

The new Prime Minister will, however, be facing considerable problems both domestically and internationally as he seeks to establish the priorities and policies of his administration. Although in better shape than most other countries, the Japanese economy is slumping, exports are down and increasingly there are fears of protectionist measures being taken by some of Japan's important trading partners. In addition, Mr. Nakasone has assumed the leadership of a party divided by personal animosities and factional jealousies. It will require considerable personal attention to smooth over some of the ill-will left by the recent LDP primary campaign. Finally, and the item flagged as most pressing by Mr. Nakasone upon his confirmation as Prime Minister, there is the necessity of improving the deteriorating relationship with Japan's most important ally, the United States, especially in trade and defense matters.

None of these problems are new. They all affected the performance of the previous Suzuki administration and are not amenable to easy solution. It will require all of Mr. Nakasone's skills to develop policies acceptable domestically and internationally to deal with the period ahead, which promises to be as difficult a time for Japan as it will be for the rest of the industrialized world. Mr. Nakasone's success, or lack of it, in developing appropriate policies will be reflected most directly in the Upper House election scheduled for June this year. It is conceivable that Mr. Nakasone may use this opportunity to attempt to obtain a vote of confidence for his administration.

Domestic Economic Situation

In comparison with most OECD countries, Japanese economic performance remains fairly good, although Japan too has felt the impact of the global economic recession. Slow domestic demand has persisted throughout most of 1982, and recession in Japan's major foreign markets has curtailed exports. Prior to announcing that he would not seek a further term as leader of the LDP, former Prime Minister Suzuki introduced a package of public works and other measures designed to stimulate the economy over the short term. This was done possibly on the assumption that exports would improve in early 1983 with the onset of economic recovery in the USA. The stimulatory package is expected to increase Japan's GNP growth rate for fiscal year 1982 to 3.4% from the 2.7% predicted earlier.

Former Prime Minister Suzuki's decision to stimulate the economy marked a departure from the government's policy to reduce government spending and to initiate government financial reform. Japan has the highest