

It is a strange war—largely among friends and allies

The Trade War With Japan

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The Japan-America trade war, which our authorities are pressing on many fronts, is only part of a much broader offensive. There are skirmishes or battles going on all around the globe. The European Community claps restrictions or imposes “voluntary” restraint. Australia and New Zealand pound on the table and make threats. The ASEAN countries hint that it will be hard to cooperate while they suffer negative trade balances. The Third World countries whine that they would appreciate more Japanese development aid. And the Arab nations roar that Japan will go energy hungry if it doesn't help them build up their industry (and reverse its earlier policy on the Middle East).

This is a strange sort of war. First of all, it is largely among friends and allies. The countries with which Japan seems to have the fewest problems on the trading front are the Soviet Union, the Eastern bloc, and China. It has worked out some very nice deals with the centrally planned economies and, perhaps due to the barter system, has avoided some of the shoals that lie hidden in more open trading waters. Second, its trading partners do not really want to war with Japan. They threaten that if they don't get a better deal, they will stop buying Japanese and ruin Japan's economy. But every one of them secretly wants to keep on buying reasonably cheap and highly sophisticated goods. Their aim is not really to kick Japan out of their market, and doubtless they would be hurt if they had to follow through. What they want is to get into Japan's market. Finally, Japan doesn't want a trade war. Not only does it fear the effects of one, but Japan firmly believes that it is a major force for world peace and that by restricting itself to economic pursuits it has been following the path to mutual friendship and harmony with all countries.

In fact, every time the American trade negotiators go to Japan they push against open doors. If they say “we must have this, that, or the other concession,”

after a brief flurry of notes or a moment of anguish the Japanese give in. If they say Japan must buy more, its trade negotiator eventually agrees. Not only does he agree, the prime minister pledges to buy millions and billions of dollars more. As if that weren't enough, government agencies like JETRO open import promotion bureaus (as a sideline to their export promotion activities); Keidanren, the stronghold of big business, sends off high-ranking delegations to look for buys; and Japanese businessmen and trading companies scour the outside world for things to buy. If tariffs are a problem, Japan offers to reduce or eliminate them in time. Then, in a supreme effort, it decides to accelerate its economic growth so as to create added purchasing power which, according to the traditional schema, will lead to purchases of imports and thus make everyone happy.

But nothing happens. It was scandalous that Japan should have a \$10 billion surplus in 1977, especially when the USA had a \$27 billion deficit, some \$10 billion of this due to Japan. These results after hurried consultations, repeated agreements, and tremendous good will on all sides was that the Japanese had an \$18 billion surplus in 1978. Again the USA had a huge deficit; again much of it caused by Japan. Japan's efforts had indeed led to a large increase in imports. Unfortunately, at the very same time, exports had risen even faster. So the next round began at a higher level, with much greater accumulated frustration among the outsiders and a far greater show of good will among the Japanese.

The whole situation defies reason. At least it defies reason as long as one makes the fundamental assumption that Japan and its friends really are in a position to deal suitably with one another and help one another according to the standard patterns. If one rejects this assumption (and there are several others), then the whole matter takes on a different complexion. Much of this give-and-take or pushing-and-shoving was based on the assumption that Japan and its Western friends (or the developing countries) had similar interests. That, obviously, was only partly true. Japan

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was interested in keeping up its exports to them, and they wanted to increase their exports to Japan. One did not necessarily exclude the other; but there was no reason the interests should coincide either. In fact, with both parties trying to export, competition was as logical an outcome as cooperation. Even when they do cooperate and sincerely wish to reach an agreement, we assume that they must indeed succeed because they have so much in common: a similar economic system, a commitment to free and expanding trade, an aspiration to higher levels of affluence for all, and a basically similar capitalist creed. Unfortunately, this is where most men of good will and even some meticulous analysts have gone wrong.

Japan does have an economic system that, very broadly seen, is like that of its Western trading partners and even like most of the developing countries. It is capitalistic, it is trade oriented, it is basically open. Beyond that, however, there are tremendous differences. These differences cannot be ignored if one is to succeed in solving the problems that arise. But, with our one-world idealism and our naive and simplistic conviction that we are all alike, we have been ignoring things that are more than details. Japan's economic system is very different in many essentials. The most fundamental are that market share takes precedence over profit, trade is thought of primarily in terms of exporting, business practices are more traditional and communal, and the economy is still relatively closed and regulated. A few examples may help make this clearer.

As long as prosperity smiled on many countries it was not hard for Japan's economy to expand by selling goods to those that could pay and were quite happy to buy. Thus, there has never been much trouble with Japan in good times. However, come the recession and things take another turn. Of course there is also trouble with Germany, France, Italy and with Hong Kong, Korea, and Taiwan over their exports that kill "our" industries and put "our" workers out of work. (They may think the same of us.) But with Japan the situation is always worse.

Why? Well, Japan simply doesn't react the same way as countries whose capitalism is based on the profit motive. When a recession begins and companies in these nations see that sales are falling off, they cut back on production, thus creating a bit of unemployment and making it clear to all that there is trouble ahead. But in Japan, for decades already, the main concern has been market share, not profit. As long as a business can expand, it does not mind a bit of sacrifice. In addition, factories are often built according to economies of scale and, rather than lose these advantages, the reaction is to keep up production so cost is low...and more can be sold. Finally, not only is normal overhead a fixed cost, but so is—to a large extent—the whole labor force. Under the system of lifetime employment, factories do not readily lay off

staff. Thus, while most other countries began cutting back during the 1973 oil crisis, Japan kept on producing and built up huge inventories. Now, when you are running as tight an economy as theirs, you need a rapid cash flow and cannot afford stocks. You go out and sell, sell hard.

In doing just that, the Japanese overran the European, American, and other markets, only making "our" recession worse. The afflicted countries complained that Japan was "dumping" its goods on them. In physical terms no doubt they were right: A veritable hail storm of Japanese goods came down on industries all over the free world, sometimes stunting them, sometimes killing them. Whether it was dumping in the legal sense was something that had to be proven. Japan insisted it was not. Japanese goods, so the argument ran, were cheaper simply because they were produced more efficiently, Japan had higher productivity, and so on. All these points had merit. On the other hand, since Japanese producers had to export at all costs or go under, they were not too picky about the prices they charged. After all, if the goods were already produced, if the money was needed to pay staff, import raw materials, and get the machine going again, *anything* above zero was better than nothing. Here it should be noted that the Japanese were not even worried about making anything above cost price. They weren't worried about profits. They were worried about going bankrupt; when the recession hit, the Japanese who could not streamline their overhead and personnel costs faced bankruptcy, and their export campaigns were that much more desperate.

"Of course," one may counter, "why couldn't the Japanese increase their imports at the same time?" Well, in some ways they did. They were terribly dependent on raw materials, especially fuel, and they stepped up their imports tremendously in value terms. Indeed, these items ended up representing most of the import bill. There was not that much left over for imports of consumer goods or capital goods. In addition, with a rather sophisticated industrial machinery of their own, the Japanese found it easy enough to produce just about all they needed locally (and have an excess to export). The only imports were from raw material and fuel suppliers. The proud "advanced" capitalist nations had little to offer.

The other reason Japan absorbed so few imports is that a cumbersome and unwieldy distribution system makes imports expensive. Japan's industrial sector is highly modern; its distribution sector is almost medieval. Goods go through any number of sub-sub-sub-agents, each tacking on a commission. The retail outlets are staffed to the hilt, for service is essential in selling goods. But this too adds cost to the operation of stores and shops that, unlike the factories, are minute and inefficient and do not handle goods on a large enough scale to induce savings for the consumers. Finally, prices are extremely high because the Japanese consumers have not yet learned how to defend their interests. For them, high prices are a fact of life, and high prices obviously mean fewer sales.

This situation is not created just to annoy for-

eigners; it dismays Japanese producers as well. Every product, whether it goes from the port or a local factory to the point of sales, rises rapidly in price with each step. And one does not simply go out and sell. At the various levels of distribution there are no impersonal buyers and sellers, buying from anyone to sell to anyone. Involved is a sales network that, no matter how it looks on the outside, has little in common with an American one. Often the partners have been dealing with one another for years, decades, generations even. The grandfather of the factory owner may have been supplying the grandfather of the store owner since Meiji days. They do not stop doing business just because someone comes in with a cheaper or better product. Their time-honored relations and mutual respect are far more important. What happens then when an ugly American (or Frenchman or German) arrives who bluntly, grossly, tells the distributors to alter their habits? Basically, nothing. But, again, this is not directed only against foreigners. Even a new Japanese producer would not find it easy to get outlets for his products. That is why many of them end up exporting. It's much easier and more profitable!

Many foreigners simply refuse to believe that such practices exist. Time means money! You can't live without profits! If what I have is better or cheaper, it's bound to sell! So many mistaken notions. One recent case proved this quite clearly. The Nippon Telegraph and Telephone Public Corporation, a state-run operation, was criticized for purchasing almost no products from the foreign firms that could obviously supply many of them. How unfair! A closer look showed that NTT, despite the fact that it was a major market that everyone wanted to get into, did not even purchase supplies from some of Japan's biggest, most powerful companies, like Toshiba or Matsushita (maker of "National" and "Panasonic"). In fact, it bought only from the "NTT family" of some 250 suppliers who had been working with it, often for decades. NTT knew them, they had gone through good and bad times together, they had developed the expertise it requested, and in return they had been favored with orders. Almost everything was bought from them on a friendly basis. A mere 3.8 per cent of the goods supplied were obtained through competitive bidding. The foreigner, with a shallow understanding of things Japanese, sees this as only another sign of Japan's perfidy. It is not. The same rules apply to Japanese companies as well. If anything, it is a sign of Japan's respect for its own traditions.

Of course, if it is so hard and expensive to sell through Japanese channels, some will feel it is far better to come and set up shop in Japan and run things oneself. There are no laws or regulations strictly forbidding this, but there are any number that make it much easier to go into a joint venture or seek an agent. But this is as unlikely a solution. Given the nature of the distribution set-up, one cannot really get around it, because the wholesalers, retailers and shopkeepers already have their relations and connections, which it

would take an outsider years to acquire if he could ever get them. Then, it is the distribution system itself that is sloppy. You cannot simply "squeeze out" a few middlemen, as the phrase so nicely goes. Those middlemen will fight like lions to stay where they are. Rather, they may seek an alternative to your product and squeeze you out. That isn't as hard as it seems, for it is not the product, or even the price, that counts but the proper relationship with the customers. And they have been cultivating these relations carefully for years.

Open up your own office? Of course you can. No one will stop you. Just go out and rent the premises...then try to fill them! In Japan one does not advertise for a salesman, an accountant, an inventory clerk, or even a typist. One takes in a whole group just out of high school or college. The passage is not to a free employment market. Rather, over the years, and decades, certain companies have created links with certain feeder schools, whose students are traditionally recommended to them and whom traditionally they hire. Most schools will not just recommend students to you because you ask. They want to know first who you are, as will the potential employees. If you have just arrived, obviously you have no past references and you look suspect. Even if you are the forerunner of a huge operation, for the moment you are just a small office. And the Japanese prefer big companies—the bigger the better—for the prestige, the likelihood of your survival through their lifetime stint, and for payment of retirement benefits. A foreigner might pack up and leave at any time. A bad risk.

This means that most companies, not only foreign ones, have trouble finding staff if they are new or small. They go to the end of the line, which means not getting students from the top colleges, but perhaps only second or third or fourth-rate colleges, or no college and just high school. In many countries this would not matter. But the school system and entrance exams usually direct the better students to the better schools. Even if you get a pearl, a great person who didn't get into a great school, most other Japanese will not recognize his value; they are too busy looking at creden-

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tials. And this will make your company, automatically, and no matter what you think, a bit second, third, or fourth-rate as well.

So, you are willing to pay more to get better. Just try it! There are places to put ads and there are "head hunters." But a Japanese is usually hired for a lifetime. So between the time of school graduation and retirement you will have trouble finding anyone. If there is someone looking for a job, take care. Why doesn't he already have a job like any normal Japanese? Is there something wrong with him? Maybe you're thinking of stealing someone else's staff. Why not? One owes no loyalty in such matters. And, after all, it's done in the States and Europe. But in Japan this is not the case. A company manager just does not quit to get a better salary. He would lose more than face; he would lose his colleagues, who are actually often his friends, and he would lose all his accumulated retirement benefits. Some may rise to the bait, others will come because they want a challenge, but it will not be easy to recruit your ideal staff.

Japan, Inc., which was so widely praised in the West for its incredible efficiency in recent years. What is not really understood is that Japan, Inc., does not exist. It is just a figure of speech, which covers a very specific phenomenon, but it has no sinews or bones. Even "administrative guidance," which everyone assumes to be a vast maze of devious and discriminatory regulations, does not exist. The experts tell us that there is no legislation backing it, and anyone—Japanese or foreigners—can legally ignore it. But just let anyone try! This "system" is quite simply the sum total of all the uncodified Japanese traditions and customs that are stronger than any written rules and regulations. This system assumes, among other things, that one deals with people only after rapport has been established, and further relations strengthen this to the point at which it is hard to deal with anyone else. It assumes that people talk, act, and do business in certain ways. It assumes that there is a strong team spirit. Japan, Inc., is far from a solid unit within. Actually, the major companies, banks and groups, or *zaibatsu*, are constantly warring against one another and engaging in cutthroat competition that would make a Westerner blanch. For they are on different teams, and they must win for the sake of the team, and perhaps also for survival in a pitiless economic jungle. However, when they see the other guys coming, the

ones who don't speak Japanese, don't look Japanese, don't act Japanese, they all realize that they are in a completely different league. Then Japan, Inc., assumes the form that the foreigners fear.

But how can one tell the Japanese to behave differently, let alone behave correctly? They are not doing anything much they regard as incorrect. They are playing the economic game the way they learned it, with scant regard for profits and much respect for market share, with a willingness to cut their prices to the bone (and even sell under cost) in order to gain a new market or just survive. Their relations with one another are probably based on more noble precepts than ours: respect for old friends, refusal to junk employees just because things are temporarily bad, honor of seniority, and loyalty. Who are we to tell them that they should behave differently, to become people they are not?

Of course this case may seem overstated. In some ways it is. For the noble virtues the Japanese honor are being lost: Japanese companies are firing people now, youngsters are refusing to look after their own parents, there is more individualism and less communal action. The distribution system is criticized in Japan itself. Many industrialists and businessmen do not like the government interference implied by Japan, Inc. Finally, after all these years, the Japanese are realizing that they are *also* consumers and refuse to be fleeced as tamely. Japan may be moving in our direction. At the same time, in some ways we may be moving in Japan's. One could hardly deny that there is increasing government regulation (if not overt protectionism) in the West. Certainly, creeping socialism of a welfare nature is working its way through the economy, making it a bit more communal. Of course one can still fire employees without too much fuss. But then one still has to pay for the unemployed, through various taxes and assessments, so not that much is gained. One of these decades the differences may be few enough that we can really regard one another as similar.

In the meantime an overstatement is useful. Japan does not have an economy like ours! It does not follow the same rules! The sooner we recognize the differences, the easier it will be to get out of this rut. Then it will be possible to pinpoint the real problems and see what can be done, by both sides, to overcome them. Then, at least, we will not waste our time and become increasingly frustrated by assuming each time that we finally agree, when in fact we are talking on different wave lengths and have not really agreed on anything.