

Japan-U.S. Trade Friction and Prospects for the 21st Century



Tatsuzo Mizukami

**Interview with
Japan Foreign
Trade Council, Inc.
Honorary President
Tatsuzo Mizukami
by Takayoshi Hamano**

Trade friction is a worldwide problem and in this interview Tatsuzo Mizukami discusses Japan's share in the debate. A leading figure in Japan's trade circles, Mizukami served as president of the Japan Foreign Trade Council, Inc. from 1974 to this May. He suggests that the world trades multilaterally but doesn't think internationally. A change of policy and a change of thinking seem called for.

Question: With its lack of natural resources and desperate need to rebuild after the devastation of World War II, Japan's only option was to export, and Japanese industry concentrated on manufacturing low-cost high-quality products for export.

Yet these same exports are often cited as one cause of the current trade friction with much of the world. What is your perception of the trade controversies in which Japan is now embroiled, especially with the United States?

Mizukami: There has been too much emphasis on the bilateral trade imbalance between Japan and the United States. Trade should be viewed in the global perspective, and in this multilateral sense trade balances. I've been involved in trade one way or another for more than half a century now, and it has been my experience that there is bound to be some imbalance in the bilateral accounts. Rather than trying to balance the bilateral figures, we should be more concerned with evening things out multilaterally.

Currency exchange rates are the key to this global balance. There was a time before, and even during, World War II when currency exchange rates were allowed to find their natural level without regulation. Back when the yen was pegged at ¥360 to the dollar, I argued that the yen was undervalued and that it should be appreciated to reflect its true value.

Exchange rates are not functioning as they should today because they are affected by too many artificial elements. For example, even though we are working with floating exchange rates, the excessively high interest rates in the United States are attracting capital and keeping the dollar overvalued. In turn, this has sparked a rapid increase in U.S. imports and severely crippled U.S. exports, leading to the trade imbalance which is so disrupting the world economy.

There is also a problem in how the Japan-U.S. trade imbalance is perceived. Even though the United States' trade deficit with Japan has increased in absolute terms, it is now a smaller percentage of America's total trade deficit. Japan's share of America's trade deficit has dropped from 45% in 1982 to 30% in 1984. Still, even at 30%, this is \$36.8 billion, and I would by no means want to suggest that this is a negligible figure. It is just that the percentage trend tends to be overlooked.

Q: The grumbling about Japan in the U.S. Congress is taking on an ominous tone. How do you answer the accusation that the Japanese market is closed?

Mizukami: It is true that the Japanese market is not completely open. We definitely need to make our standards and regulations more equitable and easy to understand. In the late 1940s, when textiles accounted for the bulk of our

exports, I urged that we open our market to foreign competition. As you can probably guess, this was not a very popular line with Japanese manufacturers, and it still isn't.

Japan's market-opening measures continue to be reactive. We are not taking the initiative here. Concessions are being made only reluctantly, with Japan giving as little ground as possible in the process. People realize intellectually that free trade is to everyone's advantage, but they remain unconvinced at the gut level.

One of the problems that still has to be confronted is that of customs tariffs and related issues, including non-tariff trade barriers and administrative guidance. Japan's tariffs are much lower than they used to be, especially for manufactured goods, but there are still some items where the tariffs are unusually high for an industrially advanced nation. Tobacco products are one example, and bananas are another. The tariff on cookies is over 20%. These are not luxury goods. They are everyday items, and having such high tariffs on them somehow belies our claim that Japan is an industrially advanced nation. If it were up to me, there would be no tariffs at all on manufactured goods. Emergency safeguard provisions should afford ample protection. Trade is Japan's lifeline, but our tariff system doesn't reflect this.

Among the much-complained-about non-tariff barriers, our standards and certification system are a major source of trouble. I am not saying that we should do away with all standards and certifications. That wouldn't be realistic. But we could ease up on the requirements and make them easier to meet.

As for administrative guidance and bureaucratic roadblocks, many foreigners perceive discrimination where none is intended. They do all of the paperwork and it gets rejected because of some minor procedural technicality. Even though that may not be the conscious intent of the official involved, this is easily perceived as deliberate stalling.

Q: *Given that Japan's external economic policies have been primarily reactive to date, what do you suggest be done?*

Mizukami: The Trade Charter drawn up by the Japan Foreign Trade Council, the Japan Chamber of Commerce and Industry, and JETRO (Japan External Trade Organization) in 1959 clearly stated that imports must come first. Lacking natural resources of its own, Japan needs to import. Imports are crucial to our very survival, and they are obviously the first priority.

I know there is a lot of talk about export regulations and voluntary restraints, but I would not want to do anything that went against the spirit of free trade. That is why I think orderly marketing is so important. A lot of the problem could be solved with more orderly exports to avoid suddenly inundating markets, possible dumping, and things like that. All too often in Japan's case, as soon as one company succeeds in a foreign market, all the other companies pile in because

they don't want to get left behind. Then the local politicians get involved and the whole thing snowballs into an international cause célèbre.

Q: *Japanese exporters have claimed that they are not flooding other markets but are simply responding to the market demand.*

Mizukami: That's where these non-trade factors such as exchange rates come into play. There are some Americans who maintain that the United States—with its high interest rates and all—is responsible for at least two-thirds of its trade deficit with Japan, with Japan responsible for the other third.

Q: *What should we do about that Japanese one third? You've already said that exports should not be regulated. What about the suggestion that there should be an export tax with the money used to help promote imports or restructure import-threatened industries?*

Mizukami: That's a non-starter. I'd rather see industrial policy overhauled to wean these industries from their export-dependence. If these export industries were unique to Japan, they could contribute to higher standards of living worldwide and there would be no problem. But they're not. They're competing with other companies all over the world, and it's time our industrial policy reflected this reality.

Q: *If we are not going to control our exports, the only alternative seems to be to increase our imports. Manufactured imports still only account for about 30% of all Japanese imports, despite the boost from lower oil prices, and this is considerably less than in the United States and Europe.*

What should we do to increase our imports? Prime Minister Nakasone has urged everyone to buy \$100 worth of imported products. It seems to me we need a short-term policy to mollify Congress and a long-term policy to effect basic structural reforms.

Mizukami: The \$100 policy is just a symbolic gesture—a Band-Aid solution. In the final analysis, we have to open up our markets. As long as our markets are closed, importers are discouraged from making the effort they need to make and purchasers do not have access to the products. We need to open our markets and let the rest of the world know we're serious.

Q: *The World Import Fair held in Nagoya from March 21 to April 14 this year was quite a success. Foreign companies were selling their products at cut-rate prices, and people were lining up to buy them. With this popularity, it is little wonder that foreign companies feel their products would sell well in the Japanese market if only market access could be improved and their costs lowered.*

Mizukami: I noticed the same phenomenon at the Made in U.S.A. Fair in Nagoya just before the World Import Fair. Too often, however, such expositions have little effect on the import situation, even though they do provide exposure for overseas products, because the foreign companies do not do the necessary follow-up.

In sponsoring these trade fairs, JETRO is also working to line up agents for the overseas manu-

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facturers. Most of the people who complain about Japan's markets being closed don't realize how much groundwork is needed to be a successful exporter. A lot of these would-be exporters are not really export-minded, and they don't want to make the effort. It took us at least 35 years to bring our exports to their present level. We did our market research carefully so we would know where the markets were for what. We didn't just sit back and let the foreign wholesalers and importers tell us what the local market situation was; we checked it out for ourselves.

Q: *There are some exporters who know what it takes. Lacoste, for example, has been very successful in selling its sportswear in Japan because it did extensive market research and tailored its products to the Japanese consumer. It sells completely different designs and color schemes in Japan and, say, the United States. Unfortunately, however, this kind of diligence is not yet the norm.*

If foreign companies would make the same kind of effort Japan has been making for the past 30 years, they would be able to sell their products here. For our part, we could help by making more of an effort to explain the workings of the Japanese market.

Mizukami: We've been sending out import promotion missions to do just that for the past 13 years. This is an extraordinary record, but we can't do the whole job ourselves.

Q: *Extrapolating from present trends, it has been estimated by one research institute that Japan's international balance of payments will be \$400 billion in the black by the 1990s. This is an OPEC-sized problem, and we need to do something drastic to stem this trend. We need to develop policies that will reverse our export dependence and encourage domestic consumption. But first our government finances need to be put on a sound footing.*

Mizukami: I doubt we would ever get as high as \$400 billion, but I agree there's still plenty of room to increase domestic consumption. This includes government purchases of goods and services, personal consumption, and plant and equipment investment.

Government spending, of course, runs into the problem of budget deficit, and there isn't much room to maneuver there. On plant and equipment investment, investors need some kind of a tax break. In the long run, tax breaks to promote new and renovation investment are going to end up enhancing tax revenues. That's what Reaganomics is all about, and it seems to be working. Japan is at the stage now where we could benefit from similar tax cuts.

Encouraging personal consumption also calls for some kind of tax reform. Japan's income taxes are awful. Right now direct taxes are 70% and indirect taxes 30%. This ratio should be reversed, or at least balanced fifty-fifty.

Q: *Yet the Ministry of Finance estimates that even a \$20 billion tax cut would boost imports by only about \$700 million.*

Mizukami: This isn't an accounting question. It's a policy question that has to be answered. If

the reforms are made, the results will show up.

Q: *Japan has a high household savings ratio—17.8% as compared to only 5% in the United States—and a number of people have been asking if there isn't some way to direct this toward domestic consumption.*

Mizukami: There's an old adage in Japan that provision made is angst saved, and I expect that's true in any country. The problem is that our capital stock is inadequate at both the national and the personal levels. With insufficient capital stock, people worry about the future. At an unconscious level, there is considerable anxiety about our long-term security. This is basically a defense issue given our uncertainty about the future.

And then there's housing. Japan is way behind other countries in housing. Even if we don't have to worry that much about food and clothing, we do need to save a lot to build or buy a home.

Education is another problem. Families are having fewer children, but it is costing more and more to educate them. Education is taking an increasingly large share of our total living expenses.

With all of these expenses, Japanese need to save more, and it is wrong simply to say that Japanese save too much without looking at the reasons why.

Q: *With the 21st century only 15 years away, what do you see as the most important issue for the future?*

Mizukami: Looking ahead, we—and by we I mean not only Japan but everybody everywhere—need to cooperate more on nation-building and human resources development. There needs to be more investment in the Pacific region and other developing areas. Itself a Pacific country, Japan has a responsibility to encourage this region's growth. The Pacific region already accounts for more than 40% of the world's economic activity, and its population diversity, cultural riches, and abundant resources give it considerable potential for still further development.

Q: *Right now Japan is preoccupied with its trade problems with the United States. But in the long-term perspective, it is obvious that we should pay more attention to the developing countries, particularly in the Pacific region.*

I think it was the novelist Ariyoshi Sawako who once said that there are two types of people in Japan who think in terms of centuries—one being the businessman and the other being the landowner who plants trees—and that the rest of us can't see any farther ahead than our noses. Since you're one of the farsighted ones, how do you see Japan's future in this increasingly interdependent world?

Mizukami: I am very optimistic so long as one condition is met, and that is that we base our policies not just on what will benefit Japan but what will benefit the whole world. As long as we remember that we're just one part of the larger international community, we should be all right. Otherwise we're in trouble. ●