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## A JAPAN THAT CAN SAY “YES”

### INTRODUCTION

United States-Japan relations undeniably are worse than at any time since World War II. To Americans, Japan appears to be infuriatingly intransigent in the trade negotiations aimed at opening its markets to American goods and services. To Japanese, the U.S. appears to be imposing unreasonable demands on Tokyo's negotiators and refuses to admit that American goods simply cannot compete in the Japanese market.

Both sides have a point. Yet the mounting evidence shows that the American point is becoming stronger. While responsibility thus must be shared for U.S.-Japanese frictions, the far greater fault lies with Tokyo. This the Bush Administration wisely seems to understand as George Bush himself and his very top aides have begun to talk tougher with their Japanese counterparts. While some Japanese officials and top businessmen are urging that their country say “No” to these American demands, Washington must continue to insist that it is about time that Japan started saying “Yes” and agree at last to begin playing by the rules of the international trading game and to live up to its responsibilities as a major power in the post-war world.

**Major Frustration.** The major source of Americans' increasing frustration has been the U.S. trade deficit with Japan, which last year remained the largest of any country in the world. It dipped only slightly to \$49.3 billion from \$52.1 billion in 1988, accounting for 45 percent of the overall U.S. trade imbalance of \$108.6 billion. These figures stand in sharp contrast to America's \$1.5 billion trade surplus last year with the highly-industrialized and technologically-advanced European Community (EC) in 1989.

This has led to the increasingly popular view that Japan is America's principal competitor and economic adversary.<sup>1</sup> In a Yankelovich/*Time*/CNN Poll taken last year in the U.S., for example, 65 percent of the respondents said that Japan unfairly restricts access to American products. And last summer, a *Business Week*/Harris poll showed that 68 percent of Americans view the Japanese economic "threat" as more serious than the Soviet military threat.<sup>2</sup>

**Requiring Barriers.** American fears of Japan also are reflected by the increasing number of American experts on Japan who portray Japan as a country with a strong bureaucracy, combined with a headless political system that most of all protects special interests.<sup>3</sup> This, they maintain, produces an economy ruthlessly run to favor producers over consumers, to keep exports higher than imports, and to secure Japanese pre-eminence in industries that the Japanese bureaucrats have decreed "strategic."<sup>4</sup> This system requires Japan to erect barriers to foreign competition.<sup>5</sup>

As evidence mounts of American concern about Japan, there too is evidence of Japanese concern that Japan has been far too subservient to the U.S. This is the central point of one of the most popular books published last year in Japan, *A Japan That Can Say No*, by Sony Corporation Chairman Akio Morita and Japanese Parliamentarian Shintaro Ishihara, who was a contender last year for Prime Minister. Their main argument: Japan for too long has been under the sway of American policy and should now go its own way by learning how to say "no" to America.<sup>6</sup>

**Wrong Diagnoses.** Morita, who has been trying to prevent the book from being translated into English and published in the U.S., and Ishihara offer the wrong diagnoses and thus wrong prescriptions. In many key areas, Japan already has been saying "no" for decades, particularly to its responsibilities as a far-advanced industrial nation. It is unbecoming of Japan to continue to say "no"; this merely gives credence to what the most vitriolic critics of Japan say about the Japanese. It also is unbecoming for Japan to haggle over almost every product and service before it opens its market to them. The U.S. does not behave this way; almost no other industrial nation does. Thus, Japan should start saying "yes."

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1 "America and Japan: The Unhappy Alliance," *The Economist*, February 17, 1990, p. 21.

2 *Business Week*, August 7, 1989, p. 51.

3 This view widely is represented by the works of several authors who are known as the Japan "revisionists," because of their non-traditional portrayal of Japanese society as "different" from that of the U.S. They include: Daniel Burstein, *Yen*, New York, Simon and Schuster, 1988; James Fallows, *More Like Us*, Houghton Mifflin, 1989; Clyde Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead*, Basic Books, 1988; Karel von Wolferen, *The Enigma of Japanese Power*, New York, Knopf, 1989.

4 *The Economist*, February 17, 1990, *op. cit.*, p. 21.

5 David Brock, "The Theory and Practice of Japan-Bashing," *The National Interest*, Fall 1989, p. 40.

6 Akio Morita and Shintaro Ishihara, *A Japan That Can Say "No"*, Kobunsha Kappa-Holmes, 1989 (unauthorized English translation).

In their talks with Japan, U.S. officials must continue pressing Japan to:

◆ ◆ Say “yes” to improving the standard of living of its own citizens. In the absence of imports, Japan forces its consumers to pay eight times what Americans pay for rice; to live in houses that are on average one-third the size of U.S. homes; to pay three times the world price for fiber-optic cable for Japan’s telephone modernization efforts; to buy their goods at “Mom and Pop” operations with huge mark-ups because of the law, changed only recently, outlawing discount stores. While Japan has the largest surplus of foreign exchange and second largest overseas investments in the world, it also has by far the highest consumer prices and the greatest proportion of unpaved roads in the developed world.<sup>7</sup> The cost of living in Tokyo reportedly is 39 percent higher than in New York City.<sup>8</sup>

◆ ◆ Say “yes” to opening its markets to the world’s products. Japan wants to be able to sell its goods everywhere but erects numerous obstacles to keep foreign goods and services out of Japan. This discriminates against other industrial countries, but also against the Third World. Thus while the U.S. absorbs 50 percent of non-petroleum exports from the developing world, Japan buys only 7 percent.

◆ ◆ Say “yes” to opening its markets to American supercomputers, satellites, wood products, and telecommunications products and to the construction, banking and insurance sectors. Many of these already are the subject of negotiation between the U.S. and Japan. Many of the barriers in Japan to U.S. products and services are in the form of unreasonable regulations governing standards, testing, labeling, certification, procurement and distribution.

◆ ◆ Say “yes” to a “down payment” in the U.S.-Japan Structural Impediments Initiative talks. These seek to remove “structural barriers” to trade between the two countries. A down payment from Tokyo might include ending exclusionary business practices and changing laws favoring “cross shareholding” among Japanese companies. Both of these practices decrease opportunities for foreign investment and trade in Japan.

◆ ◆ Say “yes” to using its economic strength to encourage free market economic development in developing countries and in Eastern Europe. Japan is the world’s second biggest donor of overseas development assistance, contributing some \$9.2 billion, 75 percent of which last year went to countries in Asia. Yet most of this money unofficially has been tied to purchases from Japanese firms.

◆ ◆ Say “yes” to opening the tightly-controlled domestic retail market to give the Japanese people access to foreign goods. While Japan virtually has eliminated quotas on the import of U.S. and other foreign products to Japan,

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7 James Fallows, “Containing Japan, *The Atlantic*, May 1989, p. 42.

8 Japanese Economic Planning Agency, *Commodity Price Report of 1989*, Tokyo, 1989.

it still maintains a series of elaborate and extensive tariff and non-tariff barriers which increase the costs of those products in Japan.

◆ ◆ Say “yes” to opening the banking and financial service sectors. A key barrier to foreign entry into Japan’s cloistered financial markets fell last December when Tokyo ostensibly opened its giant domestic mutual-fund business to new firms. However, Tokyo still has not fully opened its financial sector. For example, the reluctance of Japanese owners to sell corporation shares to new majority stockholders means investors usually cannot invest through acquisitions as often as they do in other countries.

◆ ◆ Say “yes” to ending the cartelization of key industrial sectors, such as agriculture, construction, shipbuilding and steel. Japan, for example, maintains a strict prohibition on rice imports. If the Japanese rice market were open, according to U.S. experts, U.S. rice exports to Japan eventually would be \$565 million annually.<sup>9</sup> Japan’s construction market also shuts out foreign competition.

◆ ◆ Say “yes” to adequately protecting U.S. “intellectual property,” including patents, trademarks and copyrights. In Japan, for example, it can take up to six years for a patent to be issued, and four years to process a trademark.

◆ ◆ Say “yes” to negotiating in good faith instead of following the practice of the past decade where Tokyo agrees to make changes and then ignores the agreement, finds loopholes to escape the agreement or drags its feet.

To convince Japan to say “yes,” George Bush should:

◆ ◆ Extend the current Structural Impediments Initiative (SSI) talks, due to expire this July, for at least one more year. The Bush Administration also should consider making the SII talks an annual set of meetings between Washington and Tokyo, so long as Japan keeps imposing structural barriers to U.S. goods and services.

◆ ◆ Change American tax, investment and anti-trust laws to allow the U.S. economy to compete more effectively in the international market place, particularly with Japan. Central to this is reducing taxes on capital gains and savings, ending the double taxation of corporate U.S. dividends, and allowing U.S. firms to cooperate more in meeting international competition.

◆ ◆ Move creatively to persuade the newly-industrialized countries of the Pacific Rim and the newly-conceived Asia-Pacific Economic Cooperation (APEC) forum to pressure Japan to open its markets to foreign goods and services.

◆ ◆ Encourage technological cooperation and collaboration between U.S. and Japanese firms, particularly in the defense, aerospace and electronics industries. The goal of such cooperation should be to reverse the largely one-

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9 U.S. Trade Representative, *1989 National Trade Estimate on Foreign Trade Barriers*, p. 100.

way flow of technology from the America to Japan while ensuring that Americans receive fair compensation for technology provided to Japan.

◆ ◆ **Name an advisory group of experts outside of government to advise the White House on how to deal with Japan.** This group, which should be modeled on the "Team B" that then-CIA Director George Bush established in 1976 of top non-government experts to reevaluate the Soviet threat, should be asked to come up with a specific set of free-market policy recommendations that represent a bi-partisan view of the challenges that Japan poses to the U.S. and how the U.S. can address them.

## A TIME CLOCK FOR THE TRADE DISPUTE

Last year, America's trade deficit with Japan remained far and away the biggest gap between any two countries in the world. It was \$49.3 billion, down only slightly from \$52.1 billion the previous year. It accounted for 45 percent of the global U.S. trade imbalance of \$108.6 billion. While U.S. exports to Japan last year increased 18 percent over 1988, to \$44.6 billion, imports from Japan increased 4.6 per cent from 1988 to \$93.9 billion.

To some, the huge U.S. trade deficit with Japan proves that America cannot compete in the world market. The evidence, however, argues just the opposite. In fact, this year the U.S. is pulling ahead of West Germany as the globe's Number One exporting nation. The measure of competitive ability is how much a nation sells abroad, not whether a nation, because of high living standards, imports more than it exports. And America is the world leader in selling goods abroad. It has persistent trouble with only one major country: Japan. By contrast, America enjoyed a \$1.5 billion surplus in trade with the European Community last year.

**Below Expectations.** Despite the fact that the U.S. trade deficit with Japan has remained stubbornly high, the Japanese insist that they are importing more foreign goods than ever before. Indeed, sales of U.S. beef have been growing rapidly in Japanese markets, thanks to a 1988 Tokyo-Washington agreement that eliminated quotas on Japanese beef imports, replacing them with tariffs which will be lowered steadily. And Japan's total imports from the U.S. doubled between 1985 and 1989: from \$ 22.6 billion to \$ 44.6 billion. Yet, Japan still clearly excludes foreign goods. Edward Lincoln, a Japan scholar at the Brookings Institution, points out that Japan's manufactured imports are 40 percent below what could be expected by an economy its size.<sup>10</sup>

During the next few months, U.S. officials will take a number of steps as part of the current series of U.S.-Japan trade negotiations. These steps, which either have been requested by Bush or mandated by Congress, determine the direction of U.S.-Japan relations. At Bush's request, for example, officials

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<sup>10</sup> Edward Lincoln, "U.S.-Japan Trade Talks: Hope for Progress," *Heritage Lectures* No. 234, December 12, 1989.

**U.S. TRADE WITH JAPAN**  
(\$ billions)

|   | 1985  | 1986  | 1987  | 1988  | 1989  |
|---|-------|-------|-------|-------|-------|
| U.S. Exports                            | 22.6  | 26.9  | 28.3  | 37.7  | 44.6  |
| U.S. Imports                            | 72.4  | 85.5  | 88.1  | 89.8  | 93.8  |
| U.S. Deficit                            | -46.2 | -55.0 | -56.3 | -52.1 | -49.3 |
| U.S. Trade Balance w/European Community | -18.8 | -22.6 | -20.6 | -9.2  | + 1.5 |

from the Commerce, State, and Treasury Departments and the U.S. Trade Representative are drafting an interim report on the U.S.-Japan Structural Impediments Initiative talks; the draft may be ready next month, with the full report ready for July's industrialized countries' Economic Summit in Houston.

Under mandate from Congress, by April 30 the Administration must decide whether to declare Japanese trade practices "unfair" in yet unnamed markets under the terms of the so-called "Super 301" provision of the 1988 Omnibus Trade and Competitiveness Act. By April 30 also, the Administration must provide to Congress a list of countries that have discriminated against U.S. companies in government procurement contract bids. If named on the list, Japan could be prohibited from supplying either services or products to the U.S. government, beginning in June 1991.

**Retaliation Decision.** By this June, the Administration must report on how negotiations with Japan are proceeding on a wide range of industries, from construction to shipbuilding and intellectual property.<sup>11</sup> Most important, by June 16, the Administration must decide whether to retaliate against Japan for erecting trade barriers in three markets — wood products, satellites, and supercomputers — identified in 1989 under the "Super 301" provision.

By July, the Administration must determine whether to retaliate against Japan unless Tokyo changes regulations discriminating against U.S. suppliers of cellular telephone and radio services.

## THE BUSH ADMINISTRATION'S PRINCIPAL FOCUS

While all these deadlines are important, the White House appears to be focusing its greatest attention on the Structural Impediments Initiative talks and the negotiations in areas identified under the provisions of the Super-301 section of the 1988 trade law.

<sup>11</sup> "U.S., Japan Head Toward a Renewal of Trade Friction," *Asian Wall Street Journal Weekly*, February 19, 1990.

### ***The Structural Impediments Initiative (SII) Talks***

As described by Assistant Secretary of the Treasury Charles Dallara, the SII talks, which began last September, aim to "identify and solve structural problems in both countries that stand as impediments to adjustment in trade and balance of payments accounts, with the goal of contributing to reduction of payments imbalances."<sup>12</sup>

Among the areas that the U.S. has listed as "structural impediments" in Japan: declining public investment in infrastructure, such as roads and bridges in Japan; the pricing mechanism; an inefficient distribution system; high land prices and irrational land use; the problems posed by exclusionary business practices such as "dango," or collusion, among businesses; and "keiretsu," which are monopoly-like practices among related businesses.

**Japanese Sources.** American negotiators maintain that, in identifying the "structural barriers" in the Japanese economy, they drew extensively on Japanese sources and on some of the internal debate that is occurring in Japan on "structural" matters. Deputy U.S. Trade Representative S. Linn Williams told Congress early this month that "most of the specific ideas we advanced in Tokyo can be found in the reports of the Japanese Fair Trade Commission, the Economic Planning Agency and various Japanese business groups."<sup>13</sup>

U.S. negotiators wisely have made an effort to identify constituencies within Japan that might agree, for their own reasons, with the ideas that the U.S. has advanced for its own reasons. In Japan's producer-oriented society, for example, the benefits of low interest rates, low infrastructure expenditures and other investment policies help Japanese companies and give them an advantage over American and other competitors. At the same time, these policies penalize the Japanese consumer, who would benefit from receiving higher interest on family savings and from greater public spending on infrastructure such as roads and bridges.<sup>14</sup>

**Closed System.** U.S. trade officials believe that Japan's distribution system discourages imports. As a result of government policies, the system is expensive and closed. For example, "Toys 'R Us," the large American toystore chain which currently is trying to open a large retail outlet in Tokyo, faces the prospect of considerable expense and delay as the result of the Japanese government's enforcement of the Large Retail Store Act.<sup>15</sup> This Act in effect

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12 Statement by the Honorable Charles H. Dallara, Assistant Secretary of the Treasury for International Affairs, before the Senate Finance Committee, March 5, 1990.

13 Testimony of Deputy U.S. Trade Representative S. Linn Williams, to the Subcommittee on International Trade of the Senate Finance Committee, March 5, 1990.

14 *Ibid.*

15 *Ibid.*

allows small Japanese stores to keep large retail stores like Toys 'R Us from establishing themselves in Japan. Japanese companies, in contrast, can buy entire shopping centers in the U.S., where they have to obtain little more than a zoning permit from the local government.

**“Inconclusive” Findings.** In the negotiations over the so-called “pricing mechanism,” one clear U.S. objective has been to get Japanese officials to admit that their domestic prices are high.<sup>16</sup> Before the second round of SII negotiations last November, the U.S. Commerce Department and the Japanese Ministry of Trade and Industry (MITI) surveyed prices in America and Japan of about 120 items, from capital goods to miscellaneous consumer goods. The result:

## JAPAN

**Official Name:** Japan

**Area:** 147,470 square miles, about the size of California

**Population:** 122.6 million

**Capital:** Tokyo (estimated population 11.9 million)

**Ethnic Groups:** Japanese: 99.4%, Korean and other: 0.6%

**Workforce:** 61.2 million: Agriculture - 9%. Manufacturing - 25%. Commerce and Services - 54%.

**Natural Resources:** negligible

**Agricultural Products:** rice, sugar, vegetables, fruit, fish

**GNP (1988):** \$2,569 trillion

**Per Capita GNP (1988) -** \$20,950

**Infant Mortality Rate (1988) -** 6/1,000.

**Life Expectancy:** 78 years.

**U.S. Trade with Japan:**

Imports From Japan (1989) - \$93.8 billion

Exports to Japan (1989) - \$44.6 billion

**Japanese Trade With The World:**

1988 Exports: \$265.0 billion

1988 Imports: \$187.5 billion

Trade Surplus: \$77.5 billion

**Current Account:**

Surplus (1988) - \$84.0 billion

**Foreign Exchange:**

Reserves (1988) - \$96.2 billion

Sources: Thomas J. Timmons, *U.S. and Asia Statistical Handbook, 1989 Edition*, The Heritage Foundation, 1989; *Business America*, U.S. Department of Commerce, February 26, 1990; *Far Eastern Economic Review*, February 22, 1990.

<sup>16</sup> *Ibid.*



solid proof that the prices of Japanese goods were higher when sold in Japan than when sold overseas. When confronted with the findings of the jointly-conducted survey, the Japanese dismissed it as inconclusive.<sup>17</sup> Yet the survey confirms that Japanese consumers subsidize exports and that the Japanese distribution system is inefficient and discriminates against imports.

Among the areas that Japan lists as "structural" problems in the U.S. are: the savings rate; government controls on business operations; too low spending on research and development; inadequate promotion of exports; too low corporate investment and low productivity; insufficient long-term planning by U.S. companies; and inadequate worker training and education.<sup>18</sup> While Washington largely has agreed with Tokyo's observations about the problems that Japan sees in the American economy (problems long identified by officials and lawmakers of both major American political parties), Tokyo attaches little merit to Washington's criticisms of the Japanese economy. Because Tokyo thus does not seem to be taking the SII process seriously, most observers see little hope for progress in these talks.

### **"Super 301" Negotiations**

In April 1989, as mandated by the 1988 Omnibus Trade and Competitiveness Act, the U.S. Trade Representative (USTR) listed "priority countries" that "systematically" deny U.S. access to various markets. On the list are Brazil, India, and Japan. The USTR cited Japan for denying U.S. access to markets in space satellites, super computers, and wood products. According to the 1988 law, if Japan does not open those industries to America's satisfaction this year, the U.S. will have to decide whether to impose penalties against Japan in these specific markets sometime between April and June 16.

Current negotiations in the three areas identified in the "Super-301" process are nearing an end, with the Japanese having made well-publicized concessions on supercomputers. Tokyo plans to buy more U.S. made supercomputers, basing its purchasing decisions on quality as well as price, and ending the practice of massive discounts of up to 80 percent off list price that Japanese computer firms offer to the Japanese government, a major buyer of supercomputers in Japan.

No concessions have been made on space satellites, although the Japanese reportedly are preparing to make several concessions. The U.S. rightly believes that, in a free market, the Japanese would be importing commercial space satellites. The Japanese do not do so, however, in order to favor development of their own technology. While Japan does buy some commercial satellites from the U.S., Japanese government agencies are not allowed to buy American satellites if the purchase interferes with the development of a domestic industry. This also would preclude procurement of U.S. satellites by the Japanese telecommunications giant, Nippon Telegraph and Telephone

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17 Susumu Awanohara, "No More Pussyfooting," *The Far Eastern Economic Review* February 22, 1990, p. 64.

18 *Ibid.*

Corporation (NTT), even though NTT no longer is a government-run company.

**Mosbacher's Complaint.** American negotiators point to the satellite issue as typifying Japan's insistence that it be independent in every key economic sector. To do so it invokes what are known as "infant industry" privileges. Yet these generally are allowed only to developing nations.<sup>19</sup> Such behavior by Japan might have been acceptable immediately after World War II, but Japan surely cannot expect to continue doing this and still be allowed to benefit from the world's free trading system. Complained U.S. Secretary of Commerce Robert Mosbacher last week: "When there is a new [American] process, a new industry, the Japanese find ways to keep American companies from selling in quantities until [the Japanese] have an opportunity to build a similar item or develop the technology themselves. It's the same pattern with supercomputers, with semiconductors way back, with amorphous metals technology, with satellites and more."<sup>20</sup>

Japanese officials reportedly are preparing to offer several concessions on satellites. Bush should encourage this. As important, he must hold the Japanese to any commitments that they make. To often have Japanese officials ignored or wiggled out of trade promises.

The U.S. also should continue to try to open the Japanese wood products market, which is the third sector identified by the U.S. in the "Super 301" process as closed to American companies. Here the U.S. has seen little progress.

### ***Discrimination Against the U.S. Construction Industry***

The combined value of the Japanese public and private sector construction market is estimated at \$275 billion a year, including housing and other small scale construction; some sources estimate it as high as \$400 billion.<sup>21</sup> American experts argue that the potential market in Japan for U.S. construction is at least several hundreds of millions of dollars a year. The aggregate total of contracts U.S. firms have received in the Japanese construction market is only \$180 million. Japanese companies, on the other hand, do some \$2 billion to \$3 billion of construction work in the U.S. annually, mostly for Japanese-owned companies.<sup>22</sup> One of the best-known examples of Japan's exclusion of American construction firms has been the bidding and procurement practices for the Kansai Airport near Osaka. While bids were invited for the some \$8 billion in contracts for the airport in fall 1986, the process clearly was rigged to prevent U.S. firms from getting all but \$110 million of the business.

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19 *Asian Wall Street Journal*, *op. cit.*, p. 5.

20 "Mosbacher Blunt on Japanese," *The Washington Post*, March 22, 1990.

21 U.S. Trade Representative, *op. cit.*, p. 106.

22 Susumu Awanohara, "Last Dango in Tokyo," *The Far Eastern Economic Review*, December 7, 1989, p. 56.

“Dango,” or collusive bidding, especially on construction contracts, is a focus of U.S. efforts to get Japan to remove structural barriers to free trade in services in the SII negotiations. Last November, U.S. Trade Representative (USTR) Carla Hills cited “dango” as one of a number of “unreasonable” Japanese practices.

**Disbanding a Cartel.** Last August, the Japanese Fair Trade Commission (JFTC) ordered six Japanese construction firms working on the Kansai Airport to disband their price-fixing cartel. This was the second such Japanese action in 1989. The JFTC earlier had ordered 70 Japanese firms to pay 290 million yen (\$1.9 million) in surcharges after finding that the firms engaged in illegal consultations over projects at U.S. military facilities at Yokosuka, near Tokyo.<sup>23</sup> Hills has asked for “dango” concessions from Tokyo beyond those made in the construction industry.

Tokyo has yet to comply; Hills has yet to recommend retaliation.

If Japan does not end these price-fixing arrangements, the Bush Administration may have to consider imposing penalties on Japanese firms seeking to do business in the U.S. Bush could do so by limiting Japanese work on U.S. government-funded projects. In 1988, for example, Japanese construction firms were prohibited by the U.S. Congress from participating in federal public works projects. The prohibition expired at the end of that year.

## A JAPAN THAT CAN SAY “YES”

The notion that for too long Japan has been giving in to U.S. demands on trade and other issues recently has been gaining adherents in Japan. This view was given a substantial boost last fall with the publication in Japan of a book entitled *A Japan That Can Say No* by Shintaro Ishihara, a Diet Member from the ruling Liberal Democratic Party and erstwhile candidate for Prime Minister of Japan, and Akio Morita, Chairman of the Sony Corporation. It has been widely read in America by Japan experts and U.S. policy makers, but only in an unauthorized, photocopied translation. One of its main points is that Japan for too long has been under the sway of American policy and should now go its own way by learning how to say “no” to the U.S.

The problem with the book’s argument is that Japan has said “yes” very seldom to American demands. Indeed, typically Japan says “no” to American requests to compete fairly in Japanese markets. It is to get Japan at last to say “yes” and stop saying “no” that must be at the core of Bush Administration policies toward Tokyo. Bush should press Japan to:

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<sup>23</sup> “Construction Firms Are Ordered by Japan to End Price-Fixing,” *The Wall Street Journal*, September 8, 1989, p. A-11.

◆ ◆ Say “yes” to improving the living standard of its own citizens. While Japan boasts the world’s biggest foreign exchange reserves and the second largest overseas investments, it also has by far the developed world’s highest consumer prices, highest proportion of unpaved roads, lowest per capita endowment of parks, sporting areas, and other public facilities, and surely the least materially bountiful life.<sup>24</sup>

In a speech to the Japan National Press Club in Tokyo last fall, Commerce Secretary Mosbacher posed several rhetorical questions to his audience. Among them: Why should the Japanese public have to pay over \$800 million for a domestically-developed communications satellite when an American satellite can be purchased for less than half this amount? Why should a Japanese traveler be forced to pay more than 280,000 yen (\$ 1,842) for a round-trip ticket between Tokyo and Seattle, when that ticket can be bought in the U.S. for less than 84,000 yen (\$552)? Why should a Sanyo cordless telephone cost three times as much in Tokyo as it does in New York?<sup>25</sup>

By tamping domestic demand, Tokyo is able to restrict the import of foreign goods and services. The Japanese people thus pay an enormous price for Japan’s trade surplus. If Japan’s trade problems with the rest of the world are to be solved, Tokyo must begin making fundamental economic reforms that will unleash the Japanese consumer. So far Tokyo has agreed to consider only such minor measures as tax credits for companies that import; cutting tariffs on over 1,000 products; forming a trade-expansion program with all 50 states in the U.S.; and creating an “import-boosting” database accessible to the U.S. Department of Commerce.<sup>26</sup>

◆ ◆ Say “yes” to opening its markets to the world’s products. To be sure, a bit of progress is being made here. In the past several years, Japan has begun to open its markets to the world and to the U.S. Since 1985, almost all of Japan’s gross national product growth has come from increases in domestic demand. Net exports have fallen, in fact, as export growth has been more than offset by an even greater rise in imports. Among these imports, manufactured imports have risen fastest. Manufactured goods now account for half of all Japanese imports, up from less than a quarter in 1980.<sup>27</sup> These numbers are encouraging, but barely so. Japan still keeps out too many manufactured products. Example: while manufactured imports represent just 2.4 percent of Japan’s GNP, they are 7 percent for the U.S. and 10 percent for West Germany. Japan even penalizes the industries of the world’s poorest nations. To wit: the U.S. absorbs 50 percent of the developing world’s non-petroleum exports, but Japan buys only 7 percent.

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24 Fallows, *op. cit.*, p. 42.

25 Robert A. Mosbacher, Remarks to the Japan National Press Club, Tokyo, September 13, 1990.

26 “Access Japan,” *Business Tokyo*, March 1990, pp. 44-45.

27 *The Economist*, February 17, 1990, *op. cit.*, p. 22.

◆ ◆ Say “yes” to opening its markets to U.S. supercomputers, satellites, wood products, and telecommunications products, and to the construction, banking and insurance sectors. Many of these already are the subject of negotiation between the U.S. and Japan, and as a result of the “Super-301” negotiations, Japanese officials soon may announce an “open door” policy allowing its telecommunications giant NTT to purchase American space satellites. Japan also may agree to buy more U.S.-made supercomputers.<sup>28</sup> Bush should encourage this and insist that Japan strictly keep its promises.

◆ ◆ Say “yes” to a “down payment” in the current Structural Impediments Initiative talks. Japan could strengthen its Anti-Monopoly Act to reduce “Cross-shareholding” and close personal ties, or keiretsu, between businesses. Japanese officials reportedly are preparing to make several concessions in “structural” areas, including a relaxation of the Large-Scale Retail Store Act that would allow stores like Toys ‘R Us to open in Japan.<sup>29</sup> If Japan makes such a “down payment,” the Bush Administration should propose that the talks continue for at least one more year past the date of their expiration in July.

◆ ◆ Say “yes” to using its economic strength to encourage free markets in developing countries and in Eastern Europe. Japan is the world’s second biggest donor of “overseas development assistance,” contributing some \$ 9.2 billion last year, compared to \$9.8 billion from the U.S. Yet 75 percent of Japan’s aid goes to Asia rather than to the economies of Africa, Latin America and Central Europe, and a very high share of it is tied unofficially to purchases from Japanese firms. The U.S. should press Tokyo to emphasize sound economic policies that help promote private sector growth and free markets in developing countries. The U.S. also should press Japan to come up with debt-relief plans, especially those that encourage economic expansion in the countries of Latin America.

◆ ◆ Say “yes” opening the tightly-controlled domestic retail market to give Japanese people access to foreign goods. While Japan virtually has eliminated quotas on the import of U.S. and other foreign products to Japan, it still maintains a series of tariff and non-tariff barriers which increase the costs of those products in Japan.

◆ ◆ Say “yes” to opening the banking and financial service sectors. A key barrier to foreign entry into Japan’s cloistered financial markets fell last December when Tokyo opened its giant domestic mutual-fund business to new firms. However, Tokyo has much more to do to open its financial sector. For example, the reluctance of Japanese owners to sell corporation shares to new majority stockholders means foreign investors usually cannot acquire significant shares of stock as often as they can in other countries.

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28 “Japan Preparing an Array of Trade Concessions, *The Washington Post*, March 20, 1990, p. C-4.

29 *Ibid*

◆ ◆ Say “yes” to ending the cartelization of key industrial sectors, such as agriculture, construction, shipbuilding and steel. In 1988, for example, Japan agreed to eliminate a substantial number of quota categories on agricultural products, including beef, oranges, orange juice, and other processed food. Japan, however, continues to maintain quotas on other agricultural products of U.S. interest, including wheat, wheat flour, barley and rice.<sup>30</sup> Japan’s construction market also shuts out foreign competition.

◆ ◆ Say “yes” to adequately protecting U.S. “intellectual property,” including patents, trademarks and copyrights. Some U.S. companies have complained, for example, of “patent flooding” in Japan, in which Japanese firms file enormous numbers of patent applications in Japan to preclude U.S. rivals. This practice has intensified in the wake of “superconductivity” research advances in both Japan and the U.S., and is encouraged by Japan’s system which gives preference to the first company to file a patent.

◆ ◆ Say “yes” to negotiating in good faith instead of the pattern of the past decade where Tokyo agrees to make changes and then ignores the agreement, finds loopholes to escape the agreement or drags its feet. The U.S., for example, has raised several complaints about the Japanese telecommunications market in previous years. One complaint is that the Japanese Ministry of Posts and Telecommunications (MPT) should stop regulating companies that offer services to the general public more than it regulates those that offer services to a defined set of customers. Despite promises to change this and other anti-competitive practices, Tokyo has yet to fully implement the changes that it has promised to make.

## RECOMMENDATIONS

To convince Japan to say “yes” to further opening its service and manufacturing sectors, George Bush should:

◆ ◆ Request that the current Structural Impediments Initiatives talks be extended for an additional year if Japan makes a credible “down payment” or concession in current negotiations. The current talks are scheduled for completion by July. Bush also should consider making the SII talks an annual set of meetings between Washington and Tokyo, so long as Japan maintains significant structural barriers to U.S. goods and services.

◆ ◆ Change U.S. tax, investment, and anti-trust laws to permit American firms to compete more effectively in the international market place, particularly with Japan. Bush Administration proposals for reductions in the tax on capital gains and the establishment of a “family savings plan” are useful steps to achieve these ends. Relaxation of current anti-trust laws to enable industries to cooperate on research and development while they compete in the

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30 U.S. Trade Representative, *op. cit.*, p. 100.

marketplace would increase the competitiveness and the world-wide market-share of U.S. corporations.

◆ ◆ **Convince the newly-industrialized economies of the Pacific Rim, especially Hong Kong, the Republic of Korea, Singapore, the Republic of China on Taiwan and Thailand, that Japan's closed markets and structural barriers are as damaging to their interests as they are to American interests.** The U.S. also can use the newly-proposed Asia-Pacific Economic Cooperation (APEC) forum to reduce barriers to trade and investment in Japan and other Pacific nations.

◆ ◆ **Identify industry groups and consumer associations in Japan that have called for those changes in the Japanese economy sought by the U.S. within the SII negotiations.** At the beginning of 1990, for example, Japan's Keizai Doyukai, or Association of Corporate Executives, released a statement endorsing many of the points raised by Washington in the SII talks. The U.S. Information Agency, in particular, as well as various private U.S. business associations, should help identify similar groups. Both USIA and such associations should launch an aggressive public diplomacy campaign that would include sending speakers to Japan, writing editorials for local newspapers in Japan, and trying to appear on television in Japan to explain what the U.S. has been trying to achieve in the SII talks.

◆ ◆ **Encourage technological cooperation and collaboration between U.S. and Japanese firms, particularly in the defense, aerospace and electronics industries.** Japan probably will continue to see significant advantage in maintaining access to key American technologies, especially in aerospace, computers and telecommunications. The U.S. goal should be to ensure as much American access to Japanese technological innovations, as the Japanese have to American innovations.

◆ ◆ **Establish an informal advisory group of non-government experts on Japan to advise the President on how to deal with Japan.** This group should not be associated with the so-called "Chrysanthemum Club" of traditional Japan-supporters in the U.S., but should be similar to the "Team B" which then CIA-Director George Bush formed in 1976 to take a fresh look at the threat posed to the U.S. by the Soviet Union.<sup>31</sup> Bush should ask the most reliable free-trade advocates in the White House, particularly Chairman of the Council of Economic Advisors Michael Boskin, Director of the Office of Management and Budget Richard Darman, and Director of Domestic Policy Roger Porter, to help establish this group. It should be tasked with crafting a specific set of policy recommendations that represent a bi-partisan view of the challenges Japan poses to the U.S.

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31 Kevin L. Kearns, "After FSX: A New Approach to U.S.-Japan Relations," *Foreign Service Journal*, December 1989.

## CONCLUSION

Were Japan a small, isolated economy, its trade policies and practices would not matter so much to others. But Japan is a major economic power. Its actions could bolster democracy and the growth of free markets around the globe, from the Philippines to Nicaragua to Poland to Tanzania.

It is time now for Japan to realize that it has been saying "no" much too long to these responsibilities.

It is time now for Japan and the Japanese people to assume the responsibilities that their position in the global trading system requires. Only Japan of major industrialized countries does not play by the broad rules of that system. Japan at long last thus must start saying "yes" to opening its economy and its markets to others in the system.

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