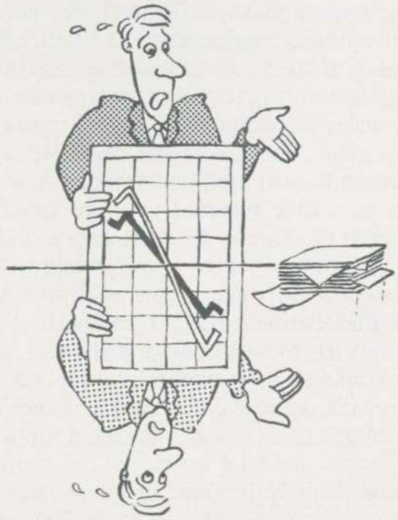
Trade Concerns: Pressures And Approaches

By Nobuhiko Shima

It may be said that the United States was at the low point of its postwar history in the final months of Jimmy Carter's administration from 1980 to early 1981.

The 52 Americans held in hostage at the U.S. Embassy in Tehran for over 14 months were set free in January 1981, as Carter left office. But American prestige and military power remained at a low ebb, with Soviet intervention in Afghanistan still continuing.

The U.S. economy was in a disastrous condition, with inflation and interest rates in double digits and the jobless rate topping the 10% level, the worst since the Great Depression. U.S. financial and trade deficits had continued to worsen. U.S. policy was often the target of criticism at economic summit meetings of major Western countries and at general meetings of the World Bank and the International Monetary Fund. The economic stagnation naturally led to social unrest, with the crime and divorce rates reaching a historic high.



In the 1960s the United States was the undisputed leader of the free world. Militarily, America held a commanding lead over the Soviet Union. In economic competition America was virtually unchallenged by Japan and Western Europe. The affluent American lifestyle was the envy of people all over the world. The 1960s was really a "golden decade" for America.

But the Vietnam War and the oil crises of the 1970s sapped America's power. The U.S. not only saw its political leadership ebb, but its military might was equaled and finally overtaken by the Soviets. In the economic sphere, the U.S. began to be eclipsed by Japan. The U.S. was floundering in the depths of misfortune when Ronald Reagan took over as president with a call for a strong America.

Reagan immediately embarked on a bold renovation of the U.S. economy with a new economic policy known as Reaganomics. It featured control of inflation through restraint on currency supply, increased defense spending, strengthening of the dollar, general expenditure cuts, tax reductions and deregulations, all aimed at resurrecting America.

It is not easy to evaluate Reagan's policies. But there is no doubt that the tax reductions, strengthening of the dollar and inflation control led to a business recovery, checked price rises and brought down interest rates. The U.S. was the main purchaser of goods from Europe, Japan and developing countries and became the powerhouse of the world business recovery. The U.S. regained its position of unchallenged world leadership, and this, coupled with the strengthening of its military power, seems to have led to the resumption of dialogue with the Soviet Union.

On the other hand, Reaganomics produced massive financial and trade deficits and affected the country's economic structure. The Reagan administration, in its second term, shifted its policy to stabilization of the dollar, tax hikes and restraint on defense spending. Prospects for settlement of the twin deficits of finance and trade seem unclear, however.

It should be borne in mind that Japan-U.S. relations during the eight years of the Reagan administration have been closely linked with Reagan's economic and defense policies. Japan-U.S. relations in the 1980s differ from those in the previous decade particularly in the nature of economic frictions. Bilateral relations in the current decade have also been characterized by the growing importance attached to defense issues.

There are two notable periods in the economic frictions between the two countries. From 1969 to 1972, when Richard Nixon was U.S. president and Eisaku Sato was Japan's prime minister, the two countries were involved in a dispute over textile trade that became known as a Japan-U.S. textile war.

New frictions

The dispute was finally settled when Japan agreed to restrain its textile exports to the U.S. in return for a U.S. agreement to return Okinawa to Japanese rule. The dispute was politically tinged as it originated from Nixon's campaign promise to the American textile trade to restrain textile imports from Japan, which was aimed at winning Southern votes.

The second period, 1977 to 1979, when Jimmy Carter was U.S. president and Takeo Fukuda was Japan's prime minister, concerned a dispute over Japan's exports centering on steel and color televisions.

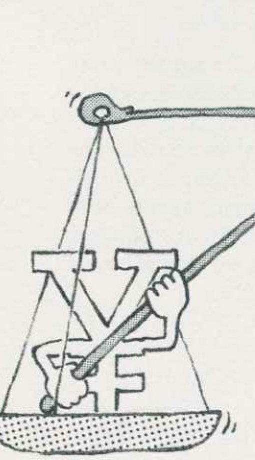
The dispute in the first period involved a declining American industry, and took on a political tone in America, whereas in the second period Japan shook key U.S. industries and posed a threat to the Americans. The second dispute too was settled through Japan's acceptance of voluntary export restraints.

Bilateral frictions since the inauguration of the Reagan administration have been different in character from the previous ones.

Firstly, the new frictions have been quite widespread, ranging from trade in cars, semiconductors, communications equipment and space equipment to liberalization of financial and capital markets and the protection of intellectual property. Furthermore, the two countries began to engage in fierce competition in strategic industries and in other industries on which the U.S. was placing growing weight.

Secondly, the trade imbalance between the two countries was already massive in absolute terms. The huge U.S. deficit had begun to hinder growth of the U.S. economy as a whole.

The U.S. began to demand item-by-item export control by Japan as well as the opening of Japan's market and expansion of imports, so as to correct the trade imbalance. In fact, the U.S. demanded a shift in the industrial policy which was behind the Japanese export offensives, as well as market liberalization, restructuring of industries and expansion of do-



mestic demand in what amounted to intervention in Japan's economic policy.

In its second term, the Reagan administration shifted its monetary strategy to a weaker dollar and a higher yen in an effort to correct the trade imbalance by both trade and monetary means.

The Japan-U.S. economic friction was always fraught with the danger of leading to political tension, and if handled improperly could have developed into political conflict. The two countries depended to a large extent on the close personal relationship between President Reagan and Prime Minister Nakasone in maintaining bilateral friendly ties and preventing the outbreak of a protectionist trade war. In fact, there were not a few instances when dialogues between the two leaders wrapped up issues which working-level negotiators failed to settle.

Of course, the close relationship between Nakasone and Reagan was not based on their personal friendship alone. It must be remembered that Nakasone made maximum concessions in settling economic frictions. Also, Nakasone ardently supported Reagan concerning strategy vis-à-vis the Soviet Union—an issue that often became a source of conflict with European countries. At one Western summit meeting, Nakasone went out of his way to speak for Reagan on delicate subjects which the U.S. president was hesitant to put forward to other Western leaders.

Changing friendship

Nakasone was also instrumental in maximizing Japanese defense spending to cooperate more positively in sharing the Western defense burden and in extending assistance to strategic areas as requested by the U.S. and replacing America's responsibility in such areas.

For Nakasone, his close relationship with Reagan was a major personal asset. In order to strengthen his position in the Liberal Democratic Party, in which his power base was weak, and to maintain power, Nakasone apparently found it useful to boast of his personal relations with Reagan and demonstrate that Japan's relations with the U.S. were stronger under his leadership.

In the closing months of the Reagan administration, the long-standing friendly ties between the two countries have been subjected to a major change. Firstly, the protectionist tendency in the United States has picked up momentum since the Democratic Party gained majorities in both houses of Congress. Secondly, Japanese measures to correct the trade imbalance have failed to bear fruit.

The Americans had avoided protectionism through talks. But since 1987 they have begun to take retaliatory measures and to pressure Japan into concessions. The shift in the Americans' approach was reflected in their retaliation against the Japanese semiconductor industry and the Toshiba group, as well as their refusal to allow Kajima Corporation to participate in American public works

projects and filing of complaints with GATT against Japan's farm policy.

In a way, the Japanese themselves are to blame for the Americans resorting to such measures. Japan failed to take the initiative to open its market and correct the trade imbalance. Instead, the Tokyo government maintained its traditional policy of taking advantage of *gaiatsu* (foreign pressures), to prevail on Japanese industries concerned to accept market opening. This deceptive Japanese approach has irritated the Americans, who in turn have resorted to more forceful means of winning Japanese concessions.

However, a repetition of pressure and concessions could trigger an emotional conflict between the peoples of the two countries. While Japan and the U.S. are becoming increasingly interdependent on each other, there is an abundance of contradictions which a personal rapport between national leaders alone cannot solve. Now is the time for the peoples of the two countries to look to the 21st century in building a new partnership.

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