end, Japan's Utsumiya Securities Co. outbid domestic and foreign competitors to purchase the seat for ¥1,639 million (about $6.8 million at the exchange rate of ¥240/$1). Rival foreign concerns, including Merrill Lynch of the U.S., charged that the price of membership was too high.

This time the TSE plans to hold new membership fees to ¥1.0–¥1.1 billion ($4.2–$4.6 million) by separating membership from the members' rights to such assets as the TSE building. New members will be chosen through a screening process, not open bidding. In the case of foreign companies, the TSE will take into consideration assets, the scope of business, and other aspects of their head offices, as looking at operations in Japan alone would give domestic applicants a competitive edge over foreign rivals.

If all goes without a hitch, screening will be completed in November and members chosen by the end of the year. But the reaction of foreign securities companies so far has not necessarily been favorable. Merrill Lynch, which was beaten by Utsumiya for membership last year, and Jardine Fleming of Britain are positive about gaining TSE seats. But Salomon Brothers of the U.S. and Vickers da Costa of Britain are still reluctant on grounds that TSE membership will not pay off. Foreign members are eventually likely to number four at most.

Meanwhile, trading in bond futures will start on the TSE October 19 with the participation of foreign financial institutions as well as selected domestic dealers. The current 83 TSE members and nearly 60 Japanese and foreign nonmembers—both securities companies and banks—will be allowed to join as special participants. Applicants for special participation are currently being screened, and industry sources say Morgan Stanley of the U.S. is virtually assured of getting in.

"Computer Translators" Gaining Ground

Japan's first commercial computer translation system went on sale in June last year. Three Japanese computer makers have since followed suit, and keen competition is now under way among automatic translation system manufacturers.

Judging from the present performance and price of these systems, it could take some time before they come into wide use. Nonetheless, a decision by the Ministry of International Trade and Industry (MITI) to add the joint development of automatic translation systems with ASEAN nations to its list of Official Development Assistance (ODA) projects, effective fiscal 1986, could spur the international spread of such systems.

It was Bravice International, a Tokyo-based venture business, that first unveiled a computer translation system in Japan as a commercial undertaking. The Bravice system uses a minicomputer, and the Japanese/English system first put on the market retails for ¥19.5 million (about $81,000), including hardware and software.

Despite the relatively high price, the company claims domestic sales in the first year topped ¥1 billion (about $4.2 million). Bravice did not reveal how many systems had been sold, but judging from sales, it would appear that at least 50 systems had found takers, an indication of the strong interest Japanese have in these new translation systems.

Fujitsu, Hitachi and NEC, all major computer makers, have since unveiled their own computer translation systems. Sharp Corp., which has a major share of the Japanese market for small office automation equipment, also announced an automatic translator last May. By now both Japanese/English and English/Japanese systems have made their debuts.

Since the structure of the Japanese language differs fundamentally from Indo-European languages, the Japanese in general tend to be very weak in learning foreign tongues. That has only further fired expectations for the development of automatic translators.

Software determines the capability of any computer translation system. The precision and accuracy of translation by such machines depends on how they break down Japanese or English sentences and the superiority of their built-in dictionaries.

The price of computer hardware is on the downhill, whereas the cost of developing software is on an uphill rise. Fujitsu's English/Japanese translation software, for instance, costs ¥6 million (about $25,000) a year on a rental basis.

Bravice International, however, has put its less ambitious translation software, usable with personal computers, on the market for only ¥630,000 (about $2,600). The company has apparently judged it necessary to promote the spread of such machine translation, no matter how imperfect these early systems may be. The decision may be well founded, in that it has already touched off a price war among translation system makers.

The Japanese government has been no laggard either in automatic translation systems. MITI has decided to join forces with such Asian countries as China and Indonesia in developing these systems on an ODA basis. And the Agency of Science and Technology is planning to translate Japanese-language databases into English via an automatic translation system to rectify Japan's heavy deficit in the information trade balance.

Even the Japan Patent Information Organization is pushing to develop a computer translation system that would improve access for foreigners to the market for Japanese-language patents and databases.

Yet government efforts remain aimed at translating as much Japanese-language information and data into English as possible to reduce foreign "misunderstanding." Their emphasis, understandably, is mainly on Japanese/English translation systems rather than English/Japanese systems. It could take a long time before fully rounded systems are available to bridge Japan's burdensome language gap in both directions.