

Following is a complete text of the speech made by Mr. Naohiro Amaya, Special Adviser to the Japanese Ministry of International Trade and Industry, during a luncheon meeting held on February 26, in New York. The meeting on the current U.S.-Japan economic relations was sponsored by the Council on Foreign Relations, Inc. in honor of Mr. Amaya.

# “THE PRINCIPAL ECONOMIC ISSUES FACING THE UNITED STATES AND JAPAN”

I am grateful for the honor of appearing here today and for the opportunity of sharing some thoughts on a matter of common concern: the strengthening of balanced trade and of cooperative ties between our countries. I can state unequivocally that Japan remains wholeheartedly committed to these aims. The foundation of our relationship is a sound one, but of late, circumstances have arisen that threaten to allow the escalation of what would normally be minor disagreements into potential crises. I would like at this time to reaffirm Japan's commitment to solving these problems, and I hope that it will be obvious that Japan cannot and will not operate without constant consideration for the interests of its most important trading partner and its greatest ally.

At the heart of the matter lies the trade imbalance existing between our two countries which has grown to alarming proportions. According

to U.S. statistics, the United States ran a trade deficit with Japan of \$5.3 billion in 1976, \$9.9 billion in 1980, and \$15.8 billion in 1981. Japanese statistics show that its trade surplus with the United States amounted to \$3.9 billion, \$7.0 billion, and \$13.4 billion, respectively. The continuing trade imbalance of such magnitude has

been responsible for the deepening irritation in the United States towards Japan.

What are the factors which have caused this trade imbalance? Principal factors as they perceived by the United States and Japan may be summarized as follows:

- (1) The closed nature of the Japanese market
- (2) Japan's protectionist policy for high-technology industries
- (3) The undervalued yen which does not adequately reflect the competitiveness of Japanese exports
- (4) The sluggish restructuring of industry in the United States

Mr. Naohiro Amaya



- (5) Wage increases of U.S. workers which outpace increases in productivity
- (6) Other factors such as the defense spending of Japan; the ban on the export of Alaskan oil to Japan; etc.

There are many deep-rooted misperceptions about Japan among business and government leaders of the United States and Western Europe. The spread of such misperceptions is justified in certain respects and unfounded in others. I would like to take this opportunity to express my personal views on these questions.

## “Why should Japan be the only country to come under fire?”

Two areas in which Japan's trade policy is harshly criticized are the import quotas on agricultural produce and on leather goods. However, I believe that policies relating to these areas are not clearly understood in the United States. At present, import of 22 categories of agricultural produce are restricted. The rationale for such restrictions lies in the response to the domestic political situation that does not lend itself to scrapping such restrictions. But this is not confined to Japan alone; most industrial nations have resorted to similar policies in order to insure the survival of their domestic agricultural sectors. Why should Japan be the only country to come under fire for the implementation of such policies?

The import quotas on leather goods is a system which has its roots deeply embedded in a serious and politically sensitive social problem; the Japanese Government has no choice but to protect the tanning industry. However, the Ministry of International Trade and Industry is doing its utmost to increase leather imports within the limits imposed by such political considerations.

One area in which Japan has made much progress of late is the simplification of customs clearance and other inspection procedures. The Japanese Government has studied 99 complaints made by exporting countries and has recently decided to abolish or simplify import procedures with respect to 67 of those items. As a result, Japan will become the most accessible market in the world.

Japan has also had to justify its policies in response to charges of over-regulation of the service industries. May I point out that as a rule, no foreign firms engaged in banking, insurance, communications, and distribution have been discriminated against. However, government intervention in these service industries in Japan is more extensive than in the United States. Some argue that the degree of government intervention is something each sovereign country should decide. Given the growing interdependence among countries, however, it is desirable

for all countries to take positive steps for deregulating their service industries according to a universal rule. We understand that the United States Government will press for the liberalization of service industries at the forthcoming ministerial meeting of GATT in November, and I believe that the Japanese Government will support such a proposal.

There is a charge that capital transactions are regulated in Japan, but this charge is completely unfounded. I believe that government regulation on such transactions has virtually been done away with. I can assure you that if anybody brings specific cases of such regulation to the attention of the proper authorities, the Japanese Government will take positive steps to eliminate the causes of such complaints.

Having discussed those criticisms of our trade policy which I feel to be based on misunderstandings, I should now like to address specific charges of a closed market levelled against Japan. It is my belief that charges on the following grounds are unwarranted and unfounded.

## “Japan's average tariff on industrial goods will become the lowest”

In general, we feel that the charges regarding the closeness of the Japanese market may be equated with the difficulty of penetrating a market for which there is a lack of marketing information. Generally, almost to a man, businessmen of any country find it more difficult to penetrate a foreign market than their own. This is largely due to the lack of knowledge and information concerning the foreign market in question. It is fair to say that the amount of knowledge which the Japanese people, in general, and Japanese firms, in particular, have about the United States' market is about ten times as large as that which their American counterparts have about the Japanese market. Knowledge about other markets is a critical component of successful penetration of such markets. People who fail to penetrate a market for lack of basic knowledge about the market are easily tempted to justify their failure by labelling the other market as closed.

Oranges from California displayed in a Tokyo supermarket.



We have also been accused of unfairness regarding

the average tariff rate. Recently, the Japanese Government has decided on its own initiative to advance the tariff-cutting schedule to which it had committed itself at the Tokyo round of multilateral trade negotiations by a full two years. As a result of this move, Japan's average tariff on industrial goods will become the lowest among the industrialized nations.

On the question of Japan's "protectionist policy" for its high-technology industries, the governments of the United States and Japan have officially reached an agreement as to whether the procurement practices of Nippon Telegraph and Telephone Public Corporation (NTT) conform to the relevant code of GATT.

Some complain that Japan's tariff rates on main-frame computers and peripheral equipment are too high. But they must be reminded that the current tariff rates on these products are the ones conceded to through multilateral trade negotiations held under the auspices of GATT. What is more, the Japanese Government, as noted earlier, is already taking steps to advance the tariff-cutting schedule by two years, as I noted earlier. If the United States wants Japan to cut its tariffs on these products still more, we would like to see the United States match those cuts in a spirit of compromise. I believe the Japanese Government is the actor most eager to take a flexible attitude on this question. Witness the case of semiconductors.

Others argue that the Japanese Government is giving large subsidies to foster the development of its computer and other high-technology industries. No argument can be further from the mark. The subsidies and other financial incentives that have been given to these industries by the Japanese Government are by no means large compared to those which other industrial nations have been giving to their industries.

I hope that I have presented a convincing case proving the sincerity of the Japanese Government in opening its market to foreign trade. We have made much progress recently, and we remain committed to introducing further improvements.

## “Existing trade imbalance be blamed on the over-valued dollar and the under valued yen”

I should now like to examine several issues relating more directly to the U.S.-Japan trade imbalance. We believe that the bulk of the trade imbalance now existing between the United States and Japan should be blamed on the over-valued dollar and the under-valued yen. In our view, the unreasonably low rate of the yen is largely the result of the abnormally high interest rates in the United States. As the views on this question on both

sides of the Pacific are widely known, I will not reproduce them here.

The sluggish restructuring of industry in the United States has also played a part in the creation of the current trade imbalance. The two oil crises in the 1970s brought supply-and-demand structural changes in our markets. As a result of these economic dislocations, a considerable part of existing technology and facilities have become obsolete. In fact, so obsolete that a drastic large-scale restructuring of industry has become an urgent necessity. A case in point is the U.S. auto industry. Because we saw the socio-economic and political implications of the needed restructuring of the U.S. auto industry, we agreed to self-regulation restricting Japan's auto exports to the United States for the next two to three years. We are hoping that the management of American auto manufacturers will take appropriate measures in concert with the unions and the government to effectively restructure their operations during such a period.

The auto industry is only one of the many industry groups in the United States and Japan—and for that matter, in Europe—that are in need of restructuring. A successful industrial restructuring requires mutual understanding and cooperation among the countries involved, and I have just cited Japan's voluntary restrictions on auto exports as an example of such cooperation.

Wages and productivity are two items which further contribute to trade imbalance. In Japan, wages have been increasing at a pace comparable to increases in productivity. However, in the United States, the former has been rising at a rate far higher than the underlying productivity. As the problem has been widely debated in the United States, I will simply mention that increasing wages in the United States have been one of the important causes contributing to the growth in its trade deficits with Japan, and I express the hope that such a situation will improve at an early date.

In addition to the foregoing, I would like to address the issue of the United States' ban on the export of Alaskan oil to Japan and the defense spending of Japan as they relate to the growing trade imbalance between the two countries.

From the standpoint of national security, and also with a view to reducing the trade imbalance between our two countries, Japan wants to import Alaskan oil. This was frustrated by a ban imposed by the United States Government. A ban on export is an unusual step for a country affiliated with GATT to take; it is puzzling to us why the United States should take such an extraordinary step.

Goods in containers arrive in Japan's Yokohama port daily from the U.S.



If the complaints of the United States against the trade imbalance with Japan are likened to the tip of an iceberg, its submerged part consists of American discontent with the lack of effort on the part of the Japanese Government to increase defense spending. In my personal view, Japan should substantially step up its defense spending.

I might venture to add, however, that the current defense policy of Japan is a product of history; a drastic departure from this historical defense policy would entail large risks. The basic course that Japan has followed in the postwar years emphasized economic reconstruction with little or no armament. Actually, this policy was imposed by the Allied Powers. The Japanese people saw the wisdom of such a policy and readily agreed to instituting such provisions in the Constitution. I believe that this was the correct action and is worth remembering in the generations to come.

Of course, there comes a time when the course of a nation should be altered, but it would be foolhardy for the nation concerned to make such changes without regard for the background behind the course being altered. If the ruling Liberal-Democratic Party of Japan takes this plunge and changes its policy, and if the Government gives its people the impression that it was pressured by a foreign government into adopting a new policy designed to increase military capabilities, no one can deny the possibility of the ruling party losing the popular support it now enjoys. The political instability that may ensue from such a change would be as great a loss to the free world as it would be a boon to the Soviet Union.

## “International economic framework must be overhauled”

Lastly, I would like to briefly touch on the direction the cooperation between the United States and Japan should take in the coming years.

A positive cooperation between the two countries is indispensable to revitalizing the sluggish market economies of the free world. In the interest of enlightened cooperation between the countries, I would like to emphasize the following three points.

My first point involves the possibility of opening new frontiers in the high-technology and energy areas through cooperation between the United States and Japan. The Japanese computer industry still lags considerably behind that of the United States. But in the field of semiconductors, such as the 64 K RAMs and 256 K RAMs, Japan's Hitachi, Fujitsu, and Nippon Electric are neck and neck with IBM and AT&T of the United States. Technological innovations in this field require huge capital investments and carry large risks. Therefore, the Ministry of International Trade and Industry



Customers rush to a Tokyo bank to withdraw their deposits. (A scene from the 1930 depression)

(MITI) does not subscribe to the view that efficient technological breakthroughs can be achieved through a process of natural selection based on competition and market forces. In response, MITI has been encouraging joint research among private firms—and with good success. We believe that it is desirable to apply the same approach to joint research and development projects which could be undertaken by firms of the United States, Europe, and Japan. A successful development of new frontiers through such joint efforts will no doubt go a long way towards injecting new vitality into the free market economies of the world.

The United States, EEC countries, and Japan are faced with the pressing need to carry out far-reaching industrial restructuring. Our countries must work together in close coordination. Those which carry out an industrial restructuring must pursue it according to the principle of positive adjustment, while others must cooperate with such countries by moderating their export drive for industries which are undergoing such renaissance.

The experience of the 1930s shows that once the international economic framework collapses, serious confusion ensues in the international economy. It also tells us that if an international economic framework falls out of harmony with the structure of the international economy, both must be restructured.

For the international economy to regain its stability, the existing international economic framework must be overhauled. Given the gravity of the situation during this transition period, the industrial nations must resist the temptations of protectionism, and must actively cooperate with each other in building a new universal order. If the industrial nations of the West pull through the current difficulties by revitalizing their economies through enlightened cooperation, the market economy will reestablish its viability and form a sharp contrast to the near-bankrupt planned economies.

In Japan, there is a growing concern that the reciprocity bill now before Congress will turn out to be protectionist legislation. However, since I have discussed my personal view on this matter in an article which will appear in the near future, I will merely express my concern over the matter at this time. I nevertheless retain a deep-seated optimism about the future of U.S.-Japan relations, and I am sure that our working in cooperation will yield fruitful results, not only for our two respective nations, but for the benefit of the entire industrialized and developing West. ●