Asian Studies Center

Backgrounder

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U.S. — JAPAN TRADE TENSION
PART 1
WHAT IS AT FAULT?

INTRODUCTION

The U.S. merchandise trade deficit last year reached $123 billion, including a $37 billion deficit with Japan. This year the U.S. global trade deficit is likely to hit $150 billion, with a $45 billion deficit with Japan. The U.S.-Japanese trade gap has provoked strong emotional reactions in Congress and a torrent of protectionist proposals. The trouble is that these proposals would be very costly to the U.S. economy, consumers, and workers.

Concern over the trade deficit with Japan is in part a reaction to its overall size. There is widespread confusion, however, about the actual meaning of the trade statistics. A mechandise trade deficit as such is not necessarily a problem--a net inflow of goods often accompanies a country's economic expansion. A merchandise deficit, moreover, typically is offset by other factors such as revenues paid by foreigners for banking, insurance, and other services. The "current accounts balance" is a truer reflection of a nation's performance in the world marketplace. It includes service trade and interest income earned abroad. Even though the U.S. is now running a current accounts deficit, such a deficit cannot be maintained indefinitely, and the market will adjust on its own with a lower dollar. Further, the current accounts balance ignores inflows of foreign capital, some of which goes to business investments, creating jobs for Americans. The raw figures, in short, mask a complex situation involving many benefits as well as costs.

The U.S. trade deficit is not primarily the result of Japanese trade restrictions. Studies indicate that, if all Japanese restrictions were lifted, the trade gap would be cut initially by

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no more than $10 billion a year, and perhaps by as little as $6 to $8 billion. Yet the U.S.-Japan trade relationship is nonetheless central to the deficit debate. For one thing, both nations are economic megapowers. For another, both typify the highest technology, most competitive marketplace, and most creative entrepreneurs in the world. If Tokyo and Washington get locked into a trade war, it will symbolize the collapse of the post-World War II era of liberalized trade and could trigger a global economic slowdown, even a depression.

To defuse the particularly explosive trade situation, steps by both Tokyo and Washington are needed. The U.S. government, for instance, imposes restrictions on U.S. exports, while many U.S. business practices also impede exports. In particular, U.S. businessmen often pay too little attention to the needs and customs of foreign clients. And Tokyo does in fact limit the access of a number of U.S. products and services to the Japanese market, such as beef, citrus, paper products, and telecommunications equipment. If both sides took action in such matters, a freer flow of trade would benefit the citizens of each country.

AN ANATOMY OF U.S.-JAPAN TRADE

The furor against Japan has been triggered by a number of factors. First, there is a general perception that, while the U.S. maintains relatively open markets, Japan erects numerous trade barriers against U.S. goods. Second, when in April 1985, Japan sold its massive state telecommunications monopoly to the private sector, U.S. policy makers felt that the guidelines for large purchases of new equipment shut out U.S. firms. Third, when Ronald Reagan lifted quota restrictions on Japanese autos, many Congressmen felt that Tokyo did not take commensurate measures to open up Japanese markets. Finally, the merchandise trade deficit is assumed by many Congressmen to imply a structural economic imbalance in need of immediate U.S. government remedies.

Elements of truth and error are entwined in these views. The challenge to U.S. and Japanese policy makers is to separate the legitimate problems from the distortions.

U.S.-Japanese trade relations should be examined in the context of both countries' economies. As Table 1 indicates, the U.S. gross national product is about three times that of Japan. With twice the population of Japan, the U.S. per capita income is about 50 percent higher than the Japanese. International trade is much more important to Japan than to the U.S.; merchandise exports plus imports alone amount to 25 percent of Japan's GNP compared with approximately 15 percent for the U.S.

In addition, the U.S. boasts major deposits of oil, coal, and natural gas, whereas Japan must import nearly all of its energy. The U.S. is a huge, fertile land, which is not only self-sufficient in food but can export much of its crop. Japan, at only 4 percent the size of the U.S., is mainly mountainous, uncultivated, and sparsely populated. Where it is populated, density is near the world's highest.

Table 1

Approximate 1984 figures	U.S.	Japan
GNP	$ 3.7 trillion	$ 1.2 trillion
Population	236.6 million	120 million
Per capita income	$15,500	$10,000
Exports plus imports as GNP percentage	15%	25%
GNP Growth	6.9%	5.8%

Source: International Financial Statistics, July 1985, International Monetary Fund, Washington, D.C.

The Course of U.S.-Japan Trade

The U.S. merchandise trade balance, reflecting the difference between the value of manufactured goods imported and exported, ran an average $4 billion annual surplus in the 25 years after the Second World War (see Table 2). Since 1970, the U.S. generally has imported more merchandise than it has exported. The merchandise deficit averaged $39 billion between 1977 and 1982, widened to $69.3 billion in 1983, and hit $123 billion last year. This year the merchandise trade deficit could reach $150 billion.

Table 2
U.S.-Japan Merchandise Trade (in $ billions)

	1946-1970 average	1971-1976 average	1977-1981 average	1983	1984
Exports	20.3	80.7	181.8	$200.5	$217.9
Imports	16.3	83.0	210.9	$269.9	$341.2
Merchandise trade balance	+$4.0	-$2.3	-$29.1	-$69.4	-$123.3

Source: Economic Report of the President, February 1985; Council of Economic Advisers; Economic Indicators, various 1985 issues, Council of Economic Advisers, for the Joint Economic Committee.

America's top trading partner is Canada, followed by Japan (see Table 3). Although the U.S. runs a merchandise trade deficit with both Canada and Japan, the trade deficit with Japan is the larger. However, the per capita U.S. trade deficit for Canada's 25 million inhabitants was $816 in 1984, compared to $308 for

Table 3

Canada (in $ billions)	1983	1984	Japan (in $ billions)	1983	1984
U.S. Imports	$52.5	$66.9	U.S. Imports	$43.6	$60.4
U.S. Exports	$38.2	$46.5	U.S. Exports	$21.9	$23.6
Balance	-$14.3	-$20.3	Balance	-$21.7	-$36.8

Source: United States Trade: Performance in 1984 and Outlook, U.S. Department of Commerce, International Trade Administration.

Japan. The primary U.S. exports to Japan are manufactured goods, valued at nearly $12 billion, and agricultural products, valued at some $7 billion. Japan is America's largest customer for beef, pork, chicken, and various citrus fruits, and its second largest market for wheat and soybeans.[1] The primary U.S. imports from Japan include automobiles, some $13 to $14 billion worth, and other manufactured goods such as telecommunications equipment and computer chips.

With annual GNP growth rates running as high as 10 percent during the 1950s and 1960s, Japan generally ran merchandise trade deficits. This is typical for expanding economies, which suck in imported goods to meet growing domestic demands. Again typically, as Japan's growth slowed in the 1970s, Japan moved into surplus--though as recently as 1979 the merchandise surplus was only $1.85 billion. In 1984, it reached $44.4 billion.

Merchandise trade figures, of course, do not include trade in services. If these are added, the U.S. ledger improves somewhat. The U.S. enjoyed an overall service trade surplus of over $2 billion[2] in 1984, while Japan ran a $7 billion service deficit.

Normally the bilateral trade balance between two specific countries is of minor consequence. It is nearly impossible and not particularly desirable for the U.S. to run a trade surplus with each of its trading partners. The U.S. merchandise deficit with Japan attracts great attention primarily because the $37 billion constitutes the largest single portion--about 30 percent--of the global U.S. merchandise deficit.

[1] Katsuro Sakoh, "Food Exports and the U.S.-Japan Trade Deficit," Asian Studies Center Backgrounder No. 15, The Heritage Foundation, Washington, D.C.

[2] United States Trade: Performance in 1984 and Outlook, U.S. Department of Commerce, International Trade Administration, p. 140.

THE MEANING OF TRADE STATISTICS

Merchandise trade figures reflect the value of a country's trade in manufactured and other goods. They say nothing about investment or services. As such, a merchandise trade deficit does not necessarily imply a problem. A growing economy can run such a deficit indefinitely, as the U.S. did for the first century of its history, and as it generally has done since 1970.

A better, though less than perfect, measure of international economic transactions is the current accounts balance. In addition to manufactured goods, this includes trade in such services as banking, accounting, advertising, data processing, transportation services, consulting, and income from foreign investments.[3] Many countries receive enough service and investment income to offset their merchandise gap. Until 1981, in fact, the U.S. ran a current accounts surplus.

In a very basic sense, international economic transactions are always "balanced," since the U.S. pays for its imported goods in dollars, which generally are returned to the U.S. to buy U.S. goods and services or make investments in the U.S. If, temporarily, there is a large dollar flow out of the U.S., supply and demand ensure that the value of the dollar will drop. The result: A slowdown in imports and an increase in exports of American goods.

CAUSES AND IMPLICATIONS OF THE TRADE DEFICIT

Trade protectionism by Japan or other countries is not the underlying cause of the U.S. trade deficit. Rather, the strength of the U.S. economy has resulted in foreign investors purchasing U.S. assets, increasing the value of the dollar, thereby encouraging Americans to buy more imports. Last year, the U.S. economy grew 6.9 percent, the highest level in the industrialized world.

This economic strength, especially compared with the rest of the world, has attracted much overseas capital and encouraged Americans to invest their money at home. U.S. export of new capital peaked at $119.2 billion in 1982. In 1983 it fell to $55 billion and in 1984 to $20.4 billon. In contrast, foreigners in 1984 invested over $97 billion in the U.S., for a net capital inflow of $77 billion.[4] Of the new foreign capital invested in

[3] It should be noted that current methods of calculating service trade might well underestimate its importance. See Jonathan David Aronson and Peter F. Cowhey, Trade In Services: A Case for Open Markets (Washington, D.C.: American Enterprise Institute, 1984).

[4] Economic Indicators, Council of Economic Advisors for the Joint Economic Committee, September 1985, p. 37.

1984, nearly $50 billion came from Japan. This increased demand for U.S. dollars caused the currency to regain most of the strength it had lost during the 1970s. Thus, while 1984 U.S. exports rose by 8.7 percent over the 1983 level, the increased purchasing power of the dollar spurred a 26.4 percent rise in imports. Imports increased from nearly all U.S. trading partners, not just Japan.

Jobs and the Trade Deficit

Some policy makers fear that the enormous amount of imported foreign goods destroys U.S. jobs. While there can be no dispute that workers in particular industries have suffered from imports, there is no evidence of an overall loss of jobs. Quite the contrary. While the U.S. trade deficit has grown, nearly eight million net new jobs have been added to the U.S. economy. And since 1975, over 20 million net jobs have been created in the U.S. By contrast, Western Europe has lost two to three million jobs in the past decade, although the trade balances of these countries have been relatively healthy.

Japanese Savings and Credit

Most American managers marvel at the ability of their Japanese competitors to acquire new capital and equipment. One reason for this is the differing policies of each country toward savings and credit. The Japanese save approximately 17 percent of their disposable household income. Americans save only 5 to 6 percent. Japanese policies encourage a high savings rate. Special "postal accounts," for instance, allow tax-free interest on amounts up to approximately $15,000. And in general, the Japanese do not pay capital gains on securities. The U.S. taxes capital gains at a rate of 20 percent.

In Japan, no tax deduction is allowed for mortgage interest payments or for interest payments on other consumer purchases, such as automobiles. The U.S. tax system allows such deductions, thus encouraging consumption and discouraging saving. The result: American consumers have greater financial incentives to purchase Japanese goods than Japanese consumers have to purchase American goods. Japanese policies that encourage saving and do not reward consumption ultimately promote capital accumulation. This excess of capital above what is needed for domestic Japanese needs can be employed in more export-oriented industries.

U.S. GOVERNMENT AND BUSINESS PRACTICES IMPEDING EXPORTS

U.S. government officials and business leaders rightly have complained that some Japanese trade practices hurt American exporters. Often overlooked, however, are the U.S. government and business practices that discourage or even prohibit U.S. exports and others that make U.S. businesses less competitive.

U.S. Export Restrictions

A number of U.S. policies discourage exports, particularly to Japan. Among them:

1) The U.S. prohibits the export of oil and natural gas to Japan and other countries. Japan could buy as much as $10 billion worth of American oil per year. The overall U.S. merchandise deficit would not improve much by this, of course, since the U.S. would have to replace part of the oil sold to Japan with oil bought from foreign suppliers. A number of Congressmen advocate allowing such sales, and the Reagan Administration wants to allow sales of at least small quantities of oil from Alaska's Cook Inlet. More helpful would be removal of U.S. barriers to selling as much as $11 billion worth of natural gas to the Japanese. This gas would not have to be replaced by imports.[5] The result would be a substantial reduction in the trade deficit with Japan.

2) The U.S. prohibits the export of raw timber harvested on federal lands. Japan is a major importer of timber and might purchase as much as $1 billion worth of federal timber.[6]

3) U.S. cargo preference laws require half of government-financed agricultural exports to be shipped on U.S. vessels. The U.S. Department of Agriculture estimates that this adds about $35 per metric ton to the price of U.S. wheat exports, thus discouraging foreign purchases.[7]

4) U.S. agricultural price support policies push the cost of American commodities far above world prices. Predictably, this reduces overseas sales of U.S. farm products, damaging both the U.S. merchandise balance and the earnings of the U.S. farmer.

U.S. Production Costs and Quality

Many U.S. businesses have been slow to adjust to changing international economic conditions. For two decades after World War II, the U.S. faced little global competition for most manufactured goods. The recovery of Western Europe and Japan changed this. Yet the U.S. simply has not moved to match the cost and quality of Japanese products. Japanese companies, for instance, produce small cars for $1,500 to $2,000 less per unit than do American firms. The Japanese car, moreover, is widely regarded as superior in quality. Similarly, in the 1970s, U.S. steel companies have to invest sufficiently in modernization, despite

[5] Milton Copulos, et al., "Exporting Alaska's Oil and Gas," Heritage Foundation Backgrounder No. 248, February 22, 1983.

[6] Steve Hanke, "U.S.-Japanese Trade: Myths and Realities," The Cato Journal, Winter 1983/85.

[7] The Economist, August 3, 1985, p. 23.

obtaining import restrictions in the late 1960s and the 1970s to allow a "breathing space" for that purpose.[8]

Many U.S. firms now recognize that quality, management, and investment shortcomings handicap their ability to compete. To remedy this, many potentially competitive U.S. industries, such as autos and textiles, have begun investing in new technology, changing management techniques, and seeking other ways to become more efficient. The U.S. government can encourage such efforts by streamlining regulations and reforming taxation policies. Antitrust laws that discourage productive cooperation between U.S. firms, for example, should be changed.[9] And business taxes should be cut further.

THE EXTENT OF JAPANESE TRADE RESTRICTIONS

While the U.S. government and businesses can take steps to promote U.S. exports, Japanese trade barriers continue to hinder the entry of U.S. goods. Yet the magnitude of the problem is often exaggerated. The U.S. Department of Commerce has estimated an initial potential sales increase of only $10 billion for U.S. exports if Japan were to remove nearly all of its trade barriers--which is no more likely than for the U.S. to drop all of its barriers. Moreover, the Department's study also assumes that U.S. companies could acquire the same market shares for various products in Japan as they currently hold worldwide. But resource-poor Japan relies heavily on exports of manufactured goods to pay for basic imports, so the pattern of U.S. trade with Japan would probably not match the Commerce Department's assumptions.

And, of course, even if Japan were to open its markets completely, many other countries would compete vigorously with U.S. goods for market shares. Australia and New Zealand, for example, would mount a serious challenge to U.S. agricultural commodities.

In another study of U.S.-Japanese trade, economists C. Fred Bergsten and William R. Cline of the Institute for International Economics, find that the potential U.S. sales increase accompanying an elimination of Japanese trade barriers would fall within a range of $5 to $8 billion.[10] Thus the removal of Japanese trade barriers, while certainly very helpful and long overdue, would cause only a small dent in the trade gap.

[8] Kent Jones, "Saving the Steel Industry," Heritage Foundation Backgrounder No. 354, May 21, 1984.

[9] Edward L. Hudgins, "36 Ways to Narrow the U.S. Trade Deficit," Heritage Foundation Backgrounder No. 457, September 24, 1985, pp. 8-11.

[10] See C. Fred Bergsten and William R. Cline, The United States-Japan Economic Problem, preliminary draft, July 10, 1985, Institute for International Economics, Washington, D.C., for an in-depth analysis of the Commerce estimate.

Japanese barriers are no more severe than those of other countries. The Bergsten-Cline study, for instance, found that exports of U.S. manufactured goods to West Germany are restricted almost as much as exports to Japan.[11] This study also estimates that the U.S. keeps at least $4.3 billion in Japanese steel, textiles, and autos out of the American market. In a comparison of Japanese market restrictions with those in other industrialized countries, University of Michigan economist Gary R. Saxonhouse revealed that Japan does not top the list.[12] Japan, for example, has the lowest tariff rates among industrialized countries. And France has more quota restrictions than Japan.

THE NATURE OF JAPANESE TRADE RESTRICTIONS

American exporters complain about two kinds of formal barriers to their goods: tariffs and quotas. As serious, if not more so, are subtle means used by the Japanese to restrict entry of foreign goods.

Tariffs[13]

Japanese tariffs have been reduced considerably over the past couple of decades and are no longer a major impediment to foreign goods. Japan's tariffs, in fact, are generally lower than those of other industrialized countries, including the U.S. Japan recently announced its intention to lower by 20 percent its tariffs on some 1,800 goods. After 1987, when the reforms of the most recent GATT round are fully executed, the average Japanese tariff will be 3 percent, the lowest in the industrialized world.

Yet tariffs still hinder the sales of certain U.S. products. Tobacco is an example. Various local and other taxes, on top of an 18.8 percent tariff, boost the price of U.S. manufactured tobacco products in Japan by 37.5 percent. Rates on liquor, dairy products and sugar are also high. Without these tariffs, U.S. exporters would be able to sell much more of these products to Japan.

Quotas

Quotas also have been reduced by Tokyo in recent decades. Tight restrictions on importation of citrus fruit and beef do limit considerably the sales in Japan of these U.S. products.

[11] Ibid.

[12] Gary R. Saxonhouse, "The Micro- and Macroeconomics of Foreign Sales to Japan," in William R. Cline, ed., Trade Policy in the 1980's (Washington, D.C.: Institute for International Economics, 1983), pp. 259-303.

[13] A good overview of the market access issue is found in Raymond J. Ahearn, Market Access In Japan: The U.S. Experience (Washington, D.C.: Congressional Research Service, February 14, 1985).

Japan's ruling Liberal Democratic Party protects these commodities for the same reason that the U.S. Congress protects the American textile industry: Japanese farmers are an important voter group.

Further, in the early 1970s Japan faced not only the oil crisis but a unilateral cutoff by the U.S. of soybean exports. Since soybeans are a primary source of food for the Japanese, the cutoff had the same psychological effect on Japan that the oil crisis had on America. Part of the public support for Japanese farm programs derives from fear that the U.S. again might prove to be an unreliable trading partner.

While the U.S. government should push for reductions or removal of these quotas, internal Japanese political factors mean that changes will be very slow in coming.

Standards, Certification, and Regulations

The most irritating barriers to U.S. goods have little to do with tangible fees or explicit import restrictions. Many practices of the Japanese government, while ostensibly seeking to uphold product standards, are little more than a smokescreen for nontariff trade barriers. These barriers are particularly troublesome since it is often difficult to distinguish between legitimate and restrictive standards.

Japanese design standards often impede imports. A foreign product may be safe and of high quality, for instance, but because its design differs from that of safe Japanese products, it will encounter difficulties entering the Japanese market. Similarly, Tokyo often requires that product safety tests and certification of foreign products be carried out in Japan. This means costly duplication of tests usually performed already in the country of origin. By contrast, the U.S. accepts almost all Japanese products that have been certified in Japan.

Fortunately for American exporters, the agreement announced by Tokyo this July relaxed some standards and certification practices. If the announced changes are carried out, they will allow much greater access for U.S. goods.

Bureaucratic Discretion

In Japan, government regulations concerning business are often made solely by bureaucrats. And although many government decisions involve consultation with business, foreign firms are not included. Americans justifiably complain that this decision-making process is a trade impediment since it allows Japanese businesses to promote government policies that block their U.S. competitors. Tokyo has promised to allow some foreign input to this process, but the Reagan Administration needs to push Japan much harder on this matter.

The "Buy Japan" Policy

There is evidence that the Japanese are, in fact, willing to purchase goods and services produced by U.S. companies if the price and quality are right. Burroughs, IBM, Schick, Dow Chemical, Pfizer, and McDonald's are among many U.S. businesses with successful operations and affiliates in Japan. Production and sales of U.S. affiliates amounted to $31.7 billion in 1984 (counting only equity shares of business in the case of joint ventures).[14]

The Japanese government, however, encourages "buy Japan" practices. Sometimes this involves more than just friendly persuasion. In one well-publicized case, for instance, a Japanese educational institute, which wanted to buy a U.S. supercomputer, was overruled by Japanese bureaucrats. Japanese Prime Minister Yasuhiro Nakasone seems genuinely to be trying to reverse this "buy Japan" attitude, calling on the Japanese to buy more American goods. The aquiescence of Japanese officials is needed to give substance to this. It is often the mid-level Japanese bureaucrats who put up most resistance to government efforts to open Japan's market further to foreign goods.

Marketing Barriers

U.S. exporters also have serious problems breaking into the Japanese market because of the local marketing and distribution system. Most retail outlets, for instance, purchase from a limited number of distributors, who are often reluctant to carry foreign goods. In the past, moreover, the Japanese government has promoted smaller retail outlets rather than larger stores. Small outlets are particularly dependent on these large distributors.

In recent years, however, large retailers have been gaining ground in Japan.[15] Some of these are bypassing traditional distributors and buying directly from manufacturers. Direct purchasing arrangements offer significant opportunities to competitive American firms. U.S. businesses should take advantage of this changing system.

Business Relations

Another intangible barrier to U.S. penetration of the Japanese market is the Japanese businessman's sense of loyalty to his suppliers. They are very reluctant to turn away from traditional

[14] Kenichi Ohmae, Triad Power (New York: The Free Press, 1985).

[15] See Michael R. Czinkota, Distribution of Consumer Products in Japan: An Overview Staff Paper No. 17 (Washington, D.C.: National Center for Export-Import Studies, February 1985), and Michael R. Czinkota, Changes in the Japanese Distribution System For Consumer Products, Staff Paper No. 18, April 1985.

and reliable suppliers to purchase from foreign or even other domestic companies.

In addition, Japanese anti-trust laws are much less strict (and less anti-business) than corresponding U.S. laws. This allows cooperation between Japanese businesses, often to the exclusion of U.S. firms. Enforcement of existing Japanese laws are often lax. For example, in 1983 a Japanese government commission ruled that Japanese businessmen had acted illegally to restrict the sale of imported U.S. soda ash, a main ingredient in glass and other chemical products. Despite this ruling, the cartel still seems to be operating and restricting purchases of the American commodity.

CONCLUSION

The debate over the trade deficit with Japan has been emotional and often ill-informed. Basic principles of economics have been ignored, as have the adverse results of seemingly attractive policy recommendations. The U.S., with its $3.8 trillion GNP, seems determined to declare a trade war over a potential $5 to $8 billion increase in sales with Japan--a country that invests $50 billion in the U.S. each year.

In light of the real situation, the Administration and Congress should:

1) Avoid kamikaze protectionist measures aimed at Japan.

Unfair Japanese trade practices, while irritating, are not primarily responsible for the U.S. trade deficit in general or the deficit with Japan in particular. Since the general U.S. trade deficit has complex and deep-rooted causes, quick fixes are unlikely to reverse it. Even a decrease in the strength of the dollar or slower U.S. economic growth (and hence reduced American consumer power) would take a long time to produce results--and in the long run mean suffering to American workers in import-dependent industries. Radical protectionist measures are a kamikaze approach to the issue. A 25 percent import surcharge, for example, will only reduce the trade deficit by inflicting serious harm on the U.S. economy, in the form of large increases in consumer prices. And protectionism is an open invitation to costly foreign retaliation.

2) Remove barriers to U.S. exports.

The U.S. has erected barriers to its own exports. Some of these restrictions, such as the prohibition of exports of oil, natural gas, and timber from federal lands, aggravate the trade deficit with Japan. Congress and the Administration should remove such barriers.

3) Remove barriers to U.S. business competitiveness.

One "advantage" enjoyed by Japanese businesses is freedom from the burden of a government that follows anti-business policies. For too many years, U.S. administrations, Democratic and Republican alike, enacted laws and promulgated regulations that penalize U.S. business and impede economic growth. U.S. tax laws discourage savings and capital accumulation, while U.S. regulations make American exports less competitive. U.S. antitrust laws discourage cooperation, while Japanese companies are freer to engage in joint ventures and cooperative efforts. Rather than complaining about these Japanese "advantages," Congress and the Administration should study the shortcomings of U.S. laws and extend to American businesses the same advantages enjoyed by their Japanese competitors.[16]

4) Press Tokyo to open more Japanese markets to U.S. products.

The Reagan Administration has achieved some success in its efforts to open Japan's market further to U.S. goods and services. This pressure should continue. If need be, reasonable deadlines and milestones should be set for various phases of the ongoing trade negotiations. The Administration might even consider a bold step to cut through many fundamental problems: offer to join Japan in a free trade area agreement, to be phased in over a decade, in which both countries remove all barriers, formal and informal, to the trade and investments of the other. Such an arrangement not only would eliminate the basic trade problems with Japan, but also would provide both countries a considerable boost in economic growth and prosperity.

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[16] For an extensive list of particular recommendations, see Hudgins, op. cit.