

Talking Things Out

Perceptions are just as important as realities, and the perceptions are not good now. Americans see Japan as a faceless export juggernaut, and Japanese see American companies as trade superbrats. Yet much of the frustration arises because people are still scrambling to adjust to new rules and roles. It's a whole new ball game for everyone, and sympathetic understanding is needed to avert the worst of angry protectionism and uphold free trade in everyone's best interests.



Hideaki Kase (left) with Prof. Herbert Passin

Kase: While Japan's trade friction is rooted in a number of economic factors, mistaken perceptions have been almost as important. For example, some Americans claim that the Japanese work too hard, rather like the grind who stays up all night to study while everyone else is sleeping. Even in Japan grinds have never been popular, but they are not accused of being unfair. And yet Americans criticize us for being overly industrious.

Do a majority of Americans really consider Japanese industriousness to be an unfair advantage? What is the overall American perception of Japan today?

Passin: Objectively, Japanese do not work any harder than Americans. Still, a majority of Americans do tend to perceive the Japanese as being extremely industrious and hardworking, though only a few think of this as being unfair.

It is very difficult to generalize about American opinion. Points of view vary depending on how different groups are affected by the trade problem. Last year saw the eruption of the conspiracy theory in Congress. For these people, the seemingly close cooperation between

Japanese government and business suggested a Japan Inc. conspiring to control trade completely.

Happily, this kind of paranoia has infected only a very small part of American public opinion, and even in Congress it lasted for only a very brief time. In general, Americans don't see Japan as a sinister conspiracy, but they do see danger. And the attitude is that we better defend ourselves if there is danger.

Kase: Few Americans seem to have actually taken the trouble to delve into the facts. The conspiracy concept is a myth.

Passin: There is some basis for the myth, however. Industry after industry is able to bring up examples that, for example, show how testing standards keep foreign companies out of Japanese markets for years even though Japanese companies can get into the corresponding American markets in a month or even less time.

Even when an American product is competitive by any objective criteria, it is often difficult to introduce it into the Japanese market. In the case of products that are clearly inferior to Japanese manufactures, I don't think anybody would argue much about why they are not succeeding. Yet, for some reason, even many competitive, quality products can't break into the Japanese market. The conclusion many people draw is that the bureaucratic delays are deliberate and that there is some kind of conspiracy going on.

Kase: Misconceptions such as this usually stem from differences in values and customs.

At one point Secretary of State Shultz accused the Japanese people of having an excessively high savings rate. The *keiretsu* groupings of companies in Japan have

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also been criticized as making it difficult for foreign companies, or even other Japanese companies, to do much business with a *keiretsu* company. These and other elements of the Japanese social and business context are criticized as unfair obstacles and non-tariff barriers to trade.

Passin: These are not so much cultural differences as differences in the economic or business structure. There's no question that Americans do not understand the character or structure of the Japanese economy. Nor, for that matter, do Europeans.

Shultz wasn't criticizing Japan's high savings rate *per se*; he is not so innocent or simplistic as to believe a different custom is unfair. In some cases, and the English language's international standing comes to mind here, these differences have given American businessmen an advantage over their Japanese competitors. What Shultz was saying is that, structurally, the fact of Japan's higher savings rate creates a problem, and if you're looking for some way to adjust the world situation then you have to see what can be done about these different factors that are part of the structural situation. There will be a better balance if you can lower American interest rates and raise Japanese interest rates.

Kase: There are many American companies that have entered the Japanese market and are very successful. Those companies that understand the Japanese business structure, as you say, are doing very well.

Likewise, the Japanese companies that have done well in the United States have done well because they had a good grasp of the American business structure and American business practices. Japanese companies have traditionally had an international outlook, and their long-term business strategy allows them to invest much more time and energy in preparing the ground for entry into new markets.

Japanese companies have been at this for a long time, but it is only recently that the Japanese market has become so large and powerful that American companies are finally realizing that they need to study the Japanese business structure.

As the world's largest single market, the American market is naturally the first concern for American companies just as it is for many foreign companies. As a result—and steel is a prime example—Americans did not pay much attention to overseas markets or international competition until recently. So even though we are criticized by Americans, particularly Congress, for deliberately and unfairly shutting out foreign competition, this criticism seems all out of proportion to the facts. Actually, much of the problem lies in the American failure to understand the Japanese business structure, practice, and traditions.

Passin: I agree that Japan's trading partners have to make a greater effort to understand the Japanese market, but at the same time I would hope Japan would

be a little more aggressive about instituting the necessary changes.

There are still a number of problems that can't be explained away as a failure to understand. To give a very simple example, there are about 43 Japanese securities companies operating in London, yet there are only eight or nine British securities companies operating in Japan. Any Japanese securities company that sets up in England or the United States can operate freely right away, but many foreign companies in Japan have had to wait years and years in a so-called representative capacity.

Kase: I do not deny that Japan has been reluctant to open its markets. I am simply saying that that is no longer the problem, and that the problem now is one of misperceptions and cultural differences. In the United States, the individual has an inalienable right to life, liberty, and the pursuit of happiness. This is one of the ideals that your country was founded upon.

But in Japan, for as long as we were playing catch-up ball beginning in the late 19th century, the individual was expected to sacrifice for the sake of the country's development. The guiding principle was the greatest good for the greatest number of people. To this day, the concept of consumer rights is not really part of the Japanese psychology. That is why, for example, Japanese consumers don't complain even though food prices are much higher here than they would be if the market were completely open.

The lag between the new reality and the consciousness holds true for Americans and Europeans as well as Japanese.

Passin: Agriculture, of course, is a special case. Every country tries to protect its farm sector for social, psychological, and political reasons. Not even the United States is immune to this. Nor, for that matter, is the United States immune to these periodic waves of "buy American" fever when it becomes the patriotic thing to buy American products even if imports are better-quality and lower-priced.

Kase: Even so, the American market has historically been open—at least since the end of World War II—while the Japanese market has been relatively closed until recently. So it is taking a while to adjust.

Passin: There is an element of that, but Japan started to show a trade surplus in the late 1960s. Since that time, the whole situation has changed. The notion that Japan has to sacrifice to catch up is already out of date. Granted that people's attitudes often lag behind events, the objective conditions on which conventional Japa-

nese attitudes were based had disappeared by the late 1960s and the early 1970s, and I don't think it is unreasonable to expect some change by the mid-1980s.

Kase: Things are already changing and will continue to change, but as you say, there is always a lag between actual conditions and people's perceptions.

But Japan still does not have the strong consumer-interest lobby the United States does. Last spring, when President Reagan said he would not press for further extension of the "voluntary" restraints on Japanese automobile exports to the United States, he cited figures to show how the three years of restraints on Japanese automobile imports had actually hurt the American consumer.

Because Japan has relied so heavily on exports for its growth, there is no comparable consumer consciousness. This is beginning to change, however. In last year's trade friction with the United States and other countries, imports became more of an issue than exports for the first time. The rules of the game are changing, but this is a completely new game for the Japanese people, and the American side needs to understand this.

Passin: It's a new game for the Americans too. It's a new game for everyone. The lag between the new reality and the consciousness holds true for Americans and Europeans as well as Japanese.

Everyone has to learn the new rules of the game and has to be able, as fast as possible, to give up, without too much regret, some of the old attitudes that we're all used to.

Kase: The ability to export and the receptiveness of the U.S. and other markets to Japanese products have been major factors enabling Japan to achieve its present level of economic development. In this sense, the economy has grown precisely because it has had this international orientation. But true internationalization of the Japanese economy and culture has only just begun. The change in the rules of the game is more traumatic for the Japanese because we must open up our domestic markets—a totally new experience for us. It is inevitable that there should be some confusion while we are going through these changes.

Passin: Still, you must not underestimate the enormous changes and difficulties other countries are also experiencing in adjusting their own attitudes. I'm not at all sure the adjustment is all that more difficult for the Japanese. Nor, for that matter, do I think much purpose is served by trying to decide who is having a harder time of it. It is hard in one respect or another for everybody, and it may be especially hard for Americans to admit that they're part of an interdependent world economy that they cannot control.

Kase: In the early years of its industrialization Japan worked to keep out foreign goods even as it strove to capture foreign market shares. It has been very successful at this and now, with 10% of the world's GNP,

ranks as one of the world's major economic powers. It is clear to just about all Japanese that the time has come for Japan to change.

Thus last spring, Prime Minister Nakasone took the unprecedented step of going on nationwide television to urge Japanese consumers to buy more imported products. A new consensus is emerging in Japan, and the internationalization of the Japanese domestic market may well be the most significant event in postwar Japanese history.

Passin: Even so, even more radical change is needed. Japanese society needs to be internationalized. As it is—and this is true of every country—only a relatively small group is internationalized while the great masses of the people really are not. Many Japanese who study abroad find it difficult to come back to the Japanese school system or get a job in Japan. Somehow Japanese institutions, instead of welcoming people like that, tend to reject them.

Japanese institutions need to learn how to use people who have a different set of experiences from the standard employee who comes into the organization. I don't mean it will be easy. But I think the problems can be overcome, and I think Japan can benefit enormously from finding some way to make better use of such people.

...part of the price that must be paid for change.

Kase: It is changing. The national universities are now able to offer foreign professors tenure, and Japan's major corporations have more and more foreign employees. In banking and securities, a growing number of young Japanese are working for foreign firms, and this sort of thing is now socially acceptable.

There is an emerging consensus in Japan that the Japanese domestic market needs to be opened up to foreign competition and that there has to be a radical change in attitudes. Once this consensus solidifies, I think the progress will be very rapid.

There is bound to be some disagreement and trade friction until the changes are actually implemented; but if we can view these difficulties as part of the price that must be paid for change, we should be able to keep from over-reacting to the issues. And in the long run, things should turn out very much to our mutual advantage.

Passin: This is a turning point for the entire world. While the exact forms and the particular problems will be a little different in each country, all countries have to undergo some major changes in attitudes and outlooks and learn the new rules of the game. No one country can do it alone, because the problems do not have their roots in any one country. We all need to cooperate in solving, or at least easing, our common difficulties. ●