

Time to Strengthen The Ties That Bind

By Toshio Iwasaki
Editor

In her book *For Richer, For Poorer—The New Japan-U.S. Relationship*, American political scientist Ellen Frost points out quite rightly that it would be economically impossible, militarily unrealistic and politically inconceivable for Japan and the United States to “divorce.”

By the time this issue of the *Journal* is published, George Bush and Michael Dukakis will be within sight of the end of a heated presidential election campaign following their respective nominations as the Republican and Democratic presidential candidates.

Whichever of them is elected the next U.S. president, the close relationship between the two countries, as so aptly described by Frost, will remain as important as ever under the new administration. Indeed, restructuring of Japan-U.S. relations will undoubtedly be one of the most challenging tasks facing the new U.S. administration in Washington.

It is for this reason that the *Journal* has chosen to make Japan-U.S. relations the subject of the cover story in this issue.

For Japan and the United States, their bilateral relationship has become increasingly important in the past decade as Japan's economy has grown in strength. But looking back over the years, their relations were just as important as now, particularly in the area of trade, even before the tragic war between the two countries nearly half a century ago. The Datagraph on page 51 of this issue bears witness to this fact.

It may provide a clue to Japan's motives in desperately starting the Pacific War. A key element was a nightmarish fear of economic exhaustion that threatened to come about due to a breakdown of trade relations between the two countries. Japan's trade with the U.S., both ex-

ports and imports, at that time accounted for one-third of its total trade.

Despite the existence of historic connections and the ever-growing weight of their bilateral links, both Japan and the U.S. must realize that they will have to continue appropriate efforts to preserve that affinity. The more important bilateral relations are, the greater is the consideration and thoughtfulness needed to preserve them. As Frost puts it, the more affection a couple have for each other, the more they will suffer and become distressed once they have even the slightest reason to mistrust each other, knowing that they cannot divorce.

To help our readers understand current Japan-U.S. relations better, this issue of the *Journal* carries a chronology of some important events during the Reagan administration, including excerpts from official statements issued by the two governments on various occasions and important newspaper editorials. In compiling this chronology, it became apparent to us that there has been a steady movement toward increased closeness thanks to strenuous efforts on both sides to settle difficult problems facing the two countries.

However congenial a couple may be, they cannot always avoid differences and disharmony. If they stop short of breaking up due to anger or emotion and overcome the crises, they will be able to create a new and closer bond of trust between them. Again to borrow a phrase from Frost, neither Japan nor the U.S. will stay the same forever. Herein lies one of the difficulties of adjusting relations between the two countries.

On the dawn of the birth of a new administration in Washington, we sincerely hope that the Japanese and American peoples will gain in wisdom and help to make their bilateral relations closer than ever.

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.

Dragons Affect Malaysia

I thoroughly enjoyed your last issue's Cover Story “The Four Dragons,” and would like to make a few comments.

The world economy is undergoing great change. The rapid economic growth of the NIEs eventually affects neighboring countries, such as Malaysia and the other members of ASEAN.

As a leading and growing economic power in the world, Japan must gradually share the burden of preserving the world's free trade system. Malaysia's Industrial Malaysian Plan (IMP) has put stress on the electronics, food processing, nonchemical and agro-based industries. Today, Malaysia is one of the largest exporters of semiconductors. The IMP has attracted several prominent Japanese companies and has shared the economic benefits of this relationship.

Malaysia, with its ASEAN neighbors and Japanese cooperation, generates economic growth in this region and continues to grow stronger.

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COMING UP

A marked trend is emerging of Japanese companies seeking to reconstitute their global strategies and to diversify into new lines of business, with many of them branching out, making mergers and acquisitions and establishing subsidiaries overseas.

The November/December issue of the *Journal* will focus on this development in its Cover Story item, with an overall review written by Noboru Makino, chairman of Mitsubishi Research Institute, Inc.

There will also be an article by Makoto Kuroda, former vice minister for international affairs at the Ministry of International Trade and Industry, describing some of his experiences in trade negotiations with the United States.

Olympic Interest Causes 'Korea Fever' in Japan

With the opening of the Olympic Games in Seoul fast approaching, Japan is being swept by an unprecedented wave of "Korea fever." Almost every day television stations broadcast special programs that spotlight Korean cuisine, sight-seeing locations, and the daily lives of the people of Korea. The number of Japanese learning the Korean language has also increased significantly, while numerous bookstores have opened dealing exclusively in Korean magazines and books. There are even videocassette rental stores specializing in Korean films and music that are patronized not only by Korean residents, but also by Japanese.

On July 1, All Nippon Airways (ANA) and Japan Air System (JAS) started regular flights between Narita and Seoul. Three Japanese airlines—ANA, JAS and Japan Air Lines (JAL)—plus four foreign airlines operate on the Narita-Seoul route. The door seems open for fierce competition for passengers.

Passengers who flew between Japan and South Korea in fiscal 1986 numbered 2.68 million. Of those, 1.11 million took flights on the Narita-Seoul route which has already become Japan's third most

profitable regular international air service. Because a large number of tourists are expected to fly between Narita and Seoul during the Sept. 17–Oct. 2 Seoul Olympic Games, the seven airline companies will operate extra flights during the Games period in addition to their seven weekly regular flights.

JAS, having joined the ranks of international carriers with the opening of its Narita-Seoul service, has designated 90 of its 800 stewardesses as "Seoul Staff." These stewardesses will receive lessons not only in the Korean language, but also in Korean culture and history. JAS has recently started making in-flight announcements in Korean in addition to Japanese and English. A JAS official emphasized the company's commitment, saying, "We have taken the step of training our crew and stewardesses to communicate in basic Korean because our Korean passengers are very important to us."

Railway companies are getting ready for fierce competition with the airlines. A recent marketing maneuver is the "Japan-Korea Joint Ticket" to link the Japanese and Korean railways with a single ticket. This is an international railway ticket devised and prepared jointly by West Japan Railway Company and the Korean Office of National Railway to meet the expected

increase in tourists visiting Korea from Japan to see the Seoul Olympics. This ticket is the first of its kind in Japanese railway history.

This international ticket is basically good for taking the *shinkansen* bullet train and conventional trains operated by West Japan Railway Co. and Kyushu Railway Co., the Shimonoseki-Pusan ferry, and the limited express "Seamaul" of the Korean National Railway. This ticket is being offered at a discount price that is 20–30% cheaper than the Tokyo-Seoul airfare.

At the time of Japan's traditional mid-summer *o-chugen* gift sales campaign, stuffed cloth "Hodoly"—the mascot of the Seoul Olympics—and Korean girls dressed in traditional *chima jekori* appeared in major Tokyo department stores to publicize the Games. During *o-chugen* season consumers are flush with summer bonus money—this summer, an estimated ¥15.2 trillion was paid in bonuses to civil servants and private company employees.

As the Japanese evaluation of Korean products has changed from "cheap and inferior" to "cheap but of high quality," Korean products are enjoying increased popularity in Japan these days. Exports to Japan of home electrical appliances by

東京—ソウル機アライメントスケジュール (7月—9月)

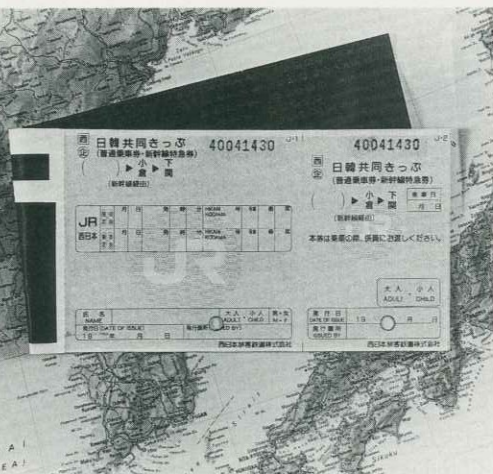
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The approach of the Seoul Olympic Games has caused a "Korea boom" to sweep Japan.



Photo: Tokyu Department Store



Olympic special: the Japan-Korea joint railway ticket

three leading Korean manufacturers—Goldstar, Samsung Electronics and Daewoo Electronics—are expected to reach \$330 million this year, an approximately 2.5-fold increase over the preceding year. Some Korean electrical appliances, such as radio cassette recorders, already command more than 20% of the Japanese market.

The attitude of Japanese manufacturers toward their Korean counterparts is changing, too. This is evident from the fact that Hyundai Motors was asked by Mitsubishi Motors Corporation to invest in Mitsubishi. In the past, Japanese companies have invested almost one-sidedly in Korean firms, but cases of capital cooperation on an equal footing between Japanese and Korean companies are increasing.

Spurred by such factors, the "Japan-Korea Committee for the 21st Century" was established to draw up a blueprint for new relations between Japan and Korea as the turn of the century nears. Former Vice Foreign Minister Ryozo Sunobe was appointed chairman of the Japanese side, and Koh Byong Ik, former president of Seoul National University, leads the Korean side. In two years from now, the committee will make recommendations to the governments of both countries on the most desirable form of exchanges between the two countries, not only in politics and economics but also regarding cultural, scientific and technological matters.

Sweeping Tax Reforms Go for Diet Approval

On July 26 the Cabinet finalized a controversial package of six tax-related bills and submitted them to the Diet, which had convened an extra session to deliberate on the controversial tax reforms.

The proposed tax reform package, featuring income tax reductions and the introduction of a 3% consumption tax, is designed to balance taxation on income, consumption and assets, as well as to ease the present heavy tax burden on salaried workers. The income tax reductions would be implemented during the current fiscal year, ending next March 31, with the new consumption tax to take effect in the ensuing fiscal year.

This is the third time the government has attempted to introduce an indirect tax. Both previous attempts, in 1979 and 1987, ended in failure.

The 3% consumption tax would be levied on all goods and services with the exception of 11 specific categories, including land and securities transactions, financing and insurance, medical treatment, education and dealings related to social welfare. The tax rate would be calculated on the basis of the margin be-

tween the price paid by the retailer and that paid by the customer.

Under the proposed reforms, the present ¥1.5 million minimum taxable income would be raised to ¥3 million and the current tax rate ranging from 10.5% to 60% in 12 stages would be reduced to five tax brackets ranging from 10% through 50%. The basic corporate tax, currently 42%, would be lowered to 40% in fiscal 1989 and to 37.5% in 1990. Including corporate residential and enterprise taxes, the actual adjusted corporate tax rate would stand at 49.98% as compared with the current 51.55% rate.

In an attempt to secure equitable distribution of the tax burden, capital gains from securities transactions would be taxed for the first time. Under the scheme, investors would pay either 26% of profits or 1% of the sales price.

If the proposed tax reform is implemented, there will be an aggregate cut of ¥9 trillion including ¥3.1 trillion in income and residence taxes, offset by a total increase of ¥6.6 trillion—¥5.4 trillion from the consumption tax, and ¥1.2 trillion from taxation on capital gains. The result would be a net tax reduction of ¥2.4 trillion.



Pondering prices: government plans call for a 3% consumption tax to be imposed on all goods and services except for 11 specific categories.