On Trade Friction—Three types of trade friction

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There are three types of trade friction. The first is the conflict that occurs when Country A demands that Country B open its markets. Typically, Country A requests that the quantitative restrictions that Country B maintains be abolished or high tariffs lowered.

Type two is the friction that occurs when Country A institutes import restrictions to protect its industries or demands that Country B adopt "voluntary" export restraints. Examples of this type would include misuse or abuse of anti-dumping measures and application of dumping levies on Country B's products by Country A for no justifiable reason.

The third type involves disputes that arise when, although Country B has fin-

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ished liberalizing product sectors commonsensibly, Country A demands additional 'opening' of the markets, alleging that Country B's imports in those sectors are minimal. I refer to this type of trade friction as the "pseudo-market opening" type.

Types of Japan-U.S. trade friction

Since the end of World War II most of the major trading nations have experienced trade friction. In this section I would like to review which of the three types of trade friction described above might apply to the trade relationship between Japan and the U.S.

Putting the conclusion roughly, I would say that for industrial products trade friction was predominantly Type 1 until 1975, Type 2 from 1975 to 1985, and Type 3 from 1985. Agricultural products have continually fallen into Type 1, irrespective of the period. In the following section I will review Japan-U.S. trade friction related to industrial products by these three types.

Type 1 trade friction

For a short while after the end of the war, Japan maintained quantitative import restrictions on industrial product imports. Actually, these import restrictions had the effect of protecting domestic manufacturers with their relevant products, but they were enforced under the pretext of benefitting a balance in trade. As the reader may be aware, Japan suffered from substantial annual trade deficits at that time. Finance Ministry trade statistics indicate that Japan ran a $1.575 billion trade deficit in 1961, which amounted to 37% of export volume in the same period. However, during consultations with the International Monetary Fund in June that year, Japan was strongly urged to seek IMF Article 8 status, in which case import restrictions based on grounds of balanced trade would not be allowed. This led the government of Japan to come up with a program to promote the liberalization of trade and foreign exchange in September that year. As a result, in only four years liberalization climbed from just 41% in 1960[1] to 93% in April 1964. In 1964 Japan received IMF Article 8 status.

In that year liberalization of the important color TV sector was implemented and the following year automobile imports were also liberalized. Furthermore, 10 years later in 1974 and 1975 the markets for semiconductors and computers were partly opened in response to strong U.S. demands. This meant that liberalization had been completed for typical industrial products.[2]

Further, residual import restrictions for beef, oranges and other agricultural products, as well as leather goods, remained in place after 1975, which led the U.S. to push for liberalization, suggesting that it would take these items up with the General Agreement on Tariffs and Trade (or actually bring cases before GATT). Even so, whether for industrial or agricultural products, the pressure to open markets was justified. Because Japan actually had closed markets, the adoption of countermeasures was easy. What the Japanese government should have done at that time, while gaining the understanding of the relevant domestic industries, was to simply lift or expand the import quota.

Type 2 trade friction

Residual import restrictions on industrial products were eliminated with the liberalization of computer imports in 1975. One of the most all-out voluntary limitations of exports in which the government of Japan participated involved color TVs, with export restraints beginning in 1976. Therefore, 1975 is considered to be the point at which the shift from Type 1 to Type 2 trade friction began. More accurately, these two types existed in parallel from 1965 to 1975 as voluntary export restrictions were already in place from 1966 for common steel, from 1969 for special steel and from 1972 for textile products.

However, the voluntary restraints of color TV exports to the U.S. implemented in 1976 could be described as the model for full Japanese government participation in voluntary export restrictions. At that time color TVs were also winning products, sustaining Japan's high-level growth. Then, at the beginning of the 1980s, voluntary export restrictions were implemented for another high-powered product: automobiles, with export restraints beginning in 1981.

To protect its domestic industries against imports, the U.S. asked Japan to institute voluntary export restraints on textiles, color TVs and cars. In legal terms, the U.S. government asked Japan to go along with voluntary export restraints as an alternative to the triggering of import-relief provisions as laid out in Article 201 of the Trade Act or to prevent the passage of import restrictions similar to this law by Congress. In any case, the waning international competitiveness of the U.S. industry at the time and its need for time to recover this was the premise for these requests.

In other words, the culprit, though the U.S. government would not clearly say so, was U.S. industry's poor competitiveness and not Japan (except in the case of criticism for dumping).

Type 3 trade friction—"Pseudo-market opening"

However, this premise collapsed in 1985 when, on September 23, then President Ronald Reagan announced new trade policies. The premise for the reasoning behind these new trade policies, although not explicitly stated, was that it was not the U.S. who was at fault, but unfair foreign countries, Japan in particular. As such, the new trade policies called for the creation of a strike force led by Commerce Secretary Malcolm Baldridge to "completely open" Japan's markets. Since the announcement of the new trade policies, Japan-U.S. trade friction has entered the Type 3 phase; in other words, request for "pseudo-market opening." Why do I refer to this as pseudo-market opening? Because in the case of genuine Type 1 market opening, Japan's markets were actually closed. Therefore, there was a legitimate reason for U.S. demands. However, in the case of Type 3 the industrial product markets that the U.S. demanded be open were already open, making U.S. market liberalization demands futile; they were based on a fictitious concept of a closed market.

Photo: Kyodo News Service

With the deadline for sanctions against Japan's automotive industry looming, President Clinton claims that Japan is unfair. Photo shows Ford headquarters in Detroit.

Why did the U.S. feel compelled to criticize Japan's markets as being closed? Because, due to the adoption of the slogan of a "powerful America" in the early 1980s, the U.S. government was unable to face the reality that its industry's international competitiveness was declining at that time. At that point they thought, "American industry boasts the highest competitiveness anywhere in the world so there is no way that it would lose free competition in the Japanese market. The fact that the Japanese market cannot be penetrated in spite of this undoubtedly means that Japan is doing something unfair." In this fashion the U.S. was obliged to argue unduly that the Japanese market was closed and unfair, lapsing into narcissistic contention that to open the Japanese market was the mission of the U.S. for the world economy. At this point, measures to do so took the stage: Article 301 of the Trade Act, also known as "Super 301." It differed from 201 in that the fault-bearing party was not the U.S., but rather the other party. Article 301 was, in essence, nothing more than protectionism clothed in the guise of retaliation. The assertion that this would encourage trading partners to open their markets was nothing less than hypocrisy.

Two experiences: Japan-U.S. Semiconductor Accord

The agreement on semiconductors signed between Japan and the U.S. in 1986 was typical of Type 3 negotiations between the two nations. During the talks on the accord, the U.S. requested that Japan open its semiconductor market, leaving the issue of dumping aside. The issue came about even though semiconductor imports had been liberalized in 1974, the tariffs on which had been zero. As such, there was nothing the Japanese government could do to open the market further. Some time after, I told a high-ranking member of the State Department, "A completely opened door cannot be opened wider." She replied, "But in Japan there is no one to welcome us at the door." Her reply reflected U.S. demand during the semiconductor negotiations; that any guest be cheerfully welcomed at the door. But the host has the right to choose the guest. Products that are competitive from the standpoint of quality and price will be purchased gladly, but otherwise, not. This is how markets operate.

The 1986 semiconductor accord was extended to 1996. The extension of the accord contains the statement, "The government of Japan *recognizes that the U.S. semiconductor industry expects* that the foreign market share of the Japanese market will grow to more than 20% by the end of 1992" (emphasis mine). This was not included in the body of the 1986 agreement, leading to arguments over whether it had been noted in a side letter. Whatever the case, as shown clearly by the italicized section, the Japanese government acknowledged nothing more than the U.S. semiconductor industry's "expectations." At the time, though it was probably true that the U.S. semiconductor industry had such expectations, the Japanese government did nothing more than document them. Then the U.S. government, including Congress, alleged that the Japanese government had in fact *committed* to more than 20 percent.

That the Japanese government acknowledgement of the US industry's expectations was interpreted as a commitment is curious, but what I believe is strangest here is, in a capitalist world, that Washington came up with the notion that Tokyo could somehow commit to semiconductor import shares. At the risk of repeating myself, if the Japanese government had restricted the volume of semiconductor imports or levied high duties up to now it might, to a certain extent, be possible to commit to market shares of several years thereafter. However, as already noted, semiconductor imports were liberalized in

1974, more than 20 years ago. How could the Japanese government commit the Japanese market to share with foreign semiconductors years later given these circumstances? Moreover, how could the U.S. government believe that it could even be a possibility? Their line of reasoning is perhaps the most curious aspect of this whole affair.

Action Plan for automotive parts

The "Action Plan" for automotive parts that began from the time of former President George Bush's visit to Japan in January 1992 was similar. This action plan simply noted that if the Japanese government totals each estimate of purchases of U.S. car parts and components, as announced by Japanese car manufacturers, it would be approximately $19 billion in FY1994. This estimate included both imports to Japan and amounts procured locally by Japanese manufacturers with operations in the U.S. This was no more than a tally of estimates released by each automaker and, as such, was in no way a *commitment* by the Japanese government. Despite this, the Clinton administration's cabinet members sent a letter to the trade minister at that time, Mori Yoshiro, saying that it was in fact a commitment by the Japanese government. Again, it is hard to imagine on what basis the Americans came up with the idea that the Japanese government could commit, under a market economy, to import volumes for car parts, which had already been liberalized and on which there were zero tariffs.

Framework talks

Expectations of the Japanese Bureaucracy

Regarding liberalized, zero-tariff product sectors such as semiconductors and car parts, the U.S. government reasoned that "in Japan customers held the key to import volumes in these product sectors and that they actually controlled them, so it would be possible for the Japanese government to pressure these customers to increase demand for imports." This was the basis of Washington's argument that import shares and volume commitments could be made. The electronics and car manufacturers who are the customers in these product sectors face severe international competition. Unless they use high-quality, competitively-priced imported components in favor of poor-quality, high-priced domestic parts, they would lose out to international competition. These conditions do not exist, but for the sake of argument let us suppose they did. The US would, in effect, sanction those economic conditions into the future and, additionally, would expect Japanese bureaucrats to use their influence over the private sector to achieve its *commitment*. This is clearly antithetical to the deregulation that the Japanese government is now trying to promote.

The US demanded numerical targets at the latest framework talks and it could be said that the Japanese government refusal was fortunate for the U.S. Acceptance of those targets would have tied in with the expanded influence of the Japanese bureaucracy, yet another point of U.S.criticism.

Numerical targets vs. measurement

At the recent framework talks, the Americans repeatedly said they were not demanding numerical targets, but, in fact, a measurement of the results. However, targets and measurements clearly differ. Suppose that there is a boy who is 130 cm tall. All agree that it is desirable for him to grow taller. However, agreement that he should grow taller than 170 cm in the next three years would be a numerical target. A measurement of results, however, would be to simply measure his height in three years time.

To understand the extent to which the U.S. government adhered to numerical targets in the recent framework discussions, we should review the joint announcement on Japanese car companies' plans that was issued by Ministry of International Trade and Industry Minister Hashimoto Ryutaro and U.S. Trade Representative Mickey Kantor. In section one, Kantor has estimated, on the basis of individual company plans, that North American purchases of car parts will increase by $6.75 billion by 1998. Of course Hashimoto denies this figure, stating that the Japanese government has had no involvement in these calculations. Ironically, the U.S. government has left solid evidence that it is holding to numerical targets, not result measurements.

After the tremendous contributions the U.S. has made in the defense of free trade since the end of World War II, it is regrettable that evidence remains that the U.S. has clung to numerical targets, which are diametrically opposite free trade.

Controlling the use of Article 301

Despite all this, the U.S. exhibited some good sense during the framework talks. For example, in the joint announcement, "Both Ministers recognize and understand that the new plans announced by American and Japanese companies alike are not commitments and are not subject to the trade remedy laws." This refers to the "global plans" recently announced by Japanese auto manufacturers that the plans are not subject to Article 301 of the U.S. Trade Act. Because Article 301 is used to determine whether a trading partner is engaging in unfair trade practices, it invites an emotional reaction from the target country, politicizing what should only be trade issues. I would like to praise the U.S. government for publicly stating, in writing, that it will refrain from using 301.

[1] Liberalized product sector imports' percentage of all imports, by value.

[2] Import volume restrictions on leather goods remained in place until 1980.

Note: The opinions expressed in this article are solely those of the author and do not represent the views of the Japan External Trade Organization (JETRO).

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