

The Rights and Wrongs of the Japan-U.S. Auto Dispute—an Australian View

By Robert Garran • The Australian, Tokyo correspondent

Australia, like other car exporting nations, faced a diplomatic dilemma in last year's dispute between Japan and the United States over car trade.

The protagonists are Australia's two best and biggest friends, so it was difficult to decide which side to back in the brawl, even though Australia had vital interests of its own at stake.

In the end, the Australian government's official response was to sit on the fence, to say it favored neither one side nor the other.

But between the lines it was clear the government had more sympathy with Japan than with the U.S.

There was great relief within the government and among carmakers at the outcome of the dispute, especially the failure of the U.S. to impose 'numerical targets' on the level of motor imports into Japan.

Until this issue was settled at the eleventh hour, there was always a risk the dispute could escalate into a trade war that would damage trade not just between Japan and the United States but other trading nations as well.

U.S. success in the talks would have been almost as worrying as the risk of a trade war. Notwithstanding claims that any reduction in trade barriers would benefit all trading nations, the realpolitik of the dispute posed a serious risk that American exporters would have gained at the cost of other exporters.

The fear was that this would occur not because of any superiority in quality or price, but because of efforts by the Japanese bureaucracy to minimize pressure from America.

It is another case of what eminent trade theorist Professor Jagdish Bhagwati describes as the "naked use of power to extract trading gains from weaker powers" under the guise of the high moral principle of opening markets.

Although any agreement would technically have applied to other countries under the most-favored-nation principle, there were grave concerns in Australia and in Europe that any numerical targets would mean that sales of U.S. cars and parts would be made in substitution for those from other countries.

Another American justification for using bilateral trade talks and the threat of sanctions was that the rules of the multi-lateral trade broker, the World Trade Organization, are too weak and too slow when dealing with trade barriers other than tariffs.

This has been a standard defense of the American use of the Super 301 provisions of the U.S. trade laws — the threat of unilateral sanctions in the form of higher import tariffs against countries deemed by the U.S. to be following unfair policies.

While other players could adopt similar tactics, the U.S. is always going to have more clout than others simply because it is the biggest player in world markets. I can use its sheer size to win agreements that are not fair on other players.

Another factor undermining confidence in U.S. motives are the domestic political motivations lying behind them.

First, the auto unions have traditionally been strong supporters of the Democratic Party of U.S. President Mr. Clinton.

Second, there is a widespread failure in the U.S. to acknowledge that the greatest cause of its world-wide trade deficit is not barriers to trade with Japan, but poor policies within the U.S.—its inability to tackle its budget deficit and improve its national savings performance.

The belief that any bilateral trade deficit is a bad thing is in any case a fundamental misunderstanding of economics.

Third, the attack on Japan has political appeal for baser xenophobic reasons—Japan-bashing is popular—though at official levels of course it is dressed up as having more virtuous motives.

For all these reasons, the success of then MITI Minister and now prime minister Hashimoto Ryutaro in defeating the U.S. efforts for numerical targets was widely welcomed in Australia within the auto industry and (privately) within the government.

But for all that, that there is merit in parts of the American case.

The first is that on other occasions American pressure has been an effective tool in opening Japanese market for players other than the U.S. — notably, in

Australia's case, to beef imports.

Japan's political system has failed, in the face of strong domestic political pressures, to pursue reform that would be in the nation's own interests.

Reformers within Japan often seem happy to use *gaiatsu*, or foreign pressure, as a tool to achieve changes they privately support.

The second point is that there are, as the Americans complain, substantial barriers to trade in the Japanese market. The problem for trade negotiations is that with the most visible and obvious trade barriers, tariffs, now at very low levels, it is difficult to be precise about the damage caused by the remaining barriers.

Among these barriers are the familiar criticism that Japanese firms favor suppliers from their own country, that outsiders find it difficult to break into markets dominated by members of *keiretsu*, and that the practice of administrative guidance makes regulations difficult to interpret and can give preference to domestic producers.

Although some aspects of the regulatory apparatus and broader business culture are an impediment just as much for locals as for foreigners; other do discriminate, subtly or less subtly, against foreigners.

These practices are strongly embedded in a Japanese bureaucratic and business culture that is quite different from that of America and Australia.

It is difficult to distinguish what might be regarded as legitimate cultural differences from those which constitute a discriminatory trade barrier.

Westerners who have succeeded in business in Japan often make the point that their success reflects their efforts to understand and work within the Japanese business culture.

However they often go on to say that there are significant barriers within that system that make it difficult for foreigners to do business there.

Both Japan and its trading partners would benefit significantly if those barriers to trade could be reduced.

But that does not justify the tactics used by the U.S. in the auto trade dispute. ■