CURRENT ACCOUNT

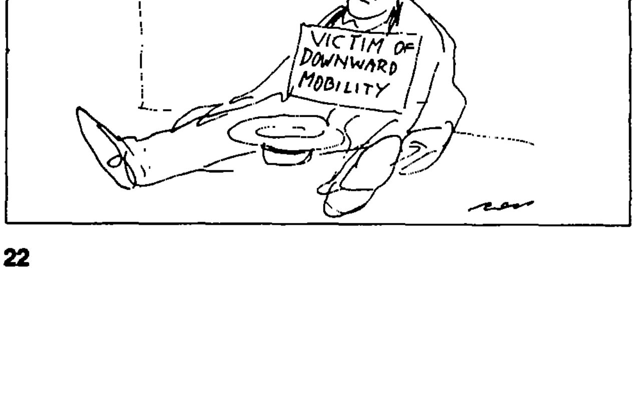
Scapegoating Japan

Perception, psychologists tell us, is often mistaken for reality. Thus truth, like beauty, is in the eye of the beholder. I was reminded of this elemental point just last spring when I revisited Japan after an absence of three years to participate in an international economic symposium organized by the United States-Japan Foundation. Over those years, and especially since the Reagan administration took office, economic relations between America and Japan have gone from bad to worse. The principal issue has been Japanese trade policy, which is harshly criticized in Washington. Unfortunately, American criticisms all too often are based on perceptions that bear only the faintest resemblance to reality. In the rush to judgment, truth is distorted almost beyond recognition.

Much of the censure of Japanese trade policy is provoked by the huge and growing deficit in our bilateral trade balance—up to a new high of $17 billion in 1982, double the figure for 1979. In particular, the Japanese are taken to task for keeping their domestic market effectively closed to American exports through a maze of formal and informal nontariff barriers, ranging from special safety standards and burdensome customs procedures to discriminatory government procurement policies—in some cases, outright quotas. It is hopeless to try to penetrate the Japanese market, it is said; the Japanese will always think of some way to bar the *gaijin's* goods.

In many instances, the grievances against Japan appear justified—as the Japanese themselves, when pressed, will often concede. But what was remarkable after the Reagan administration arrived in Washington was the sharp rise in the level of acrimony in American accusations. The new harshness of tone, in turn, seems to stem from an altered perception of Japanese intentions. While in Washington a year ago to do research for an article on some of the administration's foreign economic policies (shortly to be published under the title "An Explosion in the Kitchen?" in K. Oye, R. Lieber, and D. Rothchild, eds., *Eagle Defiant: United States Foreign Policy in the 1980s* [Little-Brown]), I asked an official in the U.S. Trade Representative's Office for an explanation. His reply reminded me of an old Hollywood film about World War II. "Japan," he said, "is playing by a different set of rules—and winning. They're still fighting the war, and they are out to take leadership." No wonder the present atmosphere has turned so ugly.

Yet, when one is in Japan today talking with Japanese, it does not take long to see how grievously such perceptions distort reality. Certainly the Japanese are competitive, and certainly they want to succeed. But that is supposed to be what capitalist market relations are all about. After their defeat in 1945, the Japanese were persuaded that their national economic destiny lay in reintegrating themselves into a multilateral, liberal trading system of essentially American design. Having successfully done so, they are now genuinely baffled by charges that they do not play by the rules of the game.



Japanese import policy is by no means as protectionist as is commonly assumed in Washington, and has actually been undergoing liberalization at a time when other major industrial nations, the U.S. included, have been busy fortifying existing barriers to foreign goods. Over the last three years the United States has limited imports of, among other things, Japanese steel, automobiles, and motorcycles. Tokyo, meanwhile, has unilaterally lowered tariffs and eased nontariff restrictions on a wide range of manufactured products. In fact, there is very little truth to the allegation that the Japanese market is effectively closed to American exports. According to a recent analysis of the U.S.-Japan Trade Study Group, whose members include representatives of government agencies and business organizations from both countries: "Evidence suggests that U.S. exporters are needlessly discouraged by misleading assumptions about Japan's domestic market entry problems."

It is true that Japan's imports of manufactures are still low when compared to other industrial countries—less than a quarter of total imports, and only 2 per cent of GNP. This, in turn, is a prime cause of America's persistent merchandise trade deficit with Japan. But such bilateral imbalance is only natural, given that island nation's overwhelming dependence on foreign sources for its oil and raw materials. Japan's large deficits in primary commodities must be offset by surpluses in manufactured trade. Besides, Japan must have overall surpluses in its merchandise trade to offset its chronic deficits in services—the so-called "invisible" items in international trade—in which, as it happens, the United States enjoys a substantial surplus with the Japanese. Isn't this playing by the rules of a multilateral trading system?

Ultimately, America's trade problems with the Japanese have more to do with the serious misalignment of the dollar-yen exchange rate over the last three years than with overt or covert protectionism in Japan. Since its low point in 1978, the dollar has risen over 50 per cent in relation to the yen; the resulting loss of price competitiveness has frustrated attempts by American businessmen to compete effectively with the Japanese, not only in the Japanese domestic market but also here at home. And what is responsible for the dollar's unprecedented appreciation? Certainly it is not Japan's trade policy. Rather, we have only our own domestic policies to blame—in particular, the swollen budget deficits of the Federal Government, which have kept interest rates high, attracting massive capital flows from abroad that persistently bid up the price of the dollar.

It is not necessary to look for foreign scapegoats for our troubles. Basing our trade policies on mistaken perceptions of Japanese intentions can only make matters worse.

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