

# Coping with Trade Friction

In this broad-ranging interview, JETRO president Shoichi Akazawa sums up the principal changes taking place in the trade friction arena.

Beginning with the U.S. political scene, Akazawa predicts that foreign policy, defense, and other non-trade issues may help downplay U.S.-Japan trade friction as a presidential campaign issue.

Nonetheless, he asserts trade friction is becoming an increasingly deep-seated problem as its main foci shift from specific products to structural and systemic issues. Akazawa notes that world trade has become a complex web of interdependent industrial activity in which certain seminal problems need to be rationally resolved before they become major trade issues. In this connection, he suggests that "trade friction" could better be termed "industrial friction."

As for the Japanese market, Akazawa is hopeful that more foreign exporters will realize that market structures and consumer preferences naturally vary from nation to nation and that the successful exports to Japan are generally those which have been carefully adapted to suit Japanese tastes. Calling trade a "people problem," Akazawa points to JETRO's grassroots efforts and local government arrangements such as sister-city programs as ways of boosting intercultural understanding as the basis for improved ties and long-lasting peace and prosperity among the world's traders.

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Shoichi Akazawa,  
JETRO president

**Question:** *It seems to be the pattern that trade friction is intensified, or at least more of an issue, in presidential election years. What is the outlook for 1984?*

**AKAZAWA:** Generally, that has been the pattern, and this year promises to be no different. However, there are a number of non-trade issues such as foreign policy and defense which should figure more importantly in the campaign than trade does. In foreign policy alone, there are relations with the Soviet Union, the nuclear arms issue, and a number of regional problems in Central America and the Middle East that are very divisive. For example, the question of whether or not to withdraw from Lebanon is likely to be a major campaign issue. So it is still too early to tell how important relations with Japan—and especially U.S. trade relations with Japan—will be in the campaign. Still, it would be unreasonable to hope that trade with Japan will be completely overshadowed by these other problems.

**Q:** *Looking just to the immediate future, the beef and citrus fruit import quota agreements expire at the end of March, and pressure is building to bring the yen and dollar into better alignment. Depending upon how these and other issues are solved, they could have major repercussions for the overall relationship.*

**Interview with Shoichi Akazawa, president of Japan External Trade Organization (JETRO)**  
by Ryohei Akai





**"Many Americans are looking for more investment by Japanese companies"**

**AKAZAWA:** There have been numerous exchanges of views between the U.S. and Japan on agricultural imports, but agricultural trade is not just a problem between Japan and the U.S. It is also a major sticking point between the U.S. and the European Community. Japan and the United States will have to work their way toward a compromise with one eye on the global context and the ramifications for other countries. I do not see either side emerging as a clear-cut winner or loser on the agricultural trade issue.

The yen/dollar question is a very complex issue with a great diversity of views, and I do not see how it can be decided in just one or two meetings. While I would not be surprised if the issue shifted to discussions of further deregulation of Japanese financial markets, this is not something that lends itself to immediate solution either.

**Q:** *The state of the U.S. economy also seems to have an important bearing on trade friction, since the heat seems to be lower when the U.S. economy is doing well. What is your forecast for the U.S. economy and the impact it will have on trade friction?*

**AKAZAWA:** Even though U.S. unemployment is less than it was before, it is still very high, and the trade deficit last year was nearly US\$70 billion. However, I expect the U.S. to achieve the 4.5-5% real growth that is generally predicted, and this can only be good for the employment picture.

But unemployment is not that quick to respond to a recovery. As pointed out by Detroit's Mayor Young, just because auto sales have picked up does not mean that the laid-off workers are called back to work. There is a very real and very important question of how to create new jobs and how to encourage new industries.

In this sense, many Americans are looking for more investment by Japanese companies to create greater employment opportunities in the U.S. One of the best ways that Japan can cooperate with the United States and contribute to the growth of the world economy is to invest in the U.S. and to create new jobs there.

But in looking at investment in the U.S., Japanese companies run up against the problem of the unitary tax. This is an issue that Prime Minister Nakasone has raised with President Reagan and that the Keidanren (Federation of Economic

Organizations) is also working on countering. This is a very important problem, and one which may well develop into the prime barrier to investment in the U.S. But all of the court challenges to this unitary tax so far have been rejected by the courts, and there is a definite need for an Administration initiative on this.

**Q:** *Quite aside from the presidential election, economic trends and other short-term considerations, the focus of trade friction seems to be shifting from specific-product problems to structural and systemic problems.*

**AKAZAWA:** This same point was made by Shinji Fukukawa (MITI Deputy Vice Minister) in the January issue of the Japanese-language *Tsusan Journal*. He pointed out three major changes in trade friction recently. The first is that trade friction has transcended issues of specific products and is now a complex intermesh of diverse issues acting and interacting together. The second is that the foci have moved from such littoral issues as tariffs and standards and inspections to such heartland problems as industrial policy and macroeconomic management.

And the third is that there is greater concern with high-technology fields. In fact, some people are arguing the need for preventive measures before this develops into an issue of contention. I quite agree with this. I don't know what sort of preventive measures are in order, but I do know that there is a definite need to be discussing these issues in the long-term perspective.

**Q:** *Is part of the problem that the two countries' industrial structures have become more sophisticated and, in parallel with this, more interdependent?*

**AKAZAWA:** Friction is usually spoken of as trade friction, and epitomized by the trade imbalance. But I think it could better be termed industrial friction. As the pace of technological innovation has accelerated, there have been changes in the industrial structures in all countries. At the same time, there has been an increase in international economic interdependence. And this combination of changes in the industrial structure plus heightened interdependence inevitably gives rise to friction.

In the short term, this friction seems to be focusing on different products demanding different responses, but in long-term essence it is underlain by the continuing structural change accompanying technological progress. When you consider that all countries will continue to become increasingly interdependent as long as world trade continues to grow, simply solving one or two of its manifestations is not going to end friction.

**Q:** *You make it sound as though we have about run out of easy problems and now comes the hard part.*

**AKAZAWA:** You're right that there is no time to rest and congratulate ourselves on settling a problem, because there are always more problems waiting in line to be solved. We need long-term discussions and patient communication to work out and implement long-run solutions. And this is not just something Japan, the United States or Europe has to do. It is something we all have to do in both bilateral and multilateral forums, leaders from all sides sitting down together to work



Japanese Prime Minister Yasuhiro Nakasone raised the unitary tax issue during his talks with U.S. President Ronald Reagan.

**"Trade friction has transcended issues of specific products"**



P R O F I L E  
out solutions that are in everybody's long-term best interests.

**Q:** *Have negotiating styles reflected this change?*

**AKAZAWA:** There has been some change recently, but many U.S. demands and positions still lend themselves to being viewed by the Japanese press and other observers as "foreign pressure." But when something like this is viewed as pressure, there is a natural reaction on the Japanese side to resist. Agricultural imports are a good example.

This is not a time when nations should be engaged in pressure and counterpressure. Rather, it is a time for thorough discussions and full communication of views in a cooperative search for the best solution. In that sense, I think it would be quite in order if Japan took a more active part in these discussions, fully aware of the global economic circumstances and unhesitating in speaking its mind. And I think that Japanese business leaders are coming around to this viewpoint.

In this same connection, I think it is important that other countries also realize the negative aspects of pressure. There seem to be some people in the United States who think that pressuring Japan is a good way to win concessions, and these people should realize that it is not only not the most effective way to achieve their ends but is counterproductive.

There was a joint recognition by the U.S. and Japan in the late 1970s that our two nations are equal partners in trade, and it is imperative that the two sides sit down as equal partners and cooperate in working out the best way to maintain the partnership's vitality.

**Q:** *Japan has already made very considerable efforts to further open its markets and institutions. Tariffs are down and non-tariff trade barriers have been largely dismantled. But these changes are largely ignored overseas because they are not "dramatic." More apparently needs to be done to get across the changes that have been made and are under way in Japan.*

**AKAZAWA:** I quite agree. There may still be some room for improvement in Japanese market liberalization, but there is also a need for more understanding on the part of our trading partners. For example, there is criticism of the Japanese distribution system as complex and intractable, but this system has evolved in response to its own historical needs.

Different consumers in different countries require different market structures, and it is unreasonable to say that something is a trade barrier simply because it is not the same as in the United States or Europe.

The same is true of products. There have been some consumer goods that I've thought had import potential, but further study showed that it would probably take a year or two working with the overseas manufacturer to modify them and adapt them to Japanese consumer preference. Just because a jam, for example, sells well in the United States doesn't mean it's going to sell well in Japan. Even if the jam suits Japanese palates, Japanese refrigerators don't have the room for those big jars that are popular in the United States. People won't buy it unless it is a smaller container and unless it looks attractive. You can't

just import something as is and expect it to sell in the Japanese market. You have to make changes—subtle changes perhaps, but nonetheless changes—to adapt it to the Japanese market.

Call it consumer psychology or whatever, but different people have different preferences, and you can't bludgeon people into buying something. It may well be that the Japanese market imposes special demands on a product, but these are imposed by the consumers in a free market, and there is nothing the government can or should do about them. Any exporter who wants to succeed in the Japanese market has to make the effort to produce products that will appeal to Japanese consumers. JETRO is glad to do what it can to help, but success or failure is basically up to the manufacturer.

**Q:** *Given that market opening is also to Japan's advantage and is an indispensable part of Japan's internationalization, what are some of the most important points that have to be considered?*

**AKAZAWA:** The idea that there is no progress where there is no competition is basic to free-market economics. Protectionism inevitably redounds to the protected industry's disadvantage.

Of course, though, even this competition should be considerate of other people's situations and careful to leave room for other companies. If need be, it would not be amiss for the competitors to get together and agree on ways to keep their competition within bounds. This is also basic.

As it is, Japanese markets are now fundamentally, if not completely, liberalized. Yet there are differences, and it is important that would-be exporters to Japan understand these differences—including the ways in which the largely Westernized Japanese lifestyle is different from lifestyles in the United States and Europe, consumer preference differences, and distinctively Japanese industrial structures.

Here, JETRO can help. With 11 offices in North America, 25 in Europe and 42 elsewhere around the globe, we are ready, willing and able to provide a wealth of information on the Japanese economy and lifestyles. When I was in the United States recently with the Japanese Market Access Promotion Mission, I tried to stress that Japan is the world's second-largest market and to invite people to come to Japan to see for themselves. In meeting after meeting, I asked people to come and get a first-hand feel for the Japanese market. If they still have questions, come to JETRO. We have market maps and guidebooks, and, as I've said again and again, we're glad to serve as sherpas in your assault on Mt. Japan.

Another thing that we're working on this year is local-government efforts to expand trade. Many Japanese cities have sister-city arrangements with foreign communities, and I don't see why they can't be expanded to encourage trade in local products. There is no reason why these sister cities could not be centers for the best that each other has to offer. Anything that could be done along these lines would contribute greatly to strengthening the bonds between the cities' citizens. I see trade as basically a people problem, and that's why I'm trying to promote this as one way of encouraging greater grassroots involvement in transcending trade friction.

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