

Talking Tough about Trade

By Makoto Kuroda

In June this year, I retired from the Ministry of International Trade and Industry (MITI) where I had served for 33 years. Looking back over those years, I realize that during my service I was engaged almost continuously in handling matters pertaining to trade. Particularly in my last four years with MITI, as director general of the International Trade Policy Bureau and as vice minister for international affairs, I was responsible for conducting many trade negotiations with other countries.

In my negotiations with other countries, I made it a point always to speak frankly with Japan's national interest in mind. Apparently, my bluntness sometimes irritated the other party. Because of this, newspapers referred to me as a "tough negotiator." That was all right, but they also labeled me as an "arrogant bureaucrat," a "sharp-tongued official" and the like.

On the other hand, there were people who praised my forthright statements. Just before my retirement in May, I had a chance to give a lecture in Washington. Present at this meeting was Mike Smith, the deputy U.S. trade representative, who used to be my counterpart in negotiations. Jokingly, he said to me, "When you retire from MITI, please come to USTR and work together with me. The U.S. government will provide you with an immigrant visa." The Center for Strategic and International Studies (CSIS) Deputy Director John N. Yochelson, who acted as chairman of the meeting, introduced me as "one of the best negotiators in the world." I felt as if they had promoted me a step higher than "tough negotiator."

Although I try to speak frankly, it is after all a negotiation. Debate is necessary in order to make the other party recognize the validity of our arguments. For four years from 1968, I was stationed as first secretary at the Permanent Japanese Mission to International Organizations in Geneva and gained experience in international negotiations conducted

there, mainly in connection with GATT.

In those days, instructions that came from Tokyo regarding negotiations were, "Say such-and-such." When we asked Tokyo what we were to do after saying "such-and-such," we were told that all we needed to do was to say what Tokyo told us to say. Unless negotiators are allowed to engage freely in debate, it is impossible to conduct negotiations to get Japan's position accepted. The attitude taken by Tokyo was as if to say all we needed to do was to put on record the statement which Tokyo ordered us to make. I remember how frustrated and wretched I felt in those days.

In contrast to the Japanese representatives who were gagged except for mouthing the statement ordered by Tokyo, the representatives of Western countries engaged freely in debate. It was driven home to me very strongly at that time that Japan would have to become able to enter into debate without reserve at international forums. I believe my basic attitude on how to approach negotiations was formed at that time.

In order to be able to conduct discussions on equal terms with the opposing party, study is necessary. In preparing for a negotiation, my approach was to subject the position we were to take to a thorough questioning from all angles. This process prepared me to be able to debate the issue from many angles. In international negotiations, the opposing party is likely to question your position from an angle different from the direct-approach arguments which you might have prepared. If you are unable to respond, you make no headway in convincing your opponent.

Unspoken thoughts

On the basis of this kind of study and preparation, you must speak frankly and straightforwardly. Japanese believe in what is called *ishin-denshin*, which means the communication of thought without



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Photo: Tokyo Shinbun

the medium of words, a sort of "what the mind thinks, the heart transmits." They tend to think that their position will be understood as long as they show sincerity. This attitude is a form of *amae*, or presuming on another's favorable understanding. In international negotiations, however, *amae* does not work. Rather, on the assumption that the other side does not understand, it is important to repeat over and over again the effort to drive home your argument.

The Americans are notable for making maximum demands in a very easy-to-understand form. In response, we say this and that in an effort to have the Americans understand Japan's position. Then they pounce on our words and submit new demands based on what we said. Therefore, when we think that the stand taken by them is wrong, we must say so clearly. I tell them that what can't be done cannot be done. On one occasion I said to them, "This is the 108th time that I have said no." In international negotiations, it is necessary to be as forthright as that.

In my many years of negotiations with other countries, many things occurred.

The strongest impression that remains with me, after all this time, is something which happened recently—the semiconductor negotiations with the U.S. The Japan-U.S. semiconductor agreement was signed in the summer of 1986. There probably are very few other agreements which have been criticized so harshly both at home and abroad.

In Japan, the critics said we must have bent under U.S. pressure to have signed the agreement. In Europe, they said the agreement was a disgraceful example of bilateralism in which two countries high-handedly tried to settle a problem that also concerns other nations. It is impermissible, they said, for Japan and the U.S. to determine the fate of other countries.

What is more, in April 1987, the U.S. drew the hasty, short-tempered conclusion that Japan was to blame for the failure in achieving the objectives of the agreement. The U.S. adopted a prohibitive and discriminatory tariff against certain Japanese products. I do not think that this measure was based on a justifiable reason. Because of this, the chorus of criticism directed against those of us who concluded the agreement rose a pitch higher.

This widespread criticism, I must say frankly, made me personally feel bad. We concluded that agreement because it was necessary at the time. I still believe firmly today that it was not a mistake to have concluded that agreement. My reason for this belief lies in the fact that the semiconductor is the most vital element of technological innovation in what has been called the information age. No matter how much more advanced Japan is than

other countries in semiconductor manufacturing technology and production set-up, Japan should not monopolize the production of a component which is indispensable for the world's technological innovation, nor will it be possible for Japan to have such a monopoly. I believe there should be a healthy semiconductor industry in the U.S. and Europe and of course in Asia too.

Invisible wall

A rumor circulated that the semiconductor agreement included, aside from the published part, a secret letter in which Japan promised to raise to 20% the share of American products in the Japanese semiconductor market within five years. I can state categorically that there was no such secret letter in the semiconductor agreement.

The Semiconductor Industry Association (SIA) in the U.S. harbors the suspicion that the reason American products sell well in Europe but not in Japan must be that there exists an unfair and invisible barrier, such as the interlocking affiliations of Japanese industry. On the basis of this thinking, the SIA insisted on a specific percentage of the Japanese market and on reprisal measures in the event that such a share could not be secured.

U.S. Trade Representative Clayton Yeutter sounded us out on the possibility of increasing the share of foreign semiconductors in the Japanese market. Thereupon MITI, which has all along been promoting greater imports generally, promised to use its good offices in such

a way as to set up an organization to promote semiconductor imports. These are the facts, and there was absolutely no promise regarding market share, as the U.S. side then officially acknowledged.

Semiconductor transactions take place between private sector companies. The government is not in a position to promise a specific share of the market for foreign products. Neither will users promise to buy a product whose quality and price is unknown. I cannot understand why this simple reasoning escapes people.

It seems that behind this situation lies the massive misunderstanding in America that MITI is omnipotent in Japan as far as trade matters are concerned. In his book *MITI and the Japanese Miracle*, Professor Chalmers Johnson wrote that MITI possessed sweeping powers extending from the allocation of funds and raw materials to companies to the way in which companies are allowed to start foreign trade. What he wrote about was the situation as it prevailed up to the 1950s or the early 1960s at the latest, however. In those days, not only in Japan but also in the countries of Europe, there was government regulation for the purpose of reconstructing the war-devastated economy. In Japan's case, however, by the early 1970s MITI had given up such regulatory powers and liberalized foreign trade and direct investment.

Since then, MITI has been making efforts to maintain friendly relations with industry. When I met Professor Johnson recently, I told him, "We greatly appreciate your having written an outstanding book to introduce MITI to the rest of the world. We regret, however, that of all the things you wrote about, the one which remains rooted in people's minds in very exaggerated form is the image of MITI controlling business corporations with powerful authority. The book dealt with the state of affairs that existed up to the early 1970s. But readers of the book regrettably tend to believe that such a situation still exists. We are spending a lot of time to try to erase that image."

This misunderstanding on the part of the U.S. could be sensed in the position taken by it at the time of the semiconductor negotiations. The U.S. government



MITI Minister Hajime Tamura talks to representatives of Japan's semiconductor industry about imports.

Photo: Kyodo News Service

stated that the results expected of the semiconductor agreement were not attained. Late Secretary of Commerce Malcolm Baldrige told a press conference in April last year something to the effect that the Japanese government, and MITI in particular, has almighty power to do almost anything concerning exports. He said it has a law to give it that power, and the results which the U.S. anticipated could have been attained if MITI wished it. The fact that they were not attained meant that MITI had not done what it should have done, according to Baldrige.

Many people have cited this statement as a perfect example of the kind of "misunderstanding" that Americans have toward Japan, yet I believe that these observers are being too generous to the United States. Rather than an honest misunderstanding, this seems to me to be a contrived protesting. The American government knows full well that MITI does not wield such power, yet it uses such "misunderstandings" to pressure MITI and the rest of Japan to bend over backwards and turn impossible somersaults.

Economic principles

My response to Americans in such cases has been as follows: "Our laws have a specific purpose and cannot be used by MITI to do whatever it pleases. In addition, because the economy operates according to economic principles, the desired result cannot be realized quickly. If a government could get the results it wants quickly, you should be able to take steps to reduce your deficits at once. But that is impossible, isn't it? Why should the Japanese government alone be able to do anything it wants to?"

In the last four years of my service, I made 41 business trips overseas. Of these, 22 trips were to the U.S. These figures testify to the closeness of Japan-U.S. relations. And that is why my recollections of negotiations with the U.S. outnumber those with other countries. There are several points regarding the U.S. which bother me.

The first point is the danger inherent

in the "unfair" argument. It is not that I could not understand why the American people applaud the contention that it is quite natural to demand that a trading partner country correct its unfair practices. In their mind, who is the one to pass judgment on what is unfair? It goes without saying that the U.S. itself will be the judge.

In this pluralistic world, each country has its own standard for judging what is fair and what is unfair. But in this case, it is the U.S. which uses its own criteria to determine what is unfair, presses charges, and passes judgment. This is as if the same person is acting concurrently as prosecutor and judge. Can such an arrangement be termed fair? This is the kind of thinking that courses through America's omnibus trade bill which became law on August 23. It was the same as the U.S. thinking on dumping as revealed during the Japan-U.S. semiconductor negotiations. The U.S. flaunted its own standard for judging whether the cost is fair and insisted that anything below that constitutes dumping.

The second point is the U.S. attitude of trying to blame trade-surplus countries for its own trade imbalance. The big economic imbalance in the world, including the U.S. trade deficit, is actually due in great degree to the difference in the way countries have approached technological innovation. Technological innovation has changed production methods, brought on the information revolution, and is on the point of drastically changing distribution systems. The world today must make adjustments for this change. Therefore, protectionism which insists on maintaining the status quo cannot be the prescription for solving the present problem of trade imbalances. An argument which consists of trying to put the blame on others can never lead to a solution.

The third point is the widespread belief that persists in the U.S. that Japan will not take action unless pressured to do so. An example of this thinking is the continued application of the discriminatory tariff that was imposed against Japan because the American share of the Japanese semiconductor market did not increase as expected.

On a dollar basis, sales of U.S. semiconductors in Japan in the January-March quarter of this year grew by 75% over the same period a year before. Because the Japanese semiconductor market had expanded by 50%, the U.S. share of the market did not increase very much. How should one assess the figure of 75% growth in sales in Japan against the fact that America's semiconductor production capability is unable to keep up with the demand in that country? What is more, the discriminatory tariff measures against Japanese products have not yet been totally removed. On this point, I have been saying to Americans, "You are trying to do business with us, shaking our hand and smiling at us even while you are stepping on our foot. That is not the way we do business in Japan. Please remove your foot, first."

Despite these observations, I am not pessimistic about the future of Japan-U.S. relations. The many cases of friction that have arisen recently between Japan and the U.S. notwithstanding, the ties between the two countries are becoming increasingly stronger in terms of economic realities, in trade, in investment activities and in finance.

The U.S. is still a superpower, even though it might look relatively smaller when considering the amount by which other countries have grown. It is the pillar of the free world. I believe that Japan and Europe must take up the slack that has resulted from the lessening of U.S. predominance, supporting and supplementing the role played by the U.S. in order to keep the world's trading system operating stably. For that, it will be necessary for all these countries to deepen mutual understanding. As for myself, even though I have left the government service, I would like to play even the tiniest role in promoting mutual understanding by saying things in a forthright manner, just as I have been doing until now.

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