

# Changing the Perceptions

## —Report on U.S.-Japan Round-Table Discussion—

By Ritsuko Misu, editorial manager of the *Journal*

**A**lthough other problems have distracted America from its lash-out-and-bash-Japan attitude, this emotionalism is never far from the surface. That is why private-sector bilateral forums are such an important complement to government-level efforts to find a way to solve the economic friction. Not only do they give people a chance to discuss issues away from the klieg lights, they offer an opportunity to see that the other side is also real people interested in finding mutually acceptable solutions. Typical was the round-table discussion on "Bilateral Economic Friction: What Japan Should Do; What America Should Do" held on October 26, 1987, in Osaka.

In addition to its importance in bringing people together, this round-table discussion was also significant because it showed that bilateral ties are moving away from the Tokyo-New York and Tokyo-Washington axes to involve more people nationwide. Commensurate with its bid for renewed economic and cultural prominence (see the November/December *Journal*), the Kansai area is moving onto the international stage with increasing confidence. The discussion was organized and hosted by the Kansai Committee for Economic Development's Subcommittee for International Affairs (headed by Matsushita Electric Industrial Senior Managing Director Keiya Toyonaga) and chaired by Professor Iwao Nakatani of Osaka University.

As expected, the Japanese and American speakers lost no time in putting forward their customary lines of argument. State Department Japanologist and United States Consul-General in Osaka John R. Malott eloquently recapped the American position. To quote Malott, "Most Americans think that a free-trade agreement between our two countries would be a one-way street, with Japan getting all the benefits of an open American market



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but the Japanese market remaining as difficult to crack as it always has been. Even though America runs very large trade deficits with Canada, the American people were willing to negotiate a free-trade agreement with Canada because they believe that the Canadian market is open." Perceptions are the key, and he suggested 10 policy areas where action is needed to change this perception that Japan does not play fair. Seven of these are things Japan should do: (i) economic restructuring, (ii) becoming an importing superpower, (iii) internationalizing standards and regulations, (iv) easing market entry and mobility, (v) increasing transparency, (vi) educating Americans about the relationship and (vii) investing more in manufacturing in America. Two were for the United States to do: (i) strengthen its

manufacturing competitiveness and (ii) get its macroeconomic house in order. The 10th point was that both sides need to change the style of the relationship.

### Blaming importers

Likewise, John P. Stern, executive director of the U.S. Electronics Industry Japan Office, said that the Japanese press gives the impression that everybody who has trouble selling in Japan has only himself to blame for his troubles and that none of this is Japan's fault. Yet Japan has to realize that it is not just America but all of its trading partners that want Japan to change its trading pattern. Until Japan corrects its discriminatory policies, it will be increasingly difficult for Japan to maintain trading relations with even its

### Japanese Business Views on Perception Gap with U.S.

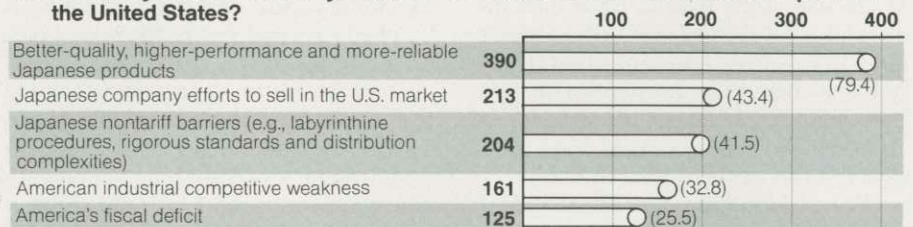
These figures are taken from a survey on the U.S.-Japan perception gap conducted by the Kansai Committee for Economic Development September 26–October 31, 1987, and compiled by Sanwa Research Institute. A questionnaire was sent to 1,500 Japanese busi-

ness leaders. Valid replies were received from 491, for a 32.7% response rate. The average respondent was a 55-year-old man and with overall managerial responsibility and dealing with foreigners at least once a month.

Notes: 1. Top 5 responses are shown here for Q 1 and Q 3 (1)~(3) for reasons of space.

2. Figures in parentheses represent the percentage of the response to the total 491 respondents.

#### Q1: What do you see as the major causes of the trade imbalance between Japan and the United States?



(maximum of two responses allowed)

friends. He added that Japanese commodity taxes deter domestic demand, and that domestic-demand stimulation policies will be toothless so long as the current commodity taxes stay in place.

From the Japanese side, Ministry of International Trade and Industry (MITI) International Trade Administration Bureau Director-General Noboru Hatakeyama said that one of the background reasons U.S. perceptions of Japan are poor is that the U.S. trade policies announced on September 23, 1985, changed U.S. policy from invoking Article 201 (to provide breathing space so that American companies can regain their competitiveness) to invoking Article 301 (retaliation against unfair trade practices) to do the same thing. Thus restrictions and sanctions are now justified not by admitting that American industry has become less competitive but by accusing the other country of not playing fair. The result has been that trade disputes now affect the entire relationship.

## Defining fairness

Hatakeyama noted that Japan's massive trade surplus is often cited to substantiate charges that Japan practices unfair trade. This charge just does not hold water. In 1975, Japan was running a deficit in its trade with the United States. Was American trade then unfair? Are Japanese practices now less fair than they were then? Japan certainly does not have more trade barriers now than 12 years ago. If anything, it has fewer. How can anyone contend that Japanese import barriers are the cause of the American deficit? What import restrictions do exist are concentrated in the areas where Japan is running heavy deficits—areas such as agricultural products. And the surplus is in industrial products, where there are practically no restrictions.

Nakatani then posed the question, "What constitutes an unfair market? Is ease of entry synonymous with fairness? Is a market inherently unfair when the cost of entry is high for new entrants no matter what their nationality?"

Sumitomo Electric Industries Senior Adviser Isamu Sakamoto said, "We are

glad to consider specific cases, but it gets our hackles up to have someone just point and shout 'unfair.' The criteria for what is and is not fair differ from country to country, from culture to culture. To Americans, it may seem unfair that some sumo *rikishi* compete against *rikishi* that weigh twice as much as they do, but the Japanese spectators are interested in seeing how determination and skill can sometimes enable the little guy to prevail against his bigger opponent. There are no weight classes, but we do not consider this unfair."

In response, Stern said, "It seems to Americans eminently unfair that the United States State Department buys passport-issuing equipment from a small Japanese company and big American companies cannot even earn their train fare on work for the new Kansai International Airport in high-technology fields where American firms are world leaders. This sort of imbalance is so patently unreasonable that all the arguments in the world will have trouble holding back protectionism."

Robert L. Sharp (president of Manufacturers Hanover Trust Bank) added, "Japan is not only closed to foreign companies. Japanese market oligopolies are closed to new entrants even when they are Japanese."

Hatakeyama responded by saying the question of fair and unfair is not a cultural question. "It is a value judgment that should be considered from an international comparative perspective. On balance, Japan is not unfair. Over 30% of the U.S. market for industrial products is subject to restrictions of some sort. The figure for Japan is almost zero. In

agricultural products, Japan has more restrictions—22 items as compared to America's one—but the United States has 16 items under waivers that it obtained when it signed the GATT. Comparatively speaking, Japan is fair. There is still much to be done, but we should do it not to deflect criticism that Japan is unfair but because it is the right thing to do."

On tariff rates on industrial products, Stern said, "Japan is very competitive and its tariffs are low, but there are still products that have unnecessarily high tariffs (e.g., imitation leather shoes, laminated lumber, outboard motors, ball bearings). If Japan were truly competitive, it would not need these high tariffs. Japan promised to eliminate tariffs on floppy disks, optical fiber and other products in its Action Program, but I have heard that the government has yielded to industry pressure and decided to leave the tariffs on."

## Foreign pressure

Hatakeyama said, "I agree it would be better to have no tariffs, but I find it hard to believe that Japan's residual tariff rate of 3.8% is unfair in comparison with the average 4% for the United States and the 5% average for the EC." He added that industry lobbying is not peculiar to Japan but exists and proliferates everywhere.

Speaking on the problem of reconciling the interests of industry associations and the national interest, Nakatani said, "This is not a perception gap. It is a perception common to both countries—because it is a problem that exists in both."

After this comment, the discussion turned to the issue of foreign pressure. In a Kansai Committee for Economic De-

### Q2: Which of these American criticisms do you agree with?

	Agree	Disagree	Neither or no answer (%)
Japan makes promises but does not keep them.	34.6	33.0	32.4
Japanese society is closed to foreign people, products and ideas.	57.2	25.1	17.7
Japan does not change its policies unless there is strong <i>gaiatsu</i> (foreign pressure).	68.2	14.5	17.3
Japan is an economic power, but is still taking a free ride on the U.S. defense effort.	56.0	17.9	26.1
Japanese competitiveness is sustained by long working hours.	24.8	52.1	23.0
Japan practices "adversarial trade," exporting economic woes, unemployment and social unrest.	9.1	62.3	29.5
Japan does not do high-risk basic research.	28.9	45.0	26.1
Screwdriver local production (assembly only) is done in exclusive pursuit of Japanese profits.	20.6	40.9	38.5
Japan sees achieving balance as more important than equaling the terms of competition.	35.6	32.4	32.0

velopment survey of Japanese business leaders, over two-thirds of the respondents agreed with the American charge that it takes *gaiatsu* (foreign pressure) to change Japanese policies (see Q2).

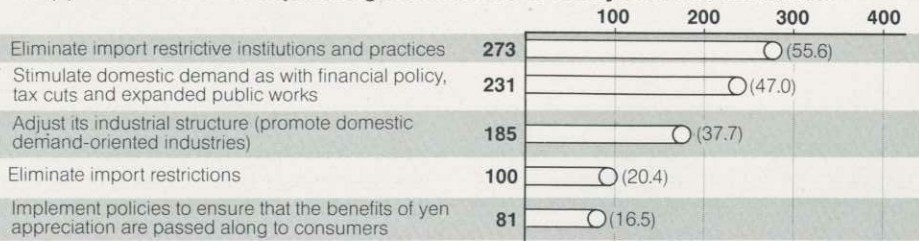
There was broad agreement with Malott's contention that, "The Japanese government has used pressure from the United States—the wolf at the door—to lead and unify Japanese public opinion throughout the postwar period. The United States is always portrayed as the villain, 'forcing' Japanese leaders to do things that are in Japan's own best interests. Japanese politicians should quit relying on *gaiatsu* and should have the courage to institute the needed changes on their own."

What should Japan and America do to improve the bilateral relationship? What does Japan think the United States should do? And what does the United States think Japan should do? The American position was largely summed up by Malott in his statement cited at the outset, but Stern added a number of specific requests, including opening Japanese advisory bodies and business groups to foreign companies, having the government and business keep their promises, and having Japanese companies import products that are necessary to their main business, not accessories. He added that the information American companies need to do business in Japan is not available in English, and he urged America to do more to understand and use the Japanese language in improving its competitive position.

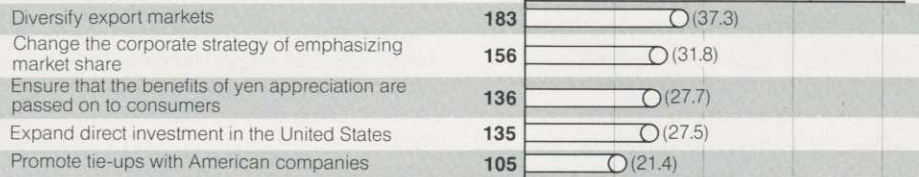
From the Japanese side, Sakamoto pointed out that, "the Japanese and American economies are now highly interdependent. Neither can prosper without the other. It is as though we were in a balloon approaching a high obstacle. Something has to be done to lighten the balloon so we do not crash. This is no time to be arguing about whose things to jettison. We have to start throwing trade barriers overboard. We may even have to throw out free trade and resort to managed trade to keep the relationship and the world economy afloat for the time being."

Added Sanwa Bank Director Shinji

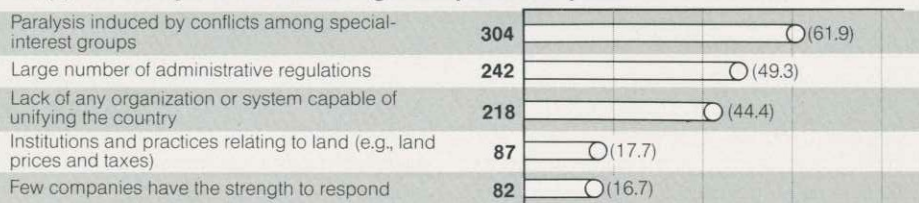
### Q3 (1): What should the Japanese government do to rectify the trade imbalance?



### Q3 (2): What should Japanese industry and the Japanese people do to rectify the trade imbalance?



### Q3 (3): What do you think is blocking the Japanese response?



(maximum of two responses allowed for each of the three questions)

Yoshimizu, "Japan has abundant rejoinders to the criticism, but we realize that this does not lessen the need to make every effort to effect improvements. Yet at the same time, the United States should recognize that the core reason for the friction is in the bankruptcy of Reaganomics."

## Winners and losers

Hatakeyama added, "Japan is working on stimulating domestic demand. The United States needs to curtail domestic demand and to enhance its international competitiveness." Added Toyonaga, "The main cause of the trade imbalance is the lack of economic policy coordination between Japan and the United States. The United States was pursuing expansionary fiscal policies, while Japan was pursuing austerity policies. The two countries were working at cross purposes, and they were trying to juggle currency exchange rates to compensate for the disparity. There is an urgent need for a free trade pact that would put the focus back on macroeconomic policy coordination."

Finally, Sharp summed up the mood of the meeting when he said, "The time for criticizing each other and trying to blame the other side is past. We need to look our problems squarely in the eye on both sides of the Pacific. And we need to do

this to preserve free trade—for it is free trade and free trade alone that promises improved standards of living for our peoples."

Speaking as coordinator, Nakatani said "Economists are agreed that competition is good, and the fact that competition inevitably produces winners and losers is socially acceptable within a country because politics works to mitigate the losers' plight by redistributing wealth with progressive income taxation, social programs for the disadvantaged and the like.

"But there is no mitigating political mechanism internationally. It might be worth studying ways of introducing such systems. For example, in light of its competitive strength, Japan might be assessed a 1% 'international community welfare tax'."

What should Japan do? What should America do? These are not questions that can be answered in just a few hours of discussion. Nevertheless, such discussions are valuable opportunities for government officials to have their say on how they perceive the national interest and for businessmen to engage in frank exchanges of views based on their business experience. Candid round-table discussions such as this one are invaluable steps toward clearing away the perceptual differences and getting at the real problems so that they can be solved.