

U.S.—Japan Trade Dispute

By Joanna Pitman • The Times, London

In my view the U.S.—Japan trade dispute within the automobile industry of last June 1995 displayed one fundamental and significant change in the economic and political relations between the two most powerful economies in the world. This change was embodied in Japan's new negotiating maturity. Japanese officials appeared—perhaps for the first time—to be fighting a grown-up game by universally accepted rules. By contrast, it was the U.S. that appeared to be trying to pull special favors.

The dispute, as most readers of this magazine are no doubt aware, centered on Washington's threat to impose 100% tariffs on Japanese made luxury cars sold in the U.S. unless Japanese auto makers agreed to buy more U.S. made car parts.

In response, Tokyo's position was made abundantly clear. Publicly, the Ministry of International Trade and Industry was occupying the moral high ground. It staked out a position, confident of its legal support by the World Trade Organization and a degree of unofficial support from European observers. Japan was standing firm on internationally recognized grounds which stated that such tariffs would be unlawful. In my experience, Japan had seldom before been so sure of its position. And privately, officials were enraged and contemptuous of the U.S. Administration's approach to the dispute, the way that President Clinton was using it, the Japanese argued, as a political tool to enhance his administration's domestic prospects in the early stages of the next presidential election.

The dispute, as I recall from meetings with MITI officials and auto trade executives in Japan in June, was ugly. Some commentators on the Japanese side were calling for possible retaliation. "No American president has ever done anything so stupid. This is a clear violation of WTO rules. This is part of Clinton's election campaign. Unfortunately we may have to hit back with something that might damage him personally," one executive told me.

Japan's stance in its many years of trade disputes with the U.S. is I think changing. No longer is Japan prepared to play the role of the inferior party, dependent on for-

ign markets and on the good will of foreign governments. No longer is Japan prepared to bow and apologize quietly, then promise to make amends and then go home and proceed to do nothing, as often seemed to be the way in the past.

Japan appeared to be ready to hit back, targeting as starters the chemical industry in Arkansas in which U.S. President Bill Clinton has a personal stake. However, having called WTO rules into play for its counter charge against the U.S., it was always unlikely that Japan would have gone ahead in the end to retaliate in such a public fashion unless sanctioned by the WTO—an equally unlikely outcome.

However, the threatened tit for tat swiping, if it had begun in earnest in June, could have been extremely damaging to international trade flows in general. More disturbing, I believe, is the fact that Japan's newfound bargaining maturity has highlighted the gap—cultural as well as political and emotional—that is clearly developing between the two most powerful economies in the world.

If the psychological distance between the U.S. and Asia is widening, that is of concern to the whole world. America is perhaps less aware than it should be of just how much credibility it has lost in Japan and also in other countries in the region, many of which trade with the U.S. and were therefore monitoring the dispute with great interest.

Perhaps it is inevitable that the dramatic shift now occurring in the world's power balance should result in frayed tempers. After all, the traditional approach was war. Today, however, the fallout is the unfortunate linkage between trade and geopolitical and electoral considerations. These have been evident ever since Richard Nixon in 1971 used the return of Okinawa as a bargaining chip to extract an agreement from the Japanese to limit textile exports to the U.S. in order to win votes from southern textile workers.

The view from outside, often expressed with vehemence in Congress, has traditionally been that these is something uniquely underhand and unfair about Japanese business practices. The inference is of subsidies, dumping and trade barriers.

Yet these days, in the pot and kettle

slinging match that passes for international trade politics, Japan has a reasonably defensible complexion because Western governments have placed an increasing proportion of Japan's exports under quotas, special tariffs, and "voluntary restraints" in the name of protecting the jobs of their electorates.

In strictly legal terms, the Japanese may be justified in claiming their market to be one of the world's most open. But it is also one of the world's most difficult to crack. Japanese businessmen will insist on speaking Japanese, a language in which foreigners usually have little facility. Consumers are extremely demanding because fierce competition between domestic producers has led them to expect the highest standards of design, reliability and service. Foreign products too therefore have to be of extremely high quality and carry extremely good service back-up to sell in Japan.

So as the world's consumers keep on buying Japanese products, Japanese consumers are not buying up foreign products with quite such avidity. Why? The standard view in Japan is simple. Foreign goods are not competitive. Foreign businessmen in Japan do not try hard enough.

It is a view that cannot easily be discounted. European and American companies have not generally put much effort—nor the huge resources required—into the world's second largest developed market, believing it to be too exclusive or too complicated. There are a few exceptions in foreign firms that have done well, including Coca Cola, IBM, Lipton's and BMW all of which have invested large resources in a long-term approach to the market.

American auto makers by contrast have not done so well, having perhaps failed sufficiently to tailor their product to the market or failed to invest in expensive distribution networks or suitable tie-ups with local firms. And it is this realization, I suspect, that has always been at the nub of this particular U.S.—Japan trade dispute. While the U.S. is regressing into blaming others for its ills, Japan is displaying a welcome new maturity of approach. And if Japan stays the course with this, it should be applauded. ■