

What
are the real issues
in U.S.-Japan trade friction?
U.S. Ambassador to Japan
Mike Mansfield
presents
the American view



U.S.-Japanese economic relations have recently reached a critical stage largely as a result of trade friction.

Unless the Japanese government responds broadly and positively to its trading partner's concerns over trade, a further deterioration is likely. In the U.S., there is a strongly held belief that access to the Japanese market is severely restricted for imports of a wide range of competitive American products.

Unfortunately, much attention has been focused on the U.S. trade deficit with Japan as being the problem in U.S.-Japanese economic relations. I believe that the trade deficit is just symptomatic of the problem. We realize that we will nearly always be in deficit with some countries while being in surplus with others.

The real issue is access: those U.S. products that are competitive in Japan should have unimpeded entry.

Current economic conditions in the U.S. are exacerbating American frustrations with Japan over these issues. Unemployment is currently at 9.0% and could go higher, with the manufacturing sector bearing most of the job losses, and there are many people in the U.S., including some influential members of the Congress, who believe that imports of manufactured goods from Japan are largely responsible for the problems of important U.S. industries. These American perceptions of Japan have developed over many years and are not likely to be reversed by minimalist measures. In fact, many would view a gradualist policy on the part of Japan as continued footdragging which would probably only heighten tensions. Nor is the American public likely to view such stop-gap measures as temporary export controls and so-called emergency imports as adequate long term solutions to the problems in our bilateral economic relations.

“Japan must recognize that trade is a two-way street with benefits which should flow to both our economies **”**

I in no way feel that Japan should be punished for its economic success which has been achieved through ingenuity, industriousness and hard work. Nor is Japan responsible for the problems of the U.S. economy. In the U.S. automobile industry in particular, shifts in consumer preferences following large oil price increases and the effects of high interest rates have created market situations which management and labor in the industry were not positioned to meet. Our industry needs a “breathing space” to undertake difficult adjustments, and we appreciate the role Japan has had to assume to assist in this. In addition, we do not overlook that many of the problems in the U.S. economy result

from our own past policy failures. Under the Reagan administration we have set out to correct these, and I have met few Japanese who took issue with the Administration's economic-policy objectives. Nevertheless, Japan must recognize that trade is a two-way street with benefits which should flow to both our economies. In this regard, there is a wide range of American products from high technology goods to oranges that would be highly competitive in the Japanese market if barriers to their importation were removed.

“Opening its markets wider to imports will be advantageous to Japan as well”

We are not asking that Japan import U.S. products that it can more efficiently produce itself, nor do we expect our bilateral merchandise trade to always be in perfect balance. We are asking that products which can most efficiently be produced in the U.S. have the same access to the Japanese market that products that can be produced most efficiently in Japan have to the U.S. markets. Important Japanese products that have major shares of the U.S. market are automobiles (20%), steel (10-15%), televisions (20-30%), motorcycles (90%), radios (50-60%), cameras (over 30%), recording equipment (over 50%), watches (over 50%), and machine tools (10%). At the same time, with a few exceptions, such as large commercial jet aircraft, U.S. manufactured goods do not gain even a 10% share of the Japanese market. Even American petrochemicals which are significantly cheaper than their Japanese counterparts (largely as a result of bigger and more efficient U.S. plants) have captured only 4 to 5% of the Japanese market, and yet there are already calls for limitations on petrochemical imports from the U.S.

Agriculture is an area where many products can unquestionably be more economically produced in the United States than in Japan. Yet of the 27 items that remain under import quotas in Japan, 22 are agricultural goods, including products such as beef and citrus fruits where American producers are particularly competitive. Many Americans find it difficult to understand why highly competitive industrial and agricultural goods should be denied increased access to the Japanese market while the products in which Japan excels can flow largely unimpeded into the American market. Opening its markets wider to imports will not only benefit its foreign trading partners but will be advantageous to Japan as well. American consumers and business have benefitted enormously from their ability to import high quality low priced consumer and capital goods from Japan. However the Japanese

consumer has not been nearly so fortunate in reaping the benefits of comparative advantage and thereby has been unable to fully participate in the improved price advantage that flows from free and uninhibited international trade.

“Time is very short and action is needed now”

While we are not insensitive to the short term difficulties involved in further opening markets, we cannot accept the argument that substantial import liberalization, particularly for agricultural goods, would be too socially disruptive to contemplate in Japan. All participants in the world economy must be willing to make adjustments to new economic realities as changes occur in the competitive factors that affect their industries. The U.S. economy has witnessed the shrinkage and even disappearance of major industries that lost their international competitiveness. It has often been a painful process, but a necessary one for the preservation of free trade and the benefits of comparative advantage. A look at the textile industry in Japan shows that Japan has also been able to make such adjustments. Thus, it is hard for me to believe that an economy as dynamic and resilient as Japan's can not adapt to an environment of free trade. Japan, as well as the U.S., must be willing to make positive economic adjustments for the expansion of trade and economic growth.

In summary, I want to again emphasize what I have said on numerous occasions. The U.S.-Japanese relationship is the most important bilateral relationship in the world. Its health is of vital importance to the economic and security interests of all the free nations of the Pacific and the World. Both sides bear a heavy responsibility in maintaining and strengthening it. At the moment, the greatest threat to our relationship is the unbalanced nature of access to our respective markets. To be sure, U.S. businesses will have to make a greater effort to tailor their goods to Japanese tastes and learn how to operate in the Japanese market. However, no matter how hard they try, American firms can succeed only if Japan becomes more receptive to imports. This will require not only a change in formal laws and procedures but also in attitudes. The Japanese government in Japan's own interest should take the lead in proposing a program of measures which looks to a future where Japan's import consciousness will equal or exceed its traditional export consciousness. If Japan takes bold steps to open its markets I am confident that we can overcome our present economic difficulties. But time is very short and action is needed now. ●