WHY BUSH FAILED IN JAPAN

George Bush's trip to Japan last week focused almost entirely on removing Japanese trade barriers to American goods and pressing Japanese car retailers to purchase more automobiles made by American firms. To be sure, Bush correctly emphasized to Tokyo's political leaders that doing so would be good for Japanese consumers as well as American workers. Where Bush was dangerously wrong is that he sought special favors for specific American companies and industries, and did not address the structural problems that prevent open trade between the United States and Japan. To make matters worse, some in Bush's entourage even tried to blame America's current recession, the longest since World War II, on the trade gap with Japan, shifting attention from the primary cause—the 1990 budget agreement which raised taxes on Americans. By sounding like a complaining car salesman and a politician concerned mainly with blame-shifting for home consumption, Bush seriously undermined the credibility of the trip.

Bush's strategy to open Japanese markets seemed to hinge mainly on encouraging the Japanese to feel sorry for American automobile workers. Bush and his entourage instead should have tried to learn why Japanese consumers, like millions of Americans, find Japanese automobiles a better buy than cars made by Detroit. Worse still, part of Bush's strategy in the case of automobiles was to persuade the Japanese to reduce the quality standards they require of imports and domestic vehicles alike. The top Detroit auto executives joining Bush on the trip would like to see Tokyo reduce quality requirements only on American cars, so that lower-quality American cars can compete with other foreign and Japanese products. This pleading for special favors is not merely embarrassing, it exposes the true cause of America's inability to export automobiles to Japan—poor quality products.

Americans Hardest Hit. Past attempts by U.S. policy makers to manage trade with Japan, through export quotas and purchase agreements, have cost American consumers and companies billions of dollars. They also have been a complete failure in increasing American access to Japan's market. Example: In the mid-1980s, the U.S. semiconductor industry lobbied Washington to pressure Japan to buy more American computer chips. In 1986, Tokyo agreed to give American firms increased access to Japan, while reducing Japanese computer chip exports to America. The result: increased prices of Japanese components to American computer industry—as high as a $600 increase in costs per computer—and minimal gains in increased American access in Japan. Example: the 1981 import restrictions forced Japan to reduce its exports of automobiles to the U.S., even though Americans wanted to buy more Japanese cars. The result: sharply increased prices for Japanese cars sold in America amounting to about $2,400 per unit. Between 1981 and 1988, this cost American consumers $17 billion in higher prices too. In addition, the price increase in Japanese cars allowed American car manufacturers to increase their prices. In the end, it was the American consumer that was hit the hardest.

To be sure, Japan is not a fair player on trade. Japan thus must be pressed to open its markets wider for American products. American companies in such industries as automobiles, auto parts, construction, and the whole spectrum of services would benefit greatly from more access to the Japanese market. This access also would give Japanese consumers more product choices and spur greater competition among suppliers. Bush thus was right to dwell on these issues. Yet his strategy of managed trade and special pleading mainly for the inefficient and too often embarrassing Detroit auto industry was a profound mistake, both politically and economically. If America is going to narrow its trade gap with Japan, it is unlikely that it will be in the automotive sector. It will be in financial services, computer software, pharmaceuticals, advanced technology products and methods, and a host of yet unknown goods.

International Campaign. To open Japan to these competitive goods and services, Bush should have put greater pressure on Japan to remove the informal and regulatory barriers that prevent American firms from gaining access to the Japanese market. These are bureaucratic maneuvers that make it difficult for Japanese consumers to buy the American products that they actually want. Bush should have warned Tokyo that he is ready to mount an international campaign of moral and political indignation against Japan until Japan opens its markets to American and other foreign goods and services. As a start, Bush could initiate such coordinated international pressure on Japan through such organizations as the General Agreement on Tariffs and Trade. Bush then should challenge Tokyo on its claim that Japan's markets are open to American goods by offering Japan a free trade agreement with the U.S. Such an agreement would guarantee the complete free flow of goods between both countries. Americans would have full access to the Japanese automobile market, while Japan would have full access to the U.S. automobile market. This would be true for all products and services. In such a free trade area, there would be a real test of Detroit's contention that American automobiles can sell well in Japan if markets are open.

Bush also should begin lowering the U.S. regulatory barriers that frustrate American firms that are improving their competitiveness in overseas markets. One strategy that American firms would like to use is called strategic alliances. This allows American firms to pool resources, capital, technology, distribution networks, and other resources to gain economies of scale and to combine the best talents of each firm. But U.S. antitrust laws prevent many American firms from forming such alliances. And while American laws discourage such alliances, Japan actively fosters them. These alliances often include both producers and suppliers, helping each become more efficient at bringing products to market. For example, the International Business Machines Corporation and the Intel Corporation, both American companies, joined forces this December to make and market the new computer chips that will be used in next generation computers. This will allow both companies to develop products and bring them to market more quickly than if each company was working on its own.

Antitrust Risks. Even more significant are alliances between Japanese and American companies that allow American firms to gain technology from Japanese companies, while increasing access to Japan's market. For example, America's inability to gain access to Japan's auto parts industry was a recurring theme in Bush's trip to Japan. Yet some American businesses already have found an answer. Under an alliance announced last October between the Aluminum Company of America and Kobe Steel of Japan, the two companies will manufacture aluminum products to be used by the automotive industry in both America and Japan. Thanks to their agreement, Alcoa will gain access to the automobile industry in Japan, including marketing and distribution channels, and access to Japanese customers, all without U.S. government trade retaliation or managed trade. Alcoa, IBM, and other giant American companies have the financial and legal resources to accept the risk of lawsuits under U.S. antitrust laws. Most firms do not.

Attempts to manage American-Japan trade have not made American companies more competitive. They merely have increased costs for Americans and made American industries lazy and dependent on government protection and subsidies. Bush should end these economically suicidal policies and initiate measures, like a free trade area accord, that are more likely to increase American access to Japan. Bush too should work to increase multilateral pressure on Japan to open its market not only to the U.S., but to the rest of the world. Finally, Bush should work to amend regulations like U.S. antitrust laws that discourage strategic alliances between domestic and foreign firms so that all American enterprises will be free to compete with the Japanese on a truly level playing field. Had Bush adopted this strategy in Tokyo, his trip might not have been such a dismal failure.

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