

U.S.-JAPANESE TRADE RELATIONS: REVIEW AND AGENDA FOR ACTION

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We live in exciting times and are witness to historic changes. The current Washington greeting is Shalom-Salaam, the Iron Curtain has crumbled, and the disparate nations of Europe are growing more united than under the reign of Charlemagne. Within this trend towards peace and cooperation, the relationship between Japan and the United States stands out as one that is increasingly fraught by friction. Critics wallow in the alleged economic dangers that Japan poses to world trade and accuse her of striving for world dominance. Highly public accusations ricochet across the Pacific, many going beyond economic analysis, pandering to fear.

We are facing the very real danger today that the United States and Japan are pulling apart and are doing so in anger. Opinion polls state that more than two-thirds of Americans regard Japan as more threatening than the former Soviet Union. The Washington Post reports that 63% of U.S. consumers claim to make an effort to avoid buying Japanese products. Cities have canceled contracts with Japanese firms and baseball fans vehemently protested Nintendo buying the Seattle Mariners.

We cannot afford to let this divisiveness continue. World harmony is too important, our current progress toward such harmony is too fragile, and the problems faced by all of us are too large to permit further sacrifices on the altar of nationalism. We are preoccupied with the pollution of air and water, global warming and the maintenance of our entire ecosystem. We know about the dangers of new diseases, major regional conflicts, the increasing power of the world armamentarium, and sudden shifts in the world's energy supply situation. And we are coming to recognize that these are global rather than national concerns which no country can successfully address and resolve by itself. We must therefore find ways to work together, to collaborate, so that we can assure our children of a better world.

Faced with this imperative, let us explore how U.S. - Japanese trade relations can be improved in the future. In doing so I will highlight U.S.-Japanese trade negotiations which have framed this relationship.

Traditional trade negotiations emphasize market access and an increase in U.S. imports into Japan. Early on, such negotiations focussed on lowering tariffs and reducing entry restrictions. More recently such negotiations typically provide for managed trade, self-imposed quotas, voluntary import expansions, and government mandated imbalance adjustments. After resolving some major market access issues in decades past, the recent track record of these negotiations is doubtful at best. Let me use one example from the wood-products industry. For more than a decade the U.S. negotiated with the Japanese government so that more U.S. solid wood products could enter the Japan's market. High level meetings, government financial support, and industry demonstration projects were to achieve that goal. Japanese building codes and product certification procedures were changed and tariffs were lowered. The Foreign Agricultural Service spent close to \$18 million to promote U.S. wood product sales to Japan. The result ? Canadian lumber

companies are the leading wood exporters to Japan. There were only marginal increases in U.S. exports and export related jobs.

There are reasons for this outcome. Canadian firms were much quicker than U.S. companies to take advantage of the changes. They obtained certification faster and were more aggressive in their marketing. They understand the different specifications and grades of wood products in Japan, they pay attention to product quality and appearance, and demonstrate more commitment to market and after-sales service requirements such as the development of manuals in Japanese. By contrast, U.S. firms tend to provide their information in English, tend to be less reliable as long-range suppliers, show little interest in after-sales service, and often do not meet Japanese quality and appearance standards. American companies try to sell what they produce, rather than producing what the Japanese want to buy. The largest portion of Japan's market for solid wood products is in post and beam construction, not in timber frames. Only seven percent of new wooden homes are built by using U.S. type 2X4 products. Most other wooden housing construction uses 4X4 posts and beams for framing and is based on a 3X6 foot module that fits the standard size Tatami mats. In other words, U.S. companies have focused all their energies on increasing their penetration of the smallest part of the market, and have done so with only limited success.

This is not to say that traditional, item- or sector-specific trade negotiations lack value, but rather that they are unlikely to fulfill to any great degree the expectations placed in them by government and the public. Too often, it is mistakenly expected that successful negotiations will affect the domestic economy in a major way, even though the issues addressed or resolved are only of minor economic impact. The continued raising of expectations and their subsequent shattering, however, can produce broad based resentment which eventually will take on a political expression.

In response to these short-comings, the U.S. has tried to develop a new approach to negotiations. These negotiations are less traditional and seek outcome-based changes in areas which historically have not been considered part of trade policy such as distribution systems, business linkages, Japanese savings rates, and perhaps even demanding quality expectations. The idea seems to be to create an environment abroad which is more palatable for U.S. firms, in essence, making the market abroad more like the market at home. The Strategic Impediments Initiative marked the beginning of such a direction. The thought by the U.S. Attorney General's office to apply U.S. anti-trust law to Japanese keiretsu may be a portent of more of such approaches. It is claimed by some, that one can detect the stench of colonialism in such an approach, during a time where partnership appears to be the coming trend. It seems to me that a number of nations might protest an American extraterritorial reach of this nature, putting them in the position of defending the very practices which also hurt their trade. If pursued, the success of such an approach probably would be limited to cosmetic gains, trying as it does to change deeply entrenched cultural values in Japan. And it could backfire, as Akio Morita and Shintaro Ishihara speculate in their realpolitik-minded book The Japan That Can Say No. Such an approach

might trigger anti-U.S. sentiment in Japan, which in turn could imperil existing U.S. sales to Japan and perhaps even motivate some Japanese firms to limit shipments of crucial components to the United States, thus leading to a direct confrontation.

Let me propose a third approach which I believe allows us to rise to the challenge. The most productive American strategy for solving U.S. trade frictions and bringing us closer together consists of re-orienting U.S. trade policy. In effect we need to make our trade policy more domestic by providing our firms with the strategic skills and environment to be competitive globally. This alternative, in essence, would require those marketing to Japan to become more Japanese in both their orientation and location. In effect, such a strategy would be oriented along the essence of the marketing discipline: adapting one's practices to the environment in which one wishes to work. Focusing government's trade concerns on a reorientation of business strategy toward market research, product adaptation, service orientation, collaborative ventures and a long range vision will not only serve U.S. firms well in the Japanese market, but will also have a major impact in domestic and third country markets. Doing so, might actually bear the greatest fruit by allowing U.S. firms to recapture domestic market share, which was thought to be lost to foreign competitors.

Let me briefly elaborate on some of the implications of such a reorientation. Three issues deserve immediate attention. First is information. In spite of the widespread existence of information, its accessibility and subsequent usage is weak in the United States compared to Japan. Currently, we do very little to learn about Japan and to absorb information which is widely available. For example, in 1991, 1400 U.S. researchers worked in Japan, while Japan sent more than 8,500 researchers to the United States. During the same year there were 1,180 U.S. students in Japan, while more than 30,000 Japanese students came to the United States. Unless we learn to observe and absorb Japanese knowledge and know-how to a greater extent, we will continue to be surprised by developments which are new to us but are new only because we weren't paying attention.

A second area concerns collaboration. Currently, policy makers in Washington still ponder the importance of anti-trust law in a national setting. Government needs to recognize that competition is now exercised on a global level, and that collaboration among companies should be encouraged rather than prohibited. In light of the knowledge explosion and the rising cost of research many multinational corporations have already accepted such a need for collaboration. For example, TRW and Hitachi are co-developing space related technology. General Electric and Tokyo Electric Power Company are working together on developing advanced boiling water reactors. This collaboration does not merely entail a flow of U.S. technology to Japan. In the last few years Japan has become the second most important source country for U.S. purchases of technology licenses. We should encourage more of such collaboration, particularly in areas of rapid technological change and substantial social need such as environmental safety, health care, new materials development, and biotechnology. Collaboration should focus on both products and processes. For example, the issue of quality performance can well become the focus of a cooperative effort throughout an entire industry, and include manufacturers, suppliers and customers.

A third area concerns human capital. Currently within the United States we are not developing our human capital sufficiently. In the educational sector for example, we are still restricting educational talent to individual schools and universities. We can no longer afford to do so. Technology allows us to use our best educational talent on a national level. Electronic instruction and video systems, enabling national access to the best teaching methods available must become part and parcel of primary, secondary, and trade education. Just as agricultural universities were the point of advancement in the 1800s, so can high technology education become the switch to the right track of the next century. But I am also concerned about the use of human capital within firms. The current trend for U.S. firms is to become lean and mean, an objective which is mostly achieved by shedding personnel. But in many instances, this leanness has really meant that the burden of service performance has been shifted from firms to customers. For example: When you call a firm today, you usually get voice mail, or if there are any real people there, you are placed on indefinite hold. Once you finally do reach a person, you often receive surly treatment and have a less than satisfactory experience. We need to recognize that the era of mass production and mass consumption is over. An augmentation of the product through service is imperative for global success. Yet, how many people provide such service and how willing are they to do so. We need to instill a new way of thinking into our work force and management, a way which not only demands service but also is prepared to provide it. There must be beauty, reward and pride in delivering good service.

Lest I be accused of being one-sided in my comments, let me say a few words also about Japanese tasks. It is clear to me, that the upper echelons of the Japanese policy community have recognized the need to increase Japan's involvement in world issues and in world imports. And undoubtedly, some steps are being taken to rectify trade imbalances. After all, few nations have public and private bodies allocating funds to help increase the exports of their trading partners. However, in shaping new trade relations, Japan's public sector must do more. There are indeed obstacles to the importation of foreign products and to foreign direct investment, and a reduction of these obstacles is necessary and beneficial to Japan. Japan must accept the existence of a global context. Let me briefly explain my view of context. Japanese firms, decades ago, began to widely implement the "just-in-time system" in manufacturing and were widely hailed for its success. Clearly, lower inventories meant lower inventory carrying costs and more efficient production. However, increasingly a new context is recognized for just-in-time systems: namely, frequent deliveries lead to urban congestion, traffic stress and increased pollution. This new context demonstrates that a singular focus on the just-in-time system may be inappropriate on a societal basis.

Well, there is also a new context for Japan's economic relations, which I call the global context. It is good for the individual firm to maximize its exports. Yet, when the context is broadened to include political acceptability, repercussions by trading partners, and threats to international market access, such a narrow view of trade participation is increasingly inappropriate. Within a global context, the public as well as the private sector in Japan will understand that it is rationally and economically necessary to increase the inflow of products and services. This is especially important now as the value of the yen

continues to climb. Some claim that endaka provides the answer to Japan's import problems. However, reality dictates a closer view at the facts. In today's world, intra-firm and intra-industry trade are rapidly becoming decisive determinants of trade flows. Trade follows investment. U.S. foreign direct investment in Japan today amounts to roughly \$23 billion. At the same time, Japanese cumulative investment in the U.S. is more than \$87 billion. Unless there is a major increase in direct foreign investment in Japan, trade frictions will continue to mount. Making such investment possible by providing an attractive financial and investment environment must be a key priority of the Japanese government.

A second area concerns that of societal orientation. Historically, Japan has been producer-oriented. However, given existing shortcomings and considering the entitlement of the hard working Japanese people it is time for more of a consumer orientation. The Japanese people should be enabled to garner more benefits for their sacrifices. These benefits concern infrastructure, the housing market, vacations, and the prices of goods. Perhaps they can be achieved easiest through a slight variation to a proverb: "The nail that sticks out may be the one to profit."

Ladies and gentlemen, we are living in an era where major fissures are appearing in the parchment of history. Many of these disruptions are good, but others bear the danger of tearing us apart. On both sides of the Pacific there is a need to eliminate the scapegoat mentality. We need to work together as partners, acknowledging and respecting our differences and striving for global improvement. This must become a decade of collaboration and cooperation among the major trading nations, not of confrontation. We need to begin talking with, not at each other, in order to promote change that is acceptable, tolerable, and beneficial for all participants. The chrysanthemum and the rose may differ in their color and their fragrance, they may require different nourishment and soil. But both of them need water, sunshine and care to blossom and flourish. Together, they will enrich and improve the quality of our lives.