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JAPAN--U.S. TRADE

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This Info Pack provides background and current analysis of the Japan--U.S. trade situation, discusses the political and economic tensions which this imbalance has created, and outlines the problems involved in several current negotiations, such as the question of trade barriers to U.S. agricultural exports. Also included is a report which examines the exports of Japanese automobiles to the U.S. and presents statistics on numbers of automobiles exported in the last 10 years.

Congressional Reference
Division

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WALL STREET JOURNAL, Jan. 20, 1983

Last Year's Drop In Japan Exports Is First Since 1952

Trade Surplus Also Declined, But Pressure Isn't Likely To Lessen From U.S., EC

By JAMES B. TREECE
Special to THE WALL STREET JOURNAL

TOKYO—Japan's exports fell in 1982 for the first time in 30 years, narrowing the country's trade surplus.

But the news isn't likely to help defuse trade tensions between Japan and its major trading partners. Even though it narrowed from 1981, last year's trade surplus was Japan's fourth-largest ever, according to the Japanese Finance Ministry. Moreover, Japanese imports fell for the first time since 1975; the U.S. and the Common Market have been prodding Japan to take more foreign goods.

The ministry ascribed the reduced surplus to the sluggish world economy and to restraints on Japanese exports negotiated with other nations.

Figures Listed

Japanese exports, denominated in dollars, fell 8.7% last year, to $138.85 billion. Imports declined 7.9%, to $131.97 billion. The 1982 trade surplus was $6.88 billion, down from $8.74 billion a year earlier.

In December alone, the ministry said, Japan's seasonally adjusted trade surplus grew to $255.8 million from $187.4 million in November.

When the 1982 trade figures are computed in yen, however, the results are different. The trade surplus still narrowed on a yen basis, but exports rose 2.9% and imports 3.8% when calculated using the Japanese currency.

Trade With U.S.

Using the dollar-based figures, Japan's trade surplus with the U.S. declined in 1982, to $12.18 billion from $13.31 billion the year before. Exports to the U.S. fell 5.9%, to $36.34 billion, while imports from the U.S. declined 4.5%, to $24.16 billion. The Finance Ministry said the U.S. received 26.2% of all Japanese exports last year but was the source of only 18.3% of Japanese imports.

Exports to the U.S. of a number of sensitive products declined. These include steel, autos, tape recorders and other electronic goods.

But American officials are likely to pay more attention to the 4.5% decline in U.S. shipments to Japan. Japan has introduced three packages of market-opening measures over the past 13 months, but the U.S. still is seeking greater access for two important items, beef and citrus fruit.

Statistical Differences

Because of differences in accounting for shipping costs, the U.S. and Japan have reported different trade-balance figures in the past. The U.S. has said its 1981 trade gap with Japan was $15.8 billion, in contrast to the $13.31 billion that Japan reported. American officials had predicted that the trade deficit with Japan would widen in 1982.

The Japanese trade surplus with the Common Market declined to $9.52 billion from $10.34 billion in 1981, the ministry said. Exports to the European Community fell 9.6%, to $17.07 billion, while imports to Japan from the 10-nation group declined 12%, to $7.56 billion.

European officials in Tokyo put the community's 1981 trade gap with Japan at $12 billion and said last year's deficit was $14 billion.

Among the world's industrialized countries, only Italy, South Africa and France increased exports to Japan last year. France, New Zealand and Britain increased imports from Japan.

Wall Street Journal
Jan. 20, 1983

Reagan Says U.S.-Japan Trade Disputes Are Easing as Talks With Nakasone End

By GERALD F. SEIB
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Prime Minister Yasuhiro Nakasone closed two days of talks in which the U.S. seemed to achieve its modest goal of driving home the urgency it attaches to resolving trade rifts.

President Reagan held a breakfast meeting with the Japanese leader and emerged to say the two countries have taken the "first significant steps" toward resolving bitter trade disputes. But he warned that trade issues continue to "weigh heavily on our relationship."

For his part, Mr. Nakasone later told reporters that his White House talks and a stormy session with lawmakers on Capitol Hill had given him a "deeper understanding" of how upset Americans are at barriers that close Japanese markets to some American goods.

The prime minister even managed to joke about the barrage of criticism he has heard of Japanese trade practices. "Yesterday, in my meeting with members of the U.S. cabinet, the session was somewhat a shower of critical comments," he said. "But by comparison today's meeting on Capital Hill was a storm."

Otherwise the meetings, as expected, didn't produce much substantive progress in overcoming disagreements. President Reagan did announce that the two countries are forming a working group on energy; among other things, it will study how the U.S. might sell oil from Alaska to Japan. Currently, American laws bar the export of Alaskan oil.

And the president also disclosed that Japan has been invited to send a specialist on a space-shuttle mission.

In addition, Mr. Nakasone tried to assure Americans that Japan is serious about bearing more of the burden for its own defense. He told reporters that Japan plans to defend "several hundred miles" of ocean around itself and to defend sea shipping lanes extending as far away as 1,000 miles. U.S. officials have long pressed Japan to take on those missions. Like U.S. analysts, he voiced concern about increases in flights of Soviet Backfire bombers and other military planes in Asia.

The meetings left unresolved some knotty trade problems, most notably U.S. objections to Japanese quotas on imports of American beef and citrus, and the question of whether Japan will continue to restrict voluntarily its auto exports to the U.S. But this week's talks have made American officials more confident that Mr. Nakasone is forceful and capable enough to push through solutions that might be politically unpopular in his country.

"Everybody was extraordinarily impressed with this guy," said one senior American official who participated in the meetings. "His command of issues and detail is very impressive."

In fact, U.S. officials were wary that if they voiced too much criticism during the visit, they wouldn't appear properly grateful for politically difficult moves Mr. Nakasone has made in his first seven weeks in office. Mr. Nakasone is widely considered a staunchly pro-American leader, and last week he unveiled a package of tariff reductions and plans for regulatory changes designed to open Japanese markets further to American goods.

In his formal statement, President Reagan praised those moves by the prime minister and urged the Japanese people to support him in carrying them out. "Nothing would better prove to the American people the good intentions of our Japanese trading partners than tangible progress" in removing regulatory obstacles, he said.

He also said he and Mr. Nakasone had "excellent" talks, in which they established a "warm personal relationship."

Mr. Nakasone echoed those views in comments to reporters. He said he and the president had established a "more solid basis" for resolving deep disagreements. He added, though, that the U.S.-Japanese relationship is "at a time of trial. Even among those people who believe the Japan-U.S. relationship stands on a firm foundation, there is concern about the present state of the relationship."

The prime minister tried to offer the prospect of brighter economic events ahead for Americans. He noted that Japanese exports have declined recently and predicted that Japan's trade surplus with the U.S. could dwindle as the U.S. economy improves. (Japan's exports fell in 1982 for the first time in 30 years, narrowing the country's trade surplus. See story on page 29).

He also said the yen could continue appreciating in value if American interest rates decline further. American executives had complained that an artificially low yen was boosting Japan's ability to export goods. But Mr. Nakasone denied that Japan had tried to keep its currency low, and said it had actually spent as much as $8 billion in the last year to support the yen.

Mr. Nakasone urged American and Japanese businessmen to set up additional joint ventures in the U.S. as a way of overcoming objections to Japanese imports.

Wall Street Journal
Jan. 14, 1983

Japanese Adopt Another Package To Open Market

But the Plan, Aimed at Aiding Nakasone's Trip to U.S., Doesn't Cover Beef, Citrus

By MASAYOSHI KANABAYASHI
And URBAN C. LEHNER
Staff Reporters of THE WALL STREET JOURNAL

TOKYO – Japan's government, as expected, adopted another package of measures to further open the country to foreign goods.

The adoption was timed to smooth the way for next week's visit to Washington by the new Japanese prime minister, Yasuhiro Nakasone.

But, though the package deals with several issues of keen American interest–it opens the way for increased imports of tobacco, for instance–it doesn't meet a persistent U.S. demand that Japan increase import quotas for beef and citrus products.

"It is difficult now to liberalize" imports of these two items, Mr. Nakasone said. He added, though, that he hoped for "success" in U.S.-Japanese negotiations on the issue.

The package, the third to be introduced in the last 13 months to improve trade relations with the U.S. and Europe, was approved by a group of cabinet ministers. It includes tariff cuts and a promise that product-standard and certification procedures will be overhauled.

U.S. trade negotiator Bill Brock late Thursday praised the Japanese government's actions.

Mr. Brock said he welcomed, in particular, the decision of Prime Minister Nakasone to complete a review of Japan's certification and testing procedures for imports.

Brock said this is a "generic" trade problem, the solution of which could lead to a substantial increase in U.S. exports of manufactured goods to Japan.

The U.S., other sources said, expects Japan to solve this problem by the end of the year. They said this point will be emphasized during Mr. Nakasone's visit to Washington.

The Japanese package comes accompanied by another exhortation from Mr. Nakasone that the Japanese public must cooperate in opening the domestic market to foreign-made goods.

Responding to criticisms that Japanese businesses and consumers tend to "buy Japanese," the premier said: "I appeal to the broad spectrum of the Japanese people to lend their understanding and cooperation in maintaining firmly the posture of welcoming foreign manufactured goods and investment without discrimination. We need to continue to cultivate the image of a 'Japan which is open to the world.' "

Japan's two previous market-opening packages received mixed reviews in the U.S. and Europe. Mr. Nakasone said he hoped Japan's major trading partners would "fully appreciate these ongoing and continuing efforts."

Whether that appreciation will be forthcoming remains to be seen. In addition to avoiding the issue of beef and citrus imports, the package consists mainly of promises of future action, and there have been complaints from Washington that Japan has been slow to implement past promises.

One of the key promises in the latest package, the liberalization of product-standard and certification procedures, calls for a cabinet ministers' group to study current procedures and propose new legislation by the end of March. But the legislation mightn't be enacted for months or years.

Still, some observers in Japan said the latest package is better than its predecessors. "I'm very encouraged by the provisions of this package," declared Lawrence Snowden, president of the American Chamber of Commerce in Japan. "Leaving aside beef and citrus and assuming the prime minister's office keeps the pressure on to make sure it's actually implemented, there's a lot of room in this for us to make some real gains (in selling to Japan). It's a very good package."

The package, which runs for 23 pages in the English version, includes:

–An acceleration of plans to allow foreign cigarettes to be sold at all 250,000 licensed retail outlets in Japan, up from 20,000 currently. Licensed retailers in Nagoya and all other major cities except Tokyo and Osaka will be able to sell foreign cigarettes by the end of March. The liberation will extend to Tokyo and Osaka by the end of October and to most of the remaining outlets by March 31, 1985, a year earlier than previously scheduled.

The package also lowers the duty on tobacco products to 20% from 35%.

–An "across-the-board review" of "standards and certification systems," by the cabinet group, leading to proposed legislation. Although the package doesn't include specific promises, there have been hints that the legislation will allow foreign manufacturers of many products–although probably not automobiles–to essentially "self-certify" that their products comply with various Japanese standards, as Japanese manufacturers of many products do when exporting to the U.S.

–A strengthening, through a number of steps, of the Ombudsman's Office, set up last year to help foreign businesses cut red tape and overcome other obstacles to selling in Japan. A prestigious "advisory council" to the office will be established.

Also, foreign companies filing complaints with the Ombudsman will be allowed to do so "by proxy." That means, according to the ministry official, that they can file the complaints anonymously if they fear retaliation by the government agency that is the subject of the complaint.

–An improvement of 16 specific "import-testing procedures," including some that have proved particularly irksome to foreign businesses. For example, a foreign pharmaceutical maker seeking to change import agents in Japan has to resubmit all its test data and obtain new product authorizations, even if the new agent will handle the same products as the old one. The new package eliminates the requirement, beginning in April.

The package also reduces tariffs on 78 items. The reductions were adopted late last month.

Wall Street Journal, Jan. 14, 1983

Trade Winds

Protectionist Feelings Against Japan Increase In the U.S. and Europe

Prime Minister to Take Plan To Reagan to Ease Curbs, But Effect Appears Small

The Ant & Elephant Parable

By ART PINE and URBAN C. LEHNER
Staff Reporters of THE WALL STREET JOURNAL

TOKYO—It wasn't widely reported here, but Japanese officials still wince at the hooting that greeted Foreign Minister Yoshiro Sakurauchi's speech at last November's meeting of the 87-country General Agreement on Tariffs and Trade in Geneva.

Mr. Sakurauchi, who since has retired, meant only to emphasize how much Japan had reduced its tariffs and other formal trade barriers. He declared matter-of-factly that Japan now has "one of the most open markets in the world."

But the reaction was virulent, particularly for a closed-door meeting of usually diplomatic trade and foreign ministers. "I've never seen anything like it," a senior European official recalls. "First there was shuffling, then suppressed giggles. Within a few seconds, everyone was snickering openly. It was all very embarrassing."

The incident indicates how nasty relations between Japan and its major trading partners have become—and especially how foreign resentment of Japan's continuing import restrictions has grown. Although strains have been intensifying for years, some authorities here and abroad think they are nearing a bursting point. The U.S. ambassador to Japan, Mike Mansfield, says: Japanese officials "presently confront a challenge to the entire structure of international economic and political cooperation unprecedented since the days of the Great Depression."

Common Market's Drive

The evidence is everywhere. In Europe, the Common Market decided last month to press GATT, in its role as international trade policeman, to take action against Japanese trade restrictions. The Common Market also is stepping up its monitoring of a broad range of imports from Japan.

Some countries, such as France, are moving to slow the influx of specific products. Last autumn, French officials ordered all Japanese videotape recorders processed through a small customs house in tiny Poitiers that is staffed only a few hours a day. And Paris now is requiring that all paper work on Japanese products be translated into French—ostensibly to protect consumers.

In the U.S., Congress last month came close to passing "local content" legislation to require major Japanese auto makers to produce their cars in the U.S. or else face strict import quotas. And analysts see chances increasing for some sort of anti-Japanese legislation this year. "It's the easiest way to look like you're voting to help the unemployment problem," a White House official says.

The trade tensions seem like a replay of 1982, but this time the feeling is running much higher. The global recession has sharply increased unemployment, both in Europe and the U.S. America's trade deficit is widening—some say toward a possible record of $75 billion in 1983, up from about $45 billion last year. Experts expect about half of the deficit to represent the trade imbalance with Japan, up from a $20 billion Japanese advantage in 1982. And protectionist sentiment in many countries has risen sharply.

Kiyohiko Nanao, a senior Japanese foreign ministry official, says international trade issues have "become political and emotional," making it all the harder for governments to ward off protectionist demands. In the U.S., for example, last month's congressional debate over the local-content bill bristled with allusions to Pearl Harbor and a modern-day Japanese "invasion" of the U.S. auto market.

Political Changes

In France, a senior policy maker says: "I'm spending hours with my Japanese counterparts trying to make clear that something has changed politically in the world during the past two years. The choice isn't any longer between free trade and partial protectionism, it's between partial protectionism and full-blown protectionism."

To help stem the protectionist tide, Japan's new prime minister, Yasuhiro Nakasone, will take a package of market-opening measures to Washington when he visits President Reagan next Tuesday. That package, adopted yesterday by a group of cabinet ministers, includes easing of restrictions on sales of foreign cigarettes, a promise to overhaul product-standards requirements and a strengthening of Japan's ombudsman's office, which helps foreign businesses with complaints about red tape and other obstacles to selling in Japan (see story on Page 26).

But the Japanese have indicated they don't plan to do much, at least for now, about other high-priority U.S. demands such as reduction of Japan's import quotas on beef and citrus products.

It isn't certain, in any case, that the package will succeed in mollifying either the U.S. Congress or the Reagan administration. Top U.S. trade officials have become conspicuously more frustrated in their efforts to prod the Japanese into opening their markets wider.

"Most of it is blink-your-eye-and-you-don't-notice-it," says one U.S trade strategist of the package Mr. Nakasone has put together. For example, he argues that the announced Japanese plan to lower tobacco tariffs to 20% from 35% would actually leave the effective duty, after accounting for taxes and hidden charges, at a still-high 60%, down from 103% before.

It's true that during the past several

Trade Winds: Protectionist Feelings Against Japan Are on Rise as Prime Minister Plans to Visit Reagan

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years Japan has done a lot to reduce its trade barriers. Last year, Tokyo in two major trade-liberalization packages slashed tariffs on an array of goods, streamlined some customs procedures and product-standards requirements and created new machinery for dealing with foreign businessmen's complaints. Recently, Japan moved to end a long-boiling dispute with the U.S. over requirements that hindered manufacturers of metal baseball bats from selling them in Japan.

"There are a lot of little things going on that are going to make some difference," says Lawrence Snowden, president of the American Chamber of Commerce here, who last year was critical of Japanese trade policy. "I think the bureaucracy here is beginning to get the message," Mr. Snowden says.

What may be more significant, public attitudes in Japan are changing. Last year, many Japanese still argued that the U.S. and Europe were largely to blame for their own trade troubles: The U.S. was "sick" economically and Europe was "decadent," they said, and foreign businesssmen simply "didn't try hard enough" to penetrate the Japanese market.

Today, while that attitude persists, a growing number of Japanese concede that they have a stake in the West's prosperity. "Public opinion is starting to change," asserts Masumi Esaki, the senior Japanese parliament member who headed last year's efforts by the Liberal Democratic Party to push through trade-liberalization measures. "Japan has to be grateful to the U.S. because it helped us to achieve our current prosperity," Mr. Esaki says. "When the U.S. economy is faltering, it's our duty to pay them back."

Sensitivity in Farm Products

But the change in attitudes is coming slowly, and Japanese officials plead that it is still risky for the government to go far in easing trade in such sensitive areas as agricultural products. This month, some 10,000 farmers demonstrated in Tokyo against possible concessions on beef and citrus imports, even though the government hadn't formally proposed any yet—a protest not lost on the Liberal Democratic Party, which historically has been dependent on farm votes. And this week, Japanese farmers marched past the American embassy in a demonstration against any steps to ease imports of farm products.

Tadashi Kuranari, an influential member of the party, with a large rural constituency, says, "American agriculture is like an elephant. Japanese agriculture is like an ant. We cannot let the elephant crush the ant—even if Japan becomes very, very poor as a result of other nations' retaliation."

Nevertheless, Japan may not have much more time to put off action on imports of farm products. The U.S. Congress and top Reagan administration officials are becoming impatient. A White House strategist notes that Congress is scheduled to take up a half-dozen major trade bills—a situation that many regard as open season for protectionist riders. A frustrated administration official says, "I don't know how hard some of us would fight any more if Congress came up with anti-Japanese legislation."

Speaking of the so-called local-content bill, which Congress might approve in some form this year or next, U.S. Ambassador Mansfield says, "I'm telling the Japanese frankly that if the president vetoes this bill he'll have to find votes to stop Congress from overriding the veto. And the place to find those votes is in the beef and citrus and tobacco states. I'm emphasizing the political aspects more and more because that's what it's becoming," Mr. Mansfield says.

Japan's Viewpoint

At the same time, the Japanese are near the end of their patience with what they call "heavy-handed" U.S. and European pressure. "We understand the U.S. situation, but we aren't a country to be ordered around by the U.S.," complains Japan's new trade minister, Sadanori Yamanaka. "We haven't forced Americans to buy Japanese cars." Another Japanese official says, "I wish they would be a little more patient in Washington. This is a society that operates slowly, by consensus. Their all-or-nothing attitude is just inflaming things here."

Even if the Japanese did everything the U.S. and Europe want, it still wouldn't do much to reduce the huge American and European trade deficits, economists say. Mr. Mansfield estimates that total elimination of all Japanese trade barriers would result only in about $1 billion to $5 billion annually in new U.S. sales in Japan. The reason: The remaining barriers aren't that large in dollar terms, and U.S. goods aren't that competitive in a country with Japan's manufacturing prowess.

Some observers contend that in the longer run what may prove most important isn't so much what the Japanese government does as what Japanese industry does to increase its buying of foreign components and its investments in production facilities abroad. "If I see anything, I see a trend on the part of the private sector to do just that," says Yotaro Kobayashi, president of Fuji Xerox Co., a joint venture of Japan's Fuji Photo Film Co. and the U.S.'s Xerox Corp.

The Optimistic View

If only for broad economic reasons, some optimists believe that current trade tensions will abate soon. They expect the recent firming of the yen against the U.S. dollar will continue, spurring Japanese imports and making Japanese products less attractive in the U.S. They also believe the U.S. economy will begin to recover, easing protectionist pressures in Congress. And they count on Prime Minister Nakasone, a self-styled "bold" leader, to take any steps needed to keep economic peace with the U.S. and Europe.

"I'm always an optimist about U.S.-Japan relations, because we cannot fail—we're both too big," says the foreign ministry's Mr. Nanao.

But others aren't so sure. They doubt the yen will go high enough to make much difference in trade flows anytime soon. They are dubious about a U.S. recovery, and they are skeptical about how much Mr. Nakasone will be able to accomplish against the entrenched resistance here to greater trade liberalization.

"Trade frictions won't go away even if Japan does something," says Yukitsugo Nakagawa, director of Japan's prestigious Nomura Research Institute. "The time of high growth is over, the trade problems are structural and so the trend toward protectionism will continue. The problems will become more severe. It's a very sad thing for the world."

5

White House Considers Plea to Penalize U.S. Firms That Buy Tools From Japan

By EDUARDO LACHICA
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Some Americans suggest curing the country's economic ills through the kind of close business-government cooperation practiced in Japan, but one U.S. company has charged Japan's business-government link is unfair and asked the White House for help.

Houdaille Industries Inc., a Fort Lauderdale, Fla., machine-tool maker, has petitioned President Reagan to deny investment tax credits to U.S. metalworking companies that buy certain Japanese machine tools. Houdaille contends that Japan's aid to its machine-tool makers gives them an unfair advantage in the U.S. market.

The case reflects the evolution of protectionist thinking under the avowedly free-trade Reagan administration. Mr. Reagan's aides are seriously considering the Houdaille petition because the conventional remedies for the most part have failed to stem Japanese inroads into the U.S. market or redress the trade imbalance.

Foreign Insight

Houdaille's action is seen by some as an instance of the Reagan administration waging war by proxy against Japan's system of industry-government cooperation. U.S. tool industry sources say Houdaille filed its petition last May with encouragement from Deputy U.S. Trade Representative David Macdonald, one of a number of administration aides who aren't satisfied with Japan's responsiveness on trade issues.

Reagan Rides Above the Fray

Because Houdaille initiated the petition, the administration is in a fail-safe position, allowing a private party to build a damning case against Japan while remaining officially detached from the grievance.

It is by no means certain that the White House will agree to slap the tax penalty on purchasers of Japanese tools. Indeed, other means of aiding Houdaille are being considered. The Trade Policy Committee, a cabinet body chaired by U.S. Trade Representative William Brock, is scheduled to consider action on the Houdaille case today.

The petition has attracted strong support in the Senate, where a resolution urging the administration to act on it passed unanimously in the closing days of the lame-duck session. The resolution's 26 cosponsors covered the entire spectrum—from such free-traders as Charles Percy to protectionists like Don Riegel; from liberal Democrats like Paul Tsongas to conservative Republicans like Jake Garn.

For the U.S., one appealing aspect of Houdaille's legal challenge to Japanese industrial practices is the fact that it can be done with existing statutes. The Houdaille petition, in fact, is based on an 11-year-old statute that the Nixon administration inserted into a revenue bill to guarantee U.S. companies continuing protection when it lifted a 10% surcharge on imports.

Technically, the U.S. can act on the petition without violating its pledge at the last General Agreement on Tariffs and Trade ministerial meeting that it wouldn't advance any new protectionist measures.

Although Japan didn't seem to take the Houdaille action seriously at first, that has changed. Wender Murase & White, the law firm representing the Japanese machine-tool makers, already has protested the "coziness" between Ambassador Macdonald's aides and Houdaille's lawyers. "They travel on the same planes to Tokyo—what more can you say about that?" says Carl Green, a Wender Murase spokesman.

Houdaille's attorneys flatly deny that and countercharge that such assertions show only the Japanese side's "careless disregard for the facts in this case."

Wender Murase is also exercised about the "Dear Don" letters that Richard Copaken, the chief Houdaille attorney, has sent to Donald DeKieffer, the U.S. trade representative's general counsel who is working on an administration position. The letters, however, are more than friendly chitchat. They run to hundreds of pages, documenting the use of public subsidies to support the Japanese machine tool industry.

Ironies abound in this case. The industrial policies that Houdaille is attacking—for instance, MITI in its role as godfather to Japanese industry—were in fact put in place by U.S. Gen. Douglas MacArthur's occupation government, which encouraged that kind of stratagem to accelerate Japanese recovery in the midst of the Cold War.

MITI in Decline

Houdaille's description of the MITI-industry cooperative network was absolutely true some years ago. It is less so now. MITI, in fact, has trouble getting highly competitive Japanese enterprises to agree on anything. Toyota Motor Corp., Hitachi Ltd. and other well-heeled companies can go their own way with little help from the government.

"There's nothing I would like better than to see Japan Inc. eliminated from the trade glossary," says Tom Pepper, co-author of a Hudson Institute study on how Japanese companies are becoming more independent of MITI guidance.

Houdaille, nonetheless, feels it has submitted enough documentary evidence to argue its point convincingly. This includes Mr. Copaken's interviews with MITI and machine-tool industry spokesmen and records of Japanese public funding for that industry. "We've nailed this case down tight. We've everything in there including the smoking gun," Mr. Copaken says.

6

If you want us to continue taking Toyotas you had better buy more of our beef, oranges and bull semen. That's Washington's blunt message to Japan. It's not protectionism we're after but reciprocity.

Enough of your promises

By Allan Dodds Frank

DOCUMENT BY DOCUMENT, charge by charge, the U.S. is blaring its growing impatience to the Japanese over their protectionist trade practices. The message of last month's 75-page report *Japanese Barriers to U.S. Trade and Recent Japanese Trade Initiatives*—in which the office of the U.S. Special Trade Representative indicted Japanese protectionism—is: Shape up or we let the U.S. Congress narrow access to our markets.

The U.S. is running a $20 billion trade deficit with Japan that, because a weakening yen is making Japanese goods cheaper in the U.S., might become a $30 billion deficit next year. There are calls for tariffs, quotas or both on Japanese goods from U.S. labor unions and businessmen who are feeling the heat of Japanese competition. But the Reagan Administration's response has been subtle: Rather than erect walls around our industry—and allow it to go completely slack—it has been pushing for an opening to Japan's own highly protected, $1 trillion (GNP) market. Don't block imports, in other words, maximize exports—and put U.S. industry on its mettle into the bargain.

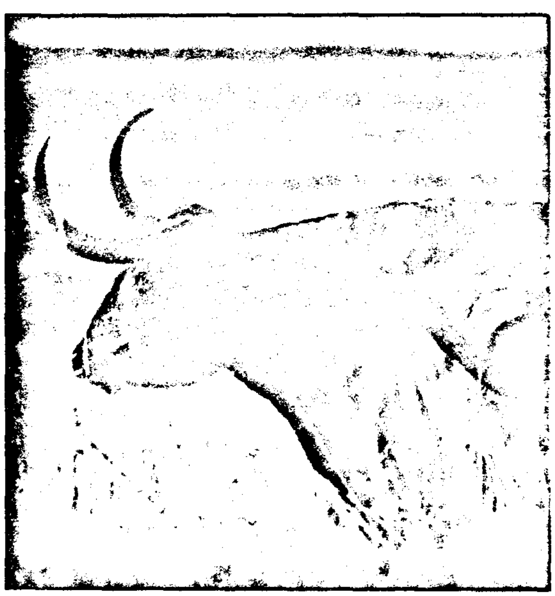
The mercantilist Japanese, however, have responded with promises but little relaxation of their infuriating nontariff barriers in classic "talk-talk-ship-ship" style. Some of their practices, as outlined in the *Japanese Barriers* report, seem downright gratuitous. Why, for example, do the Japanese discriminate against such things as U.S. aluminum softball bats or U.S. cigarettes? Why should a nation that depends on trade insult its trading partner with practices such as:

Cosmetics: Japan doesn't accept U.S. test data, prohibits consumer preference tests and delays product registration.

Medical and dental equipment: A license from the health ministry is required, which takes six months and there is a $100 per item fee in addition to the duty.

Frozen bull semen: Commercial imports are banned, says the *Japanese Barriers* report, "based on unjustifiable concern about animal health standards."

Beef: A 25% tariff is levied by the Japanese, plus surcharges and a minimum price. Moreover, animal quarantine facilities are too small to handle large shipments.



Japan restricts both beef and bull semen imports
Now we'll see whose ox is gored.

Oranges: A 20%-to-40% tariff and import quotas are juggled to U.S. disadvantage, and all orange juice must be blended with satsuma, a Japanese tangerine-like fruit.

Naphtha: Imports are limited to Japan's estimated domestic shortage, and only Japanese oil refineries may import it.

Automobiles: Manufacturers' self-certification on regulations is not allowed. If the U.S. demanded individual car inspection, Japanese sales here would freeze.

These rebuffs have angered the Administration. Says Special Trade Representative William E. Brock III bluntly: "We have taken as much time as we can afford to take and we have been as understanding as we possibly can be. Now it is really up to them to move and move quickly."

What will the U.S. do if the Japanese continue their present tactics? Secretary of Commerce Malcolm Baldrige warns that the Administration soon will propose "reciprocity legislation" that would condition U.S. acceptance of Japanese goods on equal access for American goods and services in Japan. Several reciprocity bills are pending in Congress, but the Administration has opposed them. Baldrige adds that he may suggest changes in U.S. antitrust laws to permit U.S. firms to pool their research and development in order to meet head-on similar cooperative ventures by Japanese manufacturers.

Such antitrust changes would attempt to offset the Japanese practice of targeting industries such as electronics and data processing, and supporting Japanese companies while boycotting U.S. ones. The report also complains about "buy Japan" policies at the monopolies running telecommunications, railroads and electric power.

Don't ignore the contribution that aggressive Japanese business has made to teaching U.S. labor unions the hard lesson of world competition and to awakening forcibly some sleepy U.S. company managements. But trade must be a two-way street. Now the Reagan Administration is telling Japan, with increasing force, that it had better let U.S. industry compete over there or face retaliation that will sharply limit Japanese sales in the $3.1 trillion (GNP) U.S. market—upon which, in the final analysis, Japanese prosperity essentially depends. ■

Washington Post, Dec. 9, 1982

Nobuhiko Ushiba

Let's Lower Our Voices

Recent statements in Washington and Tokyo appear to presage a new round of acrimonious trade conflict between Japan and the United States. Heated debate is becoming an almost annual occurrence, eroding the good will and the ability to cooperate between the two largest market economies.

Suspension of negotiations in Hawaii in October over Japan's argricultural quotas, especially for beef and citrus fruits, illustrates some mistakes both sides have been making. Neither beef nor citrus is a "big ticket" item in the overall Japan-U.S. trade balance, but they are symbolically important to both countries. To Americans, they are a visible market barrier, and symbolic of what they regard as an unwillingness of the Japanese to take politically courageous acts to make their market as open as the American market. To the Japanese farmer organizations, they are symbolic of the willingness of the Japanese government to protect the welfare of Japan's farming community, which sees itself under increasing siege from much cheaper foreign imports.

In this context, the impasse that developed in Honolulu is perhaps understandable. The Japanese side offered little hope of further liberalization, while the American side demanded full liberalization. The meeting broke up a day early with the Japanese righteously and rightfully complaining that the Americans had not been willing even to discuss Japan's proposals for liberalization of other agricultural barriers and with the Americans righteously and rightfully complaining that Japan had not abided by the spirit of earlier commitments to take further significant steps toward liberalization. Moreover, there was a natural tendency for negotiators on both sides to exaggerate the intransigence of the other side to the press and politicans back home, creating the impression of an even more dismal and acrimonious confrontation than really took place.

What were some of the mistakes that led to this situation?

First, on the American initiative, the talks were held earlier than originally scheduled. Neither side, but particularly the Japanese side, had done the kind of serious exploration of options back home or with each other that could lead to compromises productive of results.

"There was a natural tendency for negotiators on both sides to exaggerate the intransigence of the other side to the press and politicians back home . . ."

Second, the meeting was billed as significant, creating high expectations and inviting considerable press attention. In fact, this should have been a quiet, low-level exploratory meeting. Too much attention at an early stage in negotiations tends to harden positions and complicate negotiations.

Third, neither side took carefully enough into consideration the interests of and constraints upon the other party. The Japanese side should have been aware that acceptance of an apparent backing away from an earlier, more forthcoming posture would have been impossible for American negotiators to defend at home to Congress and the interest groups involved. The Americans should have been aware that a demand for full liberalization, however desirable in the long term, raises the specter to Japanese farmers of being totally wiped out, increasing the farmers' pressures on the negotiators not to make concessions.

Finally, Japan did not have an effective program of agricultural diversification for citrus and beef products during the past four years. As a result, the bargaining leverage of its negotiators was reduced and put them in the untenable position of making excuses for not taking actions that the American side expected.

What can we learn from this experience?

First of all, both sides need to adjust their bargaining strategies. In the past, Japanese negotiators at times invited public American pressures, while Americans believed only very strong pressures could lead to results. But such tactics today prove counterproductive. What is needed now is a quiet exploring of options and then face-to-face negotiations by high-level negotiators once it is clear that there can be successful results. The previous round of citrus and beef negotiations in 1977 and 1978 was ultimately handled effectively in this manner by Robert Strauss, then U.S. special trade representative, by Japanese Agriculture Minister Nakagawa and myself.

Similarly, today high-level political leadership is needed to strike a balance between the positions of the two sides and to launch Japan on an effective program of structural adjustment.

Second, both sides should seek to work out compromises without excessive politicization, or rancor, a process that is often difficult for countries that are democratic and that have highly organized interest groups and free media. If it appears that a bilateral solution cannot be reached without serious abrasion of the relationship, as a last step, negotiators should consider using the GATT dispute settlement mechanism in hopes that a disinterested third party could help the two sides persuade their respective governments that compromises are necessary and appropriate. However, reference to the GATT should not be an excuse to delay needed structural adjustments in Japan.

Finally, both sides need to act in good faith to implement the agreements that have been reached. Too often discontented elements at home are at work to undermine the compromises or to rekindle the debate. It is the responsibility of both governments to abide by their commitments and to contain those who for shorter-term economic or political interests prefer impasse or confrontation.

The writer was formerly Japan's chief trade negotiator, and has also served as ambassador to the United States.

Wall Street Journal, Nov. 10, 1982
(EDITORIAL)

U.S.-Japan Salvos

Trade frictions between the world's two largest market economies have been getting uglier than usual. The Japanese are growing more and more irritated by the hectoring and often inconsistent demands by U.S. politicians. Meanwhile Americans, especially those most committed to free trade, are increasingly upset that Japan isn't doing enough to eliminate its few remaining trade barriers. Here are some suggestions for both sides.

For the Americans, let's stop complaining about the bilateral trade deficit until the U.S. Congress decides to lift the ban on the export of U.S. oil. That action alone could slash the U.S.-Japan deficit by billions.

And let's not hear anything more about the "undervalued" yen. The dollar has appreciated against all major currencies, as a result of domestic monetary policy and expectations about future U.S. financial stability and economic strength. There is no evidence that the Japanese have manipulated exchange rates to keep the yen low; on the contrary, officials such as Bank of Japan Governor Haruo Mayekawa have publicly expressed worries that the depreciation of the yen is *hurting* the Japanese economy. In any case, liberalized access to Japanese financial markets, which U.S. officials are also (quite properly) pushing for, would further depress the yen, at least in the short run.

Finally, let's hear a little less demagogy about how Japanese customs inspections and the like are all that keep U.S. car companies and other manufacturers from swamping the Japanese market. Anyone familiar with, for example, the size of Tokyo parking places and the quality of small U.S. cars, as well as the price differential—the average retail car price is $3,000 lower in Tokyo than in New York—will tell you that just isn't so.

On the Japanese side, we'd like to see more attention to the political balance between free-trade and protectionist forces in the U.S. and other Western countries. It is hard to overemphasize the damage that will be done both to Japanese export interests and to the world economy in general unless the free-trade forces are given something to fight for. And that means a stronger Japanese commitment to trade liberalization, particularly in agriculture, tobacco and high technology.

Ruling Liberal Democratic Party politicians in Japan may feel that they have gone as far as they can in liberalizing; in particular, they fear that possible inroads by the Socialist opposition into their rural power base make it difficult to lower barriers on rice, citrus and beef imports. But at the same time, they might want to pay attention to the weakening of the free-trade coalition in the U.S. The U.S. labor movement, once the strongest political supporter of free trade, has already turned protectionist. Even the U.S farm lobby can no longer be counted on to oppose domestic protectionism; instead its major trade issue these days seems to be complaining about export rebates by the European Common Market.

Such groups, as well as U.S. and European hi-tech exporters, can be brought back onto the free-trade bandwagon. But they need a good reason and they need something to show for their efforts. Japan, which would lose more than any other economy from a world trade war, could play a much stronger role in preventing one, by removing its remaining trade irritations.

NEW YORK TIMES, Oct. 19, 1982

Sharp Rise in Japan Imports Feared

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Oct. 18 — Government and industry leaders are concerned that Japanese imports will rise sharply as a result of the recent decline in the value of the yen, thus intensifying trade problems with Japan.

In just two years, the yen has depreciated more than 25 percent, from about 200 to the dollar to about 265. This has yielded what Alexander B. Trowbridge, the president of the National Association of Manufacturers, calls "an inordinately competitive price" for the Japanese cars, machine tools, semiconductors, carbon film resistors and other products exported to the United States.

Because of the weakness of the yen, an auto that had sold in early 1980 for $10,000, for example, yielding its Japanese manufacturer 2 million yen, can now be sold for about $7,500 and still yield 2 million yen. Japanese manufacturers are thus in a position to sell more products by lowering prices, or to increase profits by maintaining dollar price levels.

The depreciation of the yen is considered one of the factors behind the rising penetration of Japanese imports in the American market and a United States trade deficit with Japan that, according to internal Government projections, could be as high as $25 billion this year, compared with $18.1 billion last year.

In the first six months of this year, for example, imports of machine tools from Japan came to $319 million, or 12.6 percent of domestic consumption, according to figures from the National Machine Tool Builders Association and the Commerce Department. In 1981, Japanese companies accounted for 11.7 percent of the machine tools sold in this country, compared with 6.6 percent in 1978.

Trade officials here are worried that the current economic slump in Japan, together with the pressure to export generated by the weak yen, will touch off a fresh sales drive by Japanese concerns. That could mean further job displacement in this country at a time of growing domestic unemployment, they say, and it would almost certainly touch off a strong protectionist reaction in Congress.

Such a reaction is seen in the wide support that the United Automobile Workers union has gathered for a "domestic content" bill that would require most cars sold in the United States to be built in the United States. Although the bill ran into some snags this year, it is expected to be reintroduced in the session of Congress opening in January.

Commerce Secretary Malcolm Baldrige has said that the declining yen "will definitely have an effect" on American trade relations with Japan. "If the Japanese would lift their trade barriers, we could lift our exports to Japan significantly, regardless of the yen's value," Mr. Baldrige said. And he added that progress in getting Japan to open up its domestic markets had been "too slow."

For example, despite some relaxation of barriers, American cigarette companies are still limited by a combination of tariff and nontariff barriers to 1.4 percent of the $10 billion Japanese market. David R. McDonald, deputy United States trade representative, has said that an open market for American cigarettes in Japan could mean $2 billion a year of added sales for American companies.

"I'm worried, too," Japan's Minister of International Trade and Industry, Shintaro Abe, said on a recent visit to Washington. At a meeting with reporters, he said that any new export surge by Japan "could lead to worsening trade frictions and result in a strong tide of protectionism that could strangle the very existence of Japan."

How Japan Tries to Shut Out Foreign Goods

By Urban C. Lehner

A document from a Japanese government-owned corporation has surfaced in business circles here that provides rare, firsthand evidence in writing of Japanese attempts to shut out foreign products—something foreign businessmen and officials have long alleged but have rarely been able to prove. Indeed a broader look at the controversy underlying the document provides a case study of the kind of elaborate web of restrictions the Japanese can weave when they're determined to have their domestic market to themselves.

The document came out of the Japan Tobacco & Salt Corporation (JTS), a government-owned monopoly that exercises exclusive control over all tobacco-products distribution in Japan. U.S. officials and the three American tobacco makers who sell here through the JTS have long believed and have at times formally complained to the Japanese government that the monopoly tries to obstruct foreign cigarette sales.

The document could well become a *cause celebre* in the ongoing efforts of the U.S. and Europe to persuade Japan to open its market to foreign products. The Japanese government has been trumpeting the claim that it's doing everything possible in that respect. But the document, a six-page battle plan detailing how one of JTS's local offices in Tokyo was to carry out its sales and promotion activities last July, specifically orders steps to squelch foreign cigarette sales.

"Curb stocking of imported cigarettes in vending machines," the document says at one point, indicating further that no foreign brands should appear in small machines containing fewer than 10 columns of cigarettes.

Retailers Won't Testify

"Remove displayed POP (point-of-purchase promotion) items for imported cigarettes in prominent locations," it says. (The American makers say many Japanese retailers have told them that JTS salesmen tear down posters and other promotional materials for foreign cigarettes. But they say the retailers won't testify to that because they depend on the JTS for licenses to do business and for a continuing supply of tobacco products.)

A JTS official involved in drawing up the battle plan confirmed that the document is authentic. A JTS spokesman declined direct comment because he hadn't seen the document. But he said "it's unlikely" that JTS would tear down promotional material or change the brands in vending machines "without the retailers' consent."

The document emerges at a time when officials in Washington are showing increasing displeasure at what they regard as Japanese foot dragging in carrying out earlier promises to open their market. The Japanese government earlier this year announced two packages of measures aimed at removing obstacles to foreign products, and missions of Japanese Dietmen have come to the U.S. to tout the measures. But U.S. officials say most of the measures that Japan announced with such fanfare have yet to be carried out. And a reading of the JTS document and talks with the American tobacco companies suggest that in the case of the JTS at least, new "impediments" are being thrown in the path of imported tobacco products every day.

Promoting the success of cigarette sales here is especially important to Washington, because cigarettes are one product that U.S. officials believe could easily make a significant dent in Uncle Sam's enormous ($18 billion last year) trade deficit with Japan. Cigarette sales come to a staggering $5 billion a year here, and U.S. cigarettes have proved very competitive in other foreign markets. Moreover the JTS, sole manufacturer of Japanese domestic cigarettes, is hardly a tower of business strength; there are moves afoot in the Japanese government to dismantle the monopoly because of its inefficiency.

"If American-made cigarettes were allowed to gain just 10% of the Japanese market," argues Philip Morris International, one of the American makers, in a position paper, "the imbalance in trade would be reduced by half a billion dollars."

But as it stands, foreign cigarettes claim only 1.4% of the Japanese market. They're hindered in getting a bigger share by innumerable legal restrictions—even forgetting about such underhanded measures as those outlined in the JTS document. For example, under Japanese law and JTS regulation, foreign cigarette makers:

—May sell their products through only 20,035 of the 247,801 Japanese retailers licensed to sell tobacco products. (As one of the measures announced earlier this year, that number is scheduled to rise to 40,041 by next March 31 and to all of the retailers by March 31, 1986. But the American makers say JTS is carrying out the measure in a way designed to minimize foreign sales as long as possible.)

—Sell their products subject to a 35% tariff and to a tax and pricing formula, which combined with the tariff causes foreign cigarettes to sell at a retail price 60% above domestic Japanese brands. That's true even though the price of American cigarettes when they land in Japan is about the same as the factory price of the Japanese cigarettes.

—Are sharply limited in their ability to advertise and test-market their products.

—Must distribute their products solely through their chief competitor—the monopoly JTS. "There's no way your principal competitor is going to help you," says Joel Silverstein, Japan representative for Brown & Williamson Tobacco Corp., another of the American makers.

John Sandor, who runs Philip Morris's operations locally, complains that JTS never seems to have enough of Philip Morris's products in stock to meet orders from retailers. For example, he says, when retailers order Lark, Japan's best-selling foreign brand (Japanese smokers favor "charcoal filters" like the one Lark features), "The monopoly will normally indicate that a sufficient number aren't in the warehouse and a competing domestic product—in the case of Lark, Cabin—will be partially substituted."

The JTS internal document suggests that the monopoly uses a variety of subtle tricks to hold down foreign sales. For July in Tokyo's Sumida ward, the document ordered special emphasis on sales of five domestic brands. One of them was Marlboro (though a Philip Morris brand, it has been produced by JTS under license here for over 10 years). According to Tsuyoyuki Asaka, one of the JTS officials who helped draw up the document, Marlboro was chosen because it's considered an effective domestic "rival brand to counter imported brands."

Then there are the not-so-subtle tricks, like tearing down or stopping the posting of foreign posters, advertising displays or the electrically lit "light boxes" placed on top of a vending machine displaying the name and logo of a brand. R.J. Reynolds Tobacco International, a subsidiary of R.J. Reynolds Industries Inc., complained several months ago to the new ombudsmen's office that JTS salesmen were telling retailers they weren't legally allowed to display promotional material for foreign brands. The case was settled when JTS agreed to inform retailers in writing that such materials could be displayed.

Then in early August a retailer in Tokyo's Shibuya section informed an American maker that a JTS salesman appeared to have taken away the retailer's "light box" atop the vending machine. But when Japanese government investigators acting on a complaint from the maker that didn't name the retailer, blanketed the area to interview retailers, no one mentioned the JTS. Missing light boxes were blamed on other causes—one was said to have blown away in a typhoon. The moral the investigators drew was that Americans make reckless allegations without proof.

U.S. officials and cigarette makers drew a different conclusion: Retailers are so vulnerable to the JTS pressure, explicit

The JTS controversy is a case study of the elaborate web of restrictions the Japanese can weave when they're determined to have their domestic market to themselves.

or implicit, that they can't afford to testify against the monopoly. There is at least some evidence that JTS doesn't shrink from using pressure to get its way with retailers.

Some retailers themselves make the same point. "Sure there's pressure (not to use foreign cigarette posters)," says Hinako Nakajima, a tobacco-shop owner in Nagoya. "The government hasn't abolished the monopoly system." Asked if JTS salesmen have ever forcibly removed posters from her shop, she will say only "please don't make me answer that question."

Blithely Unconcerned Officials

David Guilfoile, R.J. Reynolds's Japan country manager, says Reynolds's agents talk at least once a month to a large percentage of the 4,300 retailers in Tokyo licensed to sell foreign brands, "and the most common problem is the retailer will say, I can't allow you to put up that (poster or light box) because the JTS will get upset." Mr. Guilfoile says Reynolds hesitates even to complain about such abuses to the government because "we end up getting the retailers we're trying to develop as customers into trouble."

Japanese officials, for their part, seem blithely unconcerned with the tobacco question. Before one of the Dietmen's missions went to the U.S. a few months ago, one of the Dietmen was asked about tobacco at a special press conference for foreign correspondents. He replied that Japan's cigarette maker was "completely free" and thus there was nothing to discuss with the U.S. government.

Nonetheless, in the second package of measures the Japanese did come up with some tobacco concessions. They agreed that the U.S.-Japan "study group," which had been scheduled under the November 1980 Japan-U.S. tobacco agreement to be formed by March 31, 1983, will convene instead next month, an acceleration of six months. It isn't clear what scope the study group will have, however. U.S. officials say the Japanese have agreed to put the tariff question "on the agenda" but haven't agreed to negotiate a lower tariff.

It also isn't clear how meaningful the other concession in the second package—the increase in the number of retail outlets—will prove in the short run. U.S. officials and makers complain, for example, that all the outlets the Japanese have unilaterally selected to be included in the increase to take effect next March are outside the two regions of Japan where 60% of the foreign cigarettes are currently sold. That means the foreign makers won't be able to get more bang out of the sharply limited television advertising dollars they're allowed to spend, which by necessity are concentrated in those two regions.

"That isn't the way you'd do it if you were operating in the spirit" of opening the market, Mr. Silverstein contends.

A Global Trade War On the Way?

Japan blocks out foreign aluminum. Europe subsidizes food exports. The U.S. talks of fighting back. It's a free-for-all that's spreading.

Danger is mounting of a multibillion-dollar trade war that could cut U.S. sales abroad and boost prices Americans pay at home.

Country after country is putting up barriers against imports and subsidizing exports, American policymakers say. Europeans and Japanese, for their part, are complaining that Washington is guilty, too.

"Around the globe, calls for protectionism are louder and more shrill than they have been in 50 years," says U.S. Trade Representative Bill Brock.

Even in the U.S., the cries are getting louder. As domestic firms lose sales to foreign competitors, members of Congress, labor unions and businesses are demanding retaliation. "It makes no sense whatsoever for our nation to be operating under principles of free trade when many foreign countries are erecting barriers at every turn," says Representative James J. Florio (D-N.J.).

Increasingly in Congress and within the Reagan administration there is talk of "reciprocity"—putting up import barriers to countries that are closing their markets to the U.S.

Mounting trade imbalance. Behind all the tough talk is a huge U.S. trade gap with the rest of the world. Last year, the U.S. imported 39.7 billion dollars' more goods than it exported, and the deficit is expected to be even bigger in 1982.

"The U.S. competitive position is being challenged as never before," says Secretary of Commerce Malcolm Baldrige. "The long-term effects on our national security and our international influence could be severe."

The impact of U.S. trade woes on American workers is showing up clearly. The Labor Department certified 28,000 persons as eligible for relief because their jobs were eliminated by sales of imports last year. The Census Bureau estimates 4.8 million U.S. jobs depend upon exports of goods and related services.

Right now, U.S. anger is directed mainly at Japan, which over the years has become a major supplier of autos, television sets, motorcycles, stereos, steel and hundreds of other products. Japan's sales to the U.S. this year are expected to exceed its purchases of American goods by more than 20 billion dollars.

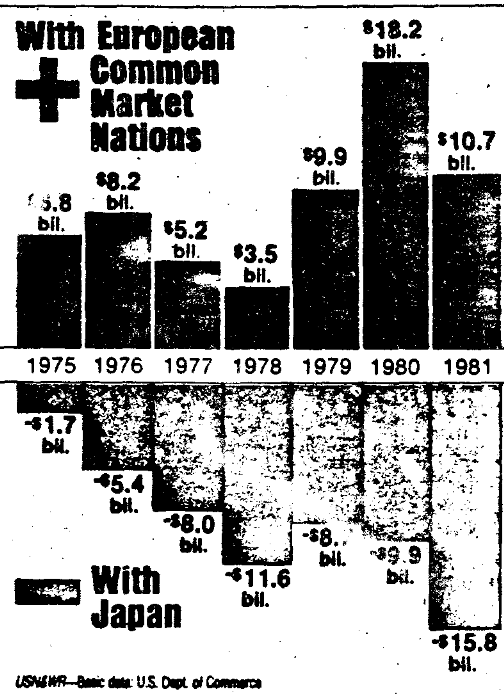
"The Japanese are closing out U.S. imports, and they are mounting an export drive in certain areas where they flood the markets," complains Lionel Olmer, under secretary of commerce for international trade.

The Japanese do not mind selling products below cost, he contends, because they are more interested in full employment than profits. One example is Japan's rapid growth in production of computer-memory chips, to the point where it already has grabbed 70 percent of the U.S. market for one of the newest types of chips. "The price is driven down until one must look and wonder whether it represents fair trade," Olmer says.

U.S. laws require higher tariffs when another country injures American firms by "dumping" surplus products in the U.S.—selling them below what is determined to be a fair value. But U.S. manufacturers complain that dumping suits are time-consuming and that they often have to depend on foreign data to determine the fair value.

Pluses and Minuses

U.S. Balance of Merchandise Trade



USN&WR—Basic data: U.S. Dept. of Commerce

Most threatened by Japanese producers is the American auto industry, which has watched as the Japanese share of the U.S. market has grown from 9 to 22 percent in six years. The U.S. persuaded the Japanese to limit their exports of Toyotas, Hondas, Datsuns and others to this country to 1.68 million cars in 1981, but recession-hit auto makers are talking about a lower quota this year. Ford Chairman Philip Caldwell went further in a Tokyo speech February 9 when he appealed to Japanese manufacturers to make more of their cars in the U.S., thus subjecting them to many of the higher operating costs that American firms must pay.

One reason that the Japanese cars are so popular here, claims Brock, is that they have a built-in cost advantage. Lower wages and taxes in Japan make the average car of the same quality $1,800 cheaper to produce in Japan than in the U.S., he contends. The Japanese charge a 20 percent excise tax on all cars, but that tax is rebated to Japanese auto makers, he says.

Controlling supply. It is such favoritism to Japanese firms that particularly rankles Washington. The Japanese have driven up the cost of U.S. steak in their own country from $4 to $18 a pound by limiting beef imports. Other quotas limit sales of American oranges, milk and leather.

Under pressure of world recession, Japan also is putting up a new system of aluminum tariffs that will protect its industry from U.S. competition. The Japanese say the measure is justified because the industry is distressed.

U.S. officials have been even more critical about a variety of nontariff barriers that keep out imports of such U.S. goods and services as cigarettes, sporting goods, health-care products, alcohol, investments and insurance.

Reacting to complaints, the Japanese government announced on January 28 that it would eliminate or reduce 67 of

99 such barriers, but U.S. officials say that did not go far enough. Washington is considering tough measures, such as limiting Japanese imports or filing complaints under the General Agreement on Trade and Tariffs, a basic international trade pact.

American ire is turning also toward Europe. "There is grave concern about the growth of agriculture exports by European countries and how they are subsidized by their treasuries," says Agriculture Secretary John R. Block. Specifically, Block accuses the European Economic Community of flooding world markets with pasta, sugar, wheat and other products at low prices. U.S. officials are considering taking this case to the GATT ministers.

There is friction, too, over the 66.8 percent increase in European steel sales to this country in 1981. American steel firms have filed more than 100 antidumping complaints, urging that Europeans pay higher tariffs. The cases moved a big step forward February 18, when the U.S. International Trade Commission ruled that domestic firms probably were injured by dumping.

The complaints signaled the collapse of the "trigger-price mechanism," a 4-year-old system that all sides accepted as a way to assess penalties for steel sold below cost in this country. Steel analysts said the breakdown was a sign of frustration over recession in both the United States and Europe.

European labor unions are increasing pressure on governments to keep jobs from disappearing as the economy there worsens. U.S.-based multinational firms complain of moves now under way in the European Common Market that could force them to consult with unions before moving a plant and that could make company officers liable for actions that cost Europeans jobs.

The U.S. is taking its lumps from its neighbor Canada, too. U.S. oil companies complain that under the Trudeau government's "Canadianization" policy, they are forced to sell their holdings. Foreign companies are not allowed to extract oil on federal lands and the Canadian government heavily subsidizes exploration by domestic oil businesses. Other firms fret that a Canadian review board lets in only foreign investors judged to be of "significant benefit" in providing jobs and business to Canadian suppliers.

Cloth push. Another threat, in the view of U.S. officials, comes from the world's developing countries. They have quintupled exports to the U.S. in the last 10 years. The U.S. and Europe are threatening to tighten import quotas on textiles from South Korea, Taiwan and Hong Kong, among others.

With trade worries arising from all directions, members of Congress are moving fast to do something. One approach widely backed is a "reciprocity" measure introduced by Senator John C. Danforth (D-Mo.) and 11 others on February 10. The bill requires the administration to measure the impact of foreign-trade barriers on the U.S. The President would then propose counteractions by the U.S. if the barriers were not removed.

U.S. Jobs That Depend Upon Trade

	Trade-Related Jobs	Percentage of Total Employment
Alabama	70,800	5.0%
Alaska	5,700	3.4%
Arizona	47,400	4.5%
Arkansas	38,000	4.4%
California	518,000	5.1%
Colorado	46,500	3.4%
Connecticut	107,900	7.2%
Delaware	14,200	5.5%
District of Columbia	4,800	1.6%
Florida	141,700	3.9%
Georgia	107,900	4.9%
Hawaii	6,800	1.8%
Idaho	14,300	3.7%
Illinois	265,800	5.8%
Indiana	143,800	6.3%
Iowa	56,600	4.2%
Kansas	44,400	4.0%
Kentucky	57,300	4.0%
Louisiana	52,600	3.4%
Maine	18,500	4.2%
Maryland	59,100	3.1%
Massachusetts	157,300	6.0%
Michigan	237,000	6.6%
Minnesota	85,100	4.2%
Mississippi	36,800	4.0%
Missouri	90,500	4.3%
Montana	5,900	1.7%
Nebraska	19,800	2.7%
Nevada	5,500	1.6%
New Hampshire	23,800	5.8%
New Jersey	176,900	5.5%
New Mexico	7,900	1.6%
New York	377,100	5.2%
North Carolina	154,600	6.1%
North Dakota	6,300	2.2%
Ohio	298,900	6.6%
Oklahoma	44,300	3.5%
Oregon	58,700	5.1%
Pennsylvania	285,500	5.9%
Rhode Island	30,600	7.5%
South Carolina	79,000	6.2%
South Dakota	6,400	2.0%
Tennessee	94,100	5.1%
Texas	267,200	4.4%
Utah	17,900	3.1%
Vermont	10,800	4.8%
Virginia	91,900	4.0%
Washington	114,100	6.7%
West Virginia	28,600	4.3%
Wisconsin	119,800	5.7%
Wyoming	2,800	1.3%
United States	**4,778,900**	**5.0%**

Note: Employment figures are for manufactured exports only.

USN&WR—Basic data: U.S. Dept. of Commerce

The Reagan administration has not formally endorsed the idea of reciprocity but plans to use threats of such legislation to pressure other countries to drop their barriers.

Some trade experts fear that attempts at reciprocity may run counter to international treaties. Says William R. Cline, senior fellow at the Institute for International Economics in Washington: "When you start down the route of retaliating for things you think are unfair, you invite other countries to start retaliating against you because they may think something you are doing is unfair."

What's more, by keeping out lower-cost goods from abroad, the U.S. could add to inflation at home because American manufacturers would face less competition.

Dollar blamed. Foreign critics say that some of the U.S. trade woes are its own fault. For one thing, the 18 percent jump in the value of the American dollar in 1981 has made imports relatively cheap here and U.S. exports too expensive for foreigners.

The Japanese claim that the U.S. isn't aggressive enough in promoting exports. They charge that U.S. auto makers, for example, will sell them only cars with the steering wheel on the left side, even though the Japanese drive on the opposite side of the road from Americans. U.S. firms explain that demand in Japan is not strong enough for them to build cars differently.

Americans have their own protectionist barriers, too, say experts:

- Consumers for World Trade, a Washington trade group, estimates that the public is paying 2.7 billion dollars a year in higher clothing costs because of the 29.3 percent average tariff on apparel imports.
- Under the Buy American Act, U.S. firms are favored over foreigners in government contracts.
- The American Retail Federation says U.S. stores ran out of wool sweaters last fall because of an embargo on sweaters from China.

Some officials hope that business recovery later this year will reduce protectionist pressures. Yet Brock warns: "The choices we make in 1982 are pivotal for the future of the world economic order. . . . We cannot blindly hope that a world economic upswing in the near future will allow these decisions to be avoided." □

By MICHAEL DOAN