

Fair with Scattered Storms

What started out as economic problems between Japan and the United States have now developed into political problems—which means that they can no longer be treated with purely economic remedies. The very interdependence that is one man's cause for hope is another's cause for worry. The fate of the relationship in 1988 will depend largely on what happens in the United States, but it is possible for Japan to influence the course of events. This theme is explored in the following dialogue arranged by the *Journal* between Jiro Ushio, chairman of Ushio Inc., and James Abegglen, director of the Graduate School of Comparative Culture at Tokyo's Sophia University.

Abegglen: Japan-U.S. economic relations were rather rocky in the second half of 1987, but these were not corporate-level problems. They were government-to-government problems, and I doubt if there is very much that individual companies can do about them.

At the corporate level, direct investment may eclipse trade as a source of friction in 1988—especially in view of the exchange rate, the various trade barriers that are compelling local production, and the rest of the factors involved. Automobiles, electronics and a number of other Japanese industries are investing on a large scale, but I wonder if they will be as successful with local production as they were with exports, especially considering the very different labor situations in the two countries.

Ushio: Cooperation is going very well at the corporate level. It is the governments that are having trouble. Thirty percent of Japanese exports to the United States are OEM or products manufactured by subsidiaries of U.S. firms. Business relations are doing very well—surprisingly so considering the different cultural backgrounds—and things would go much more smoothly if the trade reports did not keep stirring people up.



Looking at the year ahead: James Abegglen (left) and Jiro Ushio

Abegglen: I agree that the trend is toward better relations, but many U.S. companies are not very internationally minded. American management is very critical of Japan. They are hurting, and they are quick to lash out at "unfair" Japanese competition.

Ushio: Many small Japanese companies are also having trouble because of the international economic integration, and their first impulse is also to run to the government for help. In fact, one of the major constants of history has been this trend for small players to want to politicize business to stop the tide of internationalization.

Still, things would probably be very different if the trade balance were in equilibrium, or if it were the United States that were running the surplus.

Perception lag

Abegglen: Yet the figures indicate that the trade friction per se peaked in 1985-86. Japan's exports since then have been tapering off and shifting to fields where they do not cause unemployment in the United States. However, given the time lag between economic realities and politi-

cal perceptions, we may see the political problems peaking in 1988. With the new administration in Japan and the elections in the United States, things are pretty much out of business' hands.

Ushio: Some friction is inevitable with so much trade between two such big economies, but the nature of the friction is changing. First, it is shifting from low-tech to high-tech fields. Before it was in traditional fields such as textiles, and the problem was one of adjusting existing capacity. Now it is in frontier fields such as electronics, and the need is to coordinate planning of new capacity.

The second change is that the friction is tearing at the basic social fabric and the Japanese government's political base. Disputes over oranges, beef and other peripheral products are on the way to being solved, and the focus has shifted to rice. Rice used to be off-limits by common consent, but now there is talk of including all agricultural products in the Uruguay Round and eliminating subsidies even for staple foods.

And third is the increasing linkage between trade and security. The two used to be separate, but, as seen in the FSX (Japan's next-generation support fighter)

and Toshiba issues, the United States now sees them as linked.

Abegglen: The increasing economic interdependence makes it impossible to be independent in any other area. So unless Japan wants to move closer to the Soviet Union or China, it has no choice but to move closer to the United States.

Ushio: No one I know is talking about going into the socialist orbit. Japan is very egalitarian, but it is also very competitive. To give you an idea of the egalitarianism, the income ratio between the top and bottom fifths of the population is only about 1:2 in Japan but it is about 1:9 in the United States—both before taxes, and the difference would be even more striking after taxes, since Japanese taxes are much more progressive than American taxes are. This competitive egalitarianism is one of the reasons for Japan's success.

Japan used to concentrate on the economic issues and leave defense alone. Now we find that our advanced technologies have produced consumer goods that also have military applications, and the United States is sounding as though it wants to shut down our free-market capitalism for national security reasons. This has a very strange ring to people who know how important the free market was for Japan's growth.

Abegglen: I think you can look for the United States to be less unilateral and more consultative as its relative position changes—even though this may also mean a loss of American credibility with the average Japanese.

Pacific Common Market

Ushio: The two countries are already highly integrated economically, and now we need to promote political and military cooperation—two-way cooperation—as well. That is why I have suggested a Pacific Common Market starting with Japan, the United States and Canada, and then expanding to include Australia and the Asian NICs. Europe is moving beyond economic unity to political unity, and it is time we at least had a common economic market in the Pacific too.

Abegglen: I think you are going to have trouble there. If the United States and

Canada cannot even agree on a free-trade pact—and I do not think the current effort is going to be ratified—I do not see how you can expect the United States, Canada and Japan to agree. Rather, I suspect the next U.S. administration will be even more protectionist or isolationist. The United States will be weaker fiscally and weaker in security terms, which will in turn weaken America's credibility. And this will inevitably push Japan toward a more independent line.

Ushio: Even if Japan is more independent, it will still be in an alliance with the United States—like Britain and France. That is why I hope the United States can reduce its budget and trade deficits. The next president will need to raise taxes and cut spending—and there is considerable question as to whether or not he will be able to persuade the American people to accept a lower standard of living.

Popular products

Abegglen: If he wins by a landslide, he can use the honeymoon to push some unpopular programs through, but even that depends on the balance between the White House and the Hill.

Still, the fact that Americans continue to buy Japanese goods makes it look like most of the objections are in Washington. They are screaming inside the Beltway, but the average American is voting with his pocketbook in favor of more imports from Japan.

Ushio: I suspect the furor is because politicians in the United States—and Japan—have to put special interests and local interests first to get elected. And then once they are elected, they find out that it is very difficult to find a political solution to trade friction.

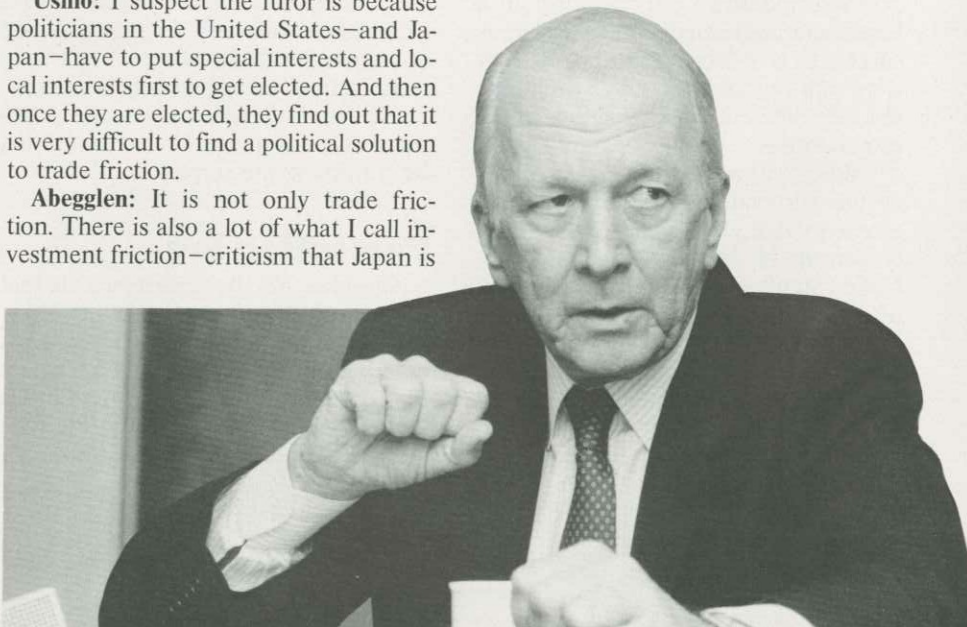
Abegglen: It is not only trade friction. There is also a lot of what I call investment friction—criticism that Japan is

using unfairly won profits to buy U.S. companies, properties and facilities. I suspect the trade problems will work themselves out, and I am concerned about the political issues. Investment arouses passions just as strong or stronger than trade does.

Ushio: In part, this is because the Japanese companies in the United States tend to be concentrated in a few areas. The automakers and auto parts makers, for example, should spread out more. Not knowing any better, they tend to follow the leader. Ninety percent of Japanese investment and tourism is in California. This is partly JETRO's fault for not providing information on more sites, but it is also partly timidity on the part of the investing companies.

Abegglen: Americans also have this same herd instinct, but Japanese seem to have it in spades. When Kenji Osano bought that hotel on Waikiki, he was the first Japanese hotelier there. Within a year, all of the hotels along the beach were Japanese-owned.

Ushio: A Japanese company investing in the United States should try to be a normal part of the community—neither holding back nor going overboard. The community is very important. Japan is much more centralized, and we have been aware of the political power of individual states in the U.S. only for the last year or so. For example, the federal government was unable to do anything about the unitary tax.



Abegglen: Even with the stabilizing influence of states where Japanese companies are investing, things could be very volatile over the last year of Reagan's lame-duck presidency. My main worry, however, is that the Japanese will assume that these are all economic problems and will forget that we need political responses to political issues. We talk about the politicization of economic problems, but you can also have the "economization" of political problems.

Ushio: I agree. This year 1988 will be a year of emphasizing fair trade—even when "fair" includes reverse discrimination such as awarding contracts for work on the new Kansai International Airport project.

Abegglen: Most Japanese feel—and I agree—that the current imbalance is mostly America's fault, but that is not politically palatable in the United States. We need some dramatic, symbolic gesture on Japan's part to placate emotions and turn the tide. Still, it is important that this movement on the Japanese side not be seen as a response to American pressure.

Ushio: Japanese imports of manufactures are already up sharply—the latest figures putting manufactures at 40% of all imports—but that is not getting the publicity which it should, partly because most of the growth has been from the Asian NICs and Europe and not from the United States.

Abegglen: If these other sellers can increase their exports to Japan, why not the United States? It looks as if American companies are not selling aggressively. Of course, there is the quality problem, but that is not the whole answer. There is just no American sales effort. The United States has a vast domestic market that has traditionally lulled people into neglecting exports.

Ushio: Still, American companies are very good at marketing when they want to. The mail-order business, for example, was introduced from the United States. The U.S. is good in the services sector—and not very good in manufacturing—but it is very domestic-oriented. U.S. strengths in design and marketing are not being exploited in Japan.

Abegglen: And even in manufacturing,

the United States is not a total washout. There are a number of U.S. products that should sell well in Japan—big bath towels, furniture and other everyday things come to mind—but they do not.

Ushio: I agree that the U.S. should be doing better. The cliché has it that the Japanese are good at manufacturing and the Americans at marketing. So when you combine the two—as you do with Japanese products sold in the United States—the result is predictable success.

Abegglen: We have a vicious circle in the United States. Businessmen who think the Japanese market is closed do not try, and that reinforces their impression that the market is closed. Of course you are not going to succeed if you do not even try.

Ushio: It has become more and more obvious that the Japanese market is not closed. There has been a tremendous boom in imports from Asia and Europe—but not from the United States.

Capital-induced myopia

Abegglen: The Reagan years have seen a tremendous boom in U.S. demand. But capital costs were so high—because capital demand was high and savings were low—that it was cheaper for business to buy overseas than to invest in new production facilities in the United States. With lower capital costs, the Japanese were able to invest heavily in new production facilities in Japan. That is why you were able to profit from the boom—and why I do not see any massive deindustrialization happening in Japan. Japan is moving some production overseas, but not the really high-value lines.

Another difference is what you might call the business culture gap. Japanese companies want to export even if there is no profit in it. Americans want to withdraw if there is no profit.

Ushio: There are a lot of factors involved in this Japanese decision to continue exporting on narrow margins. Partly it is to maintain employment,

partly it is to maintain market share, and partly it is to be able to say that we are in an important market. It is a willingness to ignore the short-term bottom line for long-term position.

Abegglen: But it is not without economic rationality. The cost of capital in the United States was 14–15% real per year. Capital costs were about half that in Japan, so you could afford to think long-term. American management is criticized for being short-term, but given these capital costs, what choice do they have?

And if things get much worse, the United States will have to raise interest rates to draw in the international capital it needs to finance its deficit spending, which will lead to an even stronger aversion to long-term risks. I am not very optimistic about the next five years.

Ushio: America has got to get its act together, but what can Japan do to help? When you think that the United States may be in debt to the tune of \$1,000 billion by 1991 . . .

Abegglen: And it will be, unless the United States raises taxes and cuts spending. And then you will have American management continuing to act in line with capital costs plus the cultural biases.

Ushio: We learned modern management and production techniques from the United States after the war, but now we find the United States ignoring its own teachings. It is not a very encouraging situation. 