Perception Gap

By Suetsune Takashi

In connection with business negotiations, it is often said that there is a mutual perception gap between Japan and the U.S. This theory has as its premise that the lack of progress in negotiations is due to the inability of either side to sufficiently understand the other's position or intentions. For example, it has been reported that the U.S. views "deregulation" as the elimination of regulations while Japan sees it as a relaxation of controls. This might be amusing, but it is problematic if actually true.

Certainly, the Japanese equivalent of "deregulation" in translation would be the "slackening (or relaxation) of regulations (or controls)," but it is hard to believe that Japanese and American officials are playing around with semantics. Behind this can be seen that both are trying to force their own opinions on the other using the pretext of a perception gap. There is no way that negotiations can succeed in this case. The perception gap that has dogged U.S.-Japan talks has an odor of artificiality.

This past February I watched a Tokyo satellite broadcast of the press conference given by U.S. President Bill Clinton and Prime Minister Hosokawa Morihiro. At that time even a summit conference had failed to achieve an agreement on the U.S.-Japan framework talks. Speaking of the failure to reach common ground, President Clinton said, "It is better to have reached no agreement than to have reached an empty agreement." Prime Minister Hosokawa noted, "This time we left off trying to put a positive spin on the occasion with a prettily packaged agreement (*tamamushi-iro no goi*)." Although I had fears that the meaning of such a typical Japanese expression (literally "iridescent agreement") might not be accurately communicated to President Clinton, the expression "cosmetic agreement" was used.

Both leaders acknowledged at this press conference that U.S.-Japan talks up until now had presented false agreements to the public, leaving the perception gap, which actually should not exist, unresolved.

U.N. Security Council Resolution 242 deals with problems in the Middle East. This resolution was adopted following the third Mideast war in 1967 in order to achieve a peaceful resolution of the region's problems and was a typical "cosmetic" agreement. The Arabs and Israelis could each interpret its contents to their own benefit and it did not open a path to Middle East peace negotiations. In the sense that the Clinton-Hosokawa talks led to a concurrence that a cosmetic agreement would be useless, and a decision was made to put U.S.-Japan economic discussions on the right track, the conference should be viewed as a useful one.

COMING UP

IN THE JUNE ISSUE

The Japanese macro economy is stymied. Naturally, each industry is struggling to climb out of this quagmire, but in some areas—such as the semiconductor industry—assembly lines are operating around the clock. In the next issue, we will explore the situation in which specific industries find themselves and survey conditions for all sectors of Japanese industry.

There will be a change in the publication schedule for the next issue of the *Journal*. The next issue will be numbered for June instead of June/July. The July/August issue will follow, thus bringing the *Journal* back to its former publication schedule.

Correction: The photo caption accompanying the Topics article "New Training Program Provides Firsthand Experience of Japan" in the February/March issue of the *Journal* incorrectly identified the Canadian ambassador and the U.S. minister-councillor. Rust Deming, the U.S. minister-councillor was seated second from the left, and Canadian Ambassador Donald Campbell fourth from the left.

The *Journal* welcomes letters of opinion or comment from its readers. Letters, including the writer's name and address, should be sent to: 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.

Worldwide Auto Restructuring

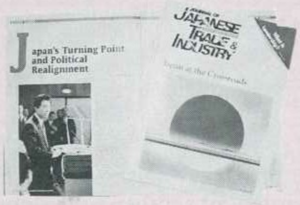
We read with great interest the February/March edition of the *Journal of Japanese Trade & Industry*. Although foreigners like ourselves who live in Japan can access a variety of media, it is rare to find such in-depth analysis of economic and political issues in English. For mutual understanding and benefit, it is important to maintain such a dialogue between Japanese and outsiders.

With this aim in mind, we wanted to add some comments to Hamano Takayoshi's article, "Refuting the Pessimistic View of Japan's Auto Industry." As freelance writers on Japanese topics, we have published several articles about the Big Three's slow adaptation to the Japanese market.

Mr. Hamano is right to say that Japanese automakers are facing stiffer competition in both overseas and domestic markets. We need not assume that the challenge is one which Japan's 11 auto manufacturers cannot surmount. For one, as Mr. Hamano correctly states, these companies have demonstrated adaptability and ingenuity to overcome difficult external conditions in the past. They have the resilience, and resources, to adapt once more.

In concrete terms, however, it is no longer appropriate to regard the auto industry as a competition between national blocs for market share in each other's territory. Mr. Hamano indicates how Japanese automakers are cooperating to reduce costs by sharing components and marketing other companies cars under their own brand. Yet this is not only happening inside Japan.

Toyota has announced that it will begin marketing U.S.-made GMs in Japan under the Toyota logo. Daimler-Benz of Germany and Mitsubishi agreed in December to join forces in research and development and truck production. Honda, Nissan and Toyota are all selling more cars into the American market from their transplant factories in the U.S. than are being exported from Japanese plants. And about 12 percent of all production in



the transplants is done by Japanese companies for the Big Three.

The auto business has thus become a transnational field in which strategic ventures off-shore have become a crucial factor in market penetration and product development. The success of Japanese transplants in the U.S. and the U.K. will help the big automakers bypass many of the negative effects of *endaka*, not to mention assuaging trade frictions.

Meanwhile, the strong yen will help foreign automakers to reduce their high prices in the Japanese market. For example, Fiat was able to cut prices on its Lancia Dedra series by about ¥400,000 at the start of this year.

Foreign car sales in the Japanese market expanded by 7.5 percent in 1993, but market share is still only around the 3% mark. Currency movements, leaner production and right-hand drive models will all help the Americans, Europeans and even Koreans to increase penetration in Japan. Yet the real impact of these changes will not be on the Japanese manufacturers, who have guarded their profits by shifting production offshore. Instead, it will be on the Japanese worker.

The major problem in Japanese car plants, as in Europe, is over capacity. In order to reduce the 3 million car excess production capability, plants will have to be closed and thousands of jobs eliminated. To date, companies across the board have shown a reluctance to lay off workers outright. While this restraint is admirable, it appears inevitable that jobs will have to go.

In today's domestic market, one might say, Japanese automakers are in the same position as the Big Three in the 1980s. They will need to commit themselves as fully as their counterparts in Detroit to restructuring their domestic operations to cope with a reduction in consumer numbers, prolonged recession and foreign competition.

Yours sincerely,
Peter Dowling
Hayden Stewart
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Auto Output Falls for Third Year

Buffeted by weak sales resulting from the prolonged recession and the abrupt appreciation in the value of the yen, Japan's automobile production in 1993 slipped 10.2% from the previous year to 11,227,545 vehicles, the third consecutive year-on-year decline.

It was the first time since the end of World War II that auto output had dropped for three straight years. Production sagged to 1983 levels and the margin of reduction was the second largest following the 24.1% in 1947 when the nation was still reeling from the devastation of war.

In practical terms, the 1993 reduction margin can be considered the biggest in postwar Japan, according to industry sources.

In contrast, the recovery of the U.S. Big Three automakers (General Motors, Ford and Chrysler) is boosting U.S. car production, enabling it to replace Japan as the world's leading auto manufacturer.

Japan's car exports during the year also tumbled 11% to 5,050,000, the eighth consecutive year of decline, due to the higher yen and an expansion in local production which limited shipments to the United States and Europe.

Exports to China also dropped during and after autumn, hurt by Beijing's belt-tightening policy.

Nissan Motor's overseas production topped the 1 million level for the first time, though its exports, like those of Toyota Motor, will remain depressed as the higher yen takes hold. Toyota has set its 1994 export target at 1,410,000, down 8% from the previous year, and Nissan at 550,000, down 19%.

A possible delay in the recovery of the domestic market, despite the recent government announcement of a pump-priming package, combined with stagnant exports, could depress Japan's annual car production below the 11 million level, forcing automakers to resort to full-scale restructuring measures.


Photo: Nissan Motor Co., Ltd.

The rapid strengthening of the yen and weakening of the dollar put the brakes on Japan's car industry's expansion into overseas markets.

Recovery Still in Doubt Despite ¥15 Trillion Package

On February 8, Prime Minister Hosokawa Morihiro's coalition government unveiled a ¥15.25 trillion economic pump-priming package in an effort to pull Japan out of its prolonged recession.

The package, claimed to be the most massive economic relief measure ever taken in Japan, is specifically aimed at spurring consumer spending and activating investment through tax reductions and other growth-stimulating initiatives.

The long-awaited stimulus consists of three pillars—measures for expanding demand, priority-based policy initiatives in key areas, and creation of an environment under which economic vitality would be aroused.

A proposal for ¥5.47 trillion in income and residential tax cuts, in particular, is billed as a quick fix for business stimulation. Some private-sector economists estimate that the tax reductions could raise the nation's gross domestic product by 0.6% to 0.7%. They expect the tax cut to help boost consumer confidence.

The tax cut is only for a single year, however, and given the possibility of a future hike in the consumption tax, some business leaders and economists are rather skeptical of the effect of the tax cut on sustained expansion of consumption.

The latest pump-priming package is also criticized in some quarters as insufficient in addressing the issue of financial institutions' bad debts, a key factor in the current slump.

Many economists also point out that the package hardly deals with the question of banks' mushrooming bad loans, regarded as another important element in the current slowdown.

The increasing nonperforming bank loans threaten to destabilize the financial system as a whole and contribute to keeping stock prices down.

To remedy the situation, some economists argue for positive induction of public funds and increased land liquidity.

The government projects Japan's real economic growth in fiscal 1994, beginning April 1, at 2.4% and expects the latest stimulus package to push the growth rate up by an additional 2%, which it says will put the nation's economy on the track to full recovery.

Most private-sector research institutions forecast, however, that 1994 growth will be around 0.5%, indicating that the Japanese economy has yet to bottom out.

The economic ministers conference formally decided upon a ¥15 trillion package of comprehensive economic measures.