

# Keeping Friction Under Control

By Joseph A. Grimes, Jr.

There is little doubt that currently the U.S.-Japan economic relationship is in one of its most critical stages of the past 42 years. There is a growing danger that the American dissatisfaction over trade may well spill over to adversely affect the political and security aspects of our bilateral relationship.

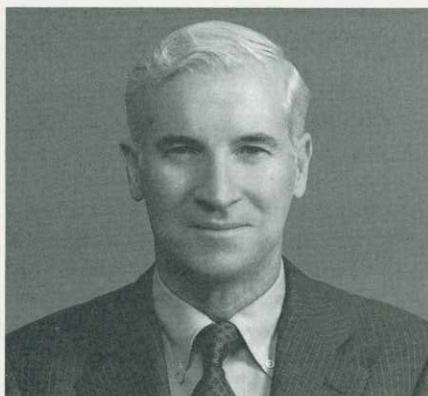
Despite efforts on both sides, the United States' bilateral trade deficit with Japan continues to grow. It now accounts for nearly one-third of America's annual trade deficit and has mushroomed into a major political problem.

Exacerbating the trade problem has been a series of events such as the microchip dumping case which saw a series of trade sanctions applied against selected Japanese exports to the U.S.; and the Toshiba case which, for probably the first time in history, may result in the Congress passing legislation to specifically prohibit an individual company from selling its products in the United States.

The Toshiba case in particular has also allowed critics of Japan's economic and trade policies to link trade issues to security issues, making the resolution of those issues doubly difficult to accomplish.

Obviously we are at the stage where it makes little or no difference as to whether Japan is right or wrong in regard to these and other issues. The protectionist sentiment that has been slowly building in the Congress over the past several years has now boiled over. Childish though it may have been, those Congressmen who smashed a Toshiba radio in front of the U.S. Capitol Building were expressing a growing sense of frustration that they and many of their fellow Congressmen have been feeling over the U.S.-Japan trade situation.

While the American Chamber of Commerce in Japan (ACCJ) firmly believes that a healthy United States-Japan trade relationship is good for both countries and ought to be expanded, it has, at the same time, been expressing concern for several years, warning that the



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growing trade imbalance could not continue indefinitely without turning into a political confrontation between our two nations.

The ACCJ's concerns in this regard were initially expressed in 1979, when ACCJ released its first White Paper on U.S.-Japan Trade. At that time, the annual trade deficit was \$7 billion. Last year the annual deficit had risen to a stunning \$60 billion. No wonder the U.S. Congress made trade legislation a priority issue on its agenda this year.

## Reviewing progress

Last year the ACCJ issued a new white paper on trade. In the interim, we had released a number of studies on trade and trade-related issues, including an in-depth look at nontariff barriers in 1982.

Most recently, we have authorized a series of reports on implementation of market access liberalization called for in the Japanese government's Action Program of July 1985.

With our 1986 White Paper on Trade the ACCJ decided to review annually progress, or lack thereof, of industry-specific issues that were negatively affecting the ability of U.S. companies to compete in the Japanese market. This decision was reached because of the relative rapidity at which changes had begun to occur in the

Japanese economy. These changes included liberalization of the financial and capital markets, the privatization of such semigovernmental bodies as NTT Public Corporation, the Tobacco and Salt Public Corporation and the Japanese National Railways, and a new receptiveness we found at many government ministries and agencies toward considering the opinions of foreign business on issues under their cognizance.

We broke the issues down into three major areas—goods, services and generic issues. We were careful to point out that resolution of many of these issues could not be achieved by Japanese business and government alone. Many of them had to be addressed by American business and government; others needed to be addressed bilaterally.

We also stressed in our white paper that the ACCJ believes that:

- 1) Japan offers tremendous potential and opportunity as a market for goods and services exported from the U.S.;
- 2) Business, labor and government must cooperate to create a climate of positive support for exports;
- 3) Business, labor and government in Japan must accept their responsibilities to make the Japanese market more accessible to imports from the U.S.;
- 4) The U.S. government can add its weight to the Japanese effort through continuation of the Market-Oriented, Sector-Selective (MOSS) talks;
- 5) The ACCJ committees and subcommittees should continue to function as trade groups in negotiations with the Japanese government, as well as providing on-the-spot input to the U.S. MOSS negotiating teams.

## Perils of protectionism

The ACCJ felt strongly enough about these points that we repeated them in our 1987 update of the White Paper on Trade. In addition, in both the 1986 White Paper on Trade and the 1987 update, the ACCJ

also stressed its belief that "protectionism hurts us all" and rejected calls for impositions of barriers to Japanese exports to the United States.

Instead, the ACCJ called for the U.S. government to insist that Japan adopt internationally recognized fair trading practices through vigorous negotiations, stringent enforcement of trading rules and, when necessary, other appropriate actions.

This year when we updated the White Paper on Trade we again reviewed those major areas of concern regarding goods, services and generic problems. Under goods, we looked at 18 different industry sectors; under services 10 sectors; and in the generic sector, seven government-to-government issues.

The 1987 update of the White Paper on Trade revealed that progress in resolving the issues varied widely from sector to sector. Often, issues that on the surface appear to be the easiest to resolve remained among the most difficult.

On the other hand, in the liberalization of financial and capital markets, progress has generally been more rapid than many in the ACCJ anticipated.

As the ACCJ White Paper on Trade indicates, the American Chamber of Commerce in Japan believes a healthy bi-

lateral trade relationship is good for both countries and ought to be expanded. Since its founding in 1948, the ACCJ has had as its basic premise the development of trade and commerce between our two nations by fostering the presence of American business in Japan. Despite the heavy seas the relationship is currently sailing through, the ACCJ continues to extend every effort to strengthen the relationship and expand the American business presence here.

The Chamber works closely with relevant Japanese and U.S. government officials. Industry-specific committees and subcommittees meet on a regular basis with relevant Japanese government ministries and agencies to discuss issues of concern and to seek solutions. Thus, as an organization of representatives of American business in Japan, the ACCJ brings a firsthand perspective to the issues and can serve as an informational and educational bridge for business and government on both sides.

To achieve these ends the Chamber participates in a number of private-sector forums, such as the U.S.-Japan Businessmen's Conference and the Joint Japan-America Chambers Cooperation Committee (JJACCC). This latter forum, although established just a little over one

year ago, through an agreement between the ACCJ and the Japan Chamber of Commerce and Industry, has already helped resolve an important issue of interest to several ACCJ member companies by persuading the Ministry of Posts and Telecommunications to establish a bulk mail rate. This was truly a team effort by both the American and Japanese business communities.

## Explaining the market

To further educate American business on the intricacies of the Japanese market and what it takes to succeed in Japan, and to give voice to its views on the issues affecting the U.S.-Japan relationship, the ACCJ conducts a strong publications effort. We publish a monthly magazine, the *ACCJ Journal*, which covers the many aspects of doing business in Japan, as well as an informational monthly *Newsletter* for our members.

We have discussed the White Paper on Trade. It is just one of several special studies the ACCJ publishes each year. In late September the ACCJ released a new study entitled *Direct Investment in Japan: The Challenge for Foreign Firms*. The study, a cooperative effort between the ACCJ and a European business council, reviews all types of foreign investment in Japan.

Last year the ACCJ received a grant from the Japan-U.S. Friendship Commission to monitor and report on implementation of the reforms called for in the Japanese government's Action Program of July 1985. An independent researcher was engaged to prepare these reports and we have published two so far this year. The first report dealt with implementation of macro and micro measures, tariff rates, electrical appliance standards and certification systems, and the safety goods (SG) marking system. The second report looked at capital and financial market liberalization. A third report, due out shortly, will cover government procurement. We also publish annually (more often if required) a series of special position papers, known as Viewpoints, outlining the ACCJ's positions and recommendations on issues affecting the U.S.-Japan relationship.

Despite the current trade frictions that have become more heated as the trade imbalance has increased during the past few years, we must keep in mind that the overall U.S.-Japan relationship is quite healthy. In fact, the development of that relationship since 1945 has been one of the great success stories of international cooperation, development and politics.





United States Ambassador to Japan Mike Mansfield calls it the most important bilateral relationship in the world. Together, the U.S. and Japan are an unbeatable combination, both economically and technologically.

Cooperation in all spheres—political, economic and military—makes sense for both countries, but the extent of our bilateral relationship means that some frictions will be inevitable. Today we focus largely on trade frictions, but we must keep those in perspective. We must not allow those issues, important though they may be, to undermine the partnership which is so beneficial for both countries.

## Seeking solutions

The trade imbalance is essentially the result of macroeconomic factors and different U.S. and Japanese economic policies. In the early 1980s Japan was still promoting an export-driven economy in the expectation of further increases in oil prices. Then oil prices dropped. At about the same time the U.S. increased interest rates to curb inflation and cut taxes to stimulate the economy. The U.S. economy needed investment money, and the Japanese, with their higher trade surpluses fueled by lower oil prices, were more than willing to oblige. Japanese money in large amounts started to move to the U.S. This helped reduce U.S. interest rates, but the dollar strengthened, and the U.S. trade deficit ballooned. So did the Japanese trade surplus.

Both countries had rational reasons for adopting the economic policies they were following at that time. It therefore makes no sense to look for a guilty party. Instead of trying to assign fault, both the U.S. and Japan should be looking for solutions to the trade imbalance problem. Preferably they should coordinate their policy solu-

tions, but neither should wait for the other to act first.

The U.S. must cut its budget deficit, pass a trade bill that does not close markets but rather strengthens the competitiveness of U.S. industry, and make a determined effort to increase exports, especially of manufactured goods.

Japan must also take action. The Maekawa Report and MITI's vision of the future published in 1986 clearly lay out the kinds of policies Japan must follow. Now something concrete must be done. The first steps have been taken with the supplemental budget, but more has to be done with regard to housing and infrastructure, especially in the urban areas, and with regard to taxes, including direct taxes and taxes on agricultural land in urban areas.

Everyone in Japan realizes that the current trade surpluses cannot continue. They are unsustainable economically and politically. Reducing them will not be easy, but there are only two ways to achieve this objective—increase imports or decrease exports. There is no other way.

Since Japan must export to survive, it makes sense to solve as much of the problem as possible by increasing imports. That means increasing agricultural quotas, eliminating depressed industry cartels, and adopting an effective affirmative action program to increase imports. If that is not successfully done, more of the "solution" will have to come out of reducing exports, probably brought about by an ever-strengthening yen.

Domestic demand stimulation is also needed. This will not greatly increase imports in the short term, but it will help to cushion the deflationary impact of a reduced trade surplus. Japan should do this in its own self-interest, not because the U.S. is calling for more domestic expan-

sion. Business has a major role to play in solving the trade imbalance problem, because business does most of the importing and exporting. Some people think restructuring of the economy means simply cutting back on shipbuilding, coal mining and steel production. Restructuring, however, will also have a severe impact on automobiles, electronics and other high-tech exporters.

Let's assume that \$20 billion is a sustainable, long-term Japanese trade surplus with the U.S. To reach this level the 1986 surplus must be cut by \$40 billion. Since exports exceed imports by a wide margin, most of the reduction, at least \$25 billion, must come out of exports. That means a reduction of some 30% in exports to the U.S. Of course, we live in a multilateral, not a bilateral world. Recycling the money to the less developed countries (LDCs) can ameliorate the problem, but the fact is that Japan is likely to experience a significant drop in exports in the next five years.

## Ability to cooperate

What should export-oriented Japanese businesses do about this? They should move production overseas, reorient their products to the domestic market, and drop their marginally profitable export lines. Japanese companies hate to lose market share, but spending most of their money trying to keep export volume up will be a poor policy for individual companies and for Japan as a nation. Obviously they must cut costs and increase productivity for many or most of their exports, but not for all.

What trends in U.S.-Japan trade relations are likely as we move toward the 21st century? Both Japan and the United States are leaders in the development of high technology. Both also have high labor costs. This means both have a comparative advantage in high-tech, knowledge industries, and that is where the critical competition and trade friction is likely to occur in the future, not in agriculture or in the products of mature industries.

What can we do to avoid these problems? We cannot avoid them, because the United States and Japan will have national as well individual company interests in "winning" these battles. We can, however, keep the inevitable frictions under control by encouraging cooperative developments and uninhibited access to government-sponsored or government-funded research. Our ability to cooperate while competing will determine our success in keeping the U.S.-Japan partnership strong and healthy. ●