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# SYMPOSIUM

## The View from Across the Pacific: The Japanese Perspective on U.S.-Japan Trade Relations

YOSHIHIRO NAKAMURA

**B**efore mentioning any of the issues that confront the United States and Japan, I would like to stress the necessity of recognizing both our economic interdependence and our responsibility for sharing the burden of world economic development. The basis of our economic relationship today is mutual dependence. If we fail to understand this fact and resort to bickering and acrimony over each and every issue before us, we run the risk of politicizing those issues and thus jeopardizing our very chances for resolving them.

I would like to indicate to what extent our bilateral economic interdependence has grown. First, I wish to point out the degree to which Japan serves as a market for American exports and to emphasize the large amount spent on U.S. manufactured goods. Japan is far and away America's best overseas customer. Only Canadian imports and exports to and from the United States exceed those of Japan. Last year alone Japan purchased nearly \$22 billion worth of U.S. exports, and half of that sum was for manufactured goods.

Japan also represents the largest single buyer of American farm products. The total value of last year's agricultural imports from the United States reached some \$6.5 billion. The figures are a bit high, but in 1982 Japan's farm purchases from the United States were more than the total for the Soviet Union, West Germany, the United

Kingdom, and Italy combined. And it should be noted that in 1980 it was estimated that these Japanese farm purchases contributed an additional \$12.5 billion to linked industries in the United States such as food processing, agricultural machinery production, and shipping. Likewise, the fact that roughly one-twentieth of all U.S. farm acreage is supported by Japanese consumption ought not to be overlooked.

Although surprising to many, one finds that—when estimated on a per-capita basis—the average Japanese individual purchases approximately \$200 worth of U.S. manufactured goods over the course of a year, whereas his American counterpart buys but \$170 worth of products from Japan.

In May 1984 the state of California's World Trade Commission released some interesting figures. That commission, a governmental body that includes the governor, the lieutenant-governor, and the secretary of state, as well as business leaders from throughout the state, was set up to examine and make recommendations concerning California's trade policy.

The commission reported that the total value of the state's trade for 1983 had reached \$71.3 billion, accounting for over one million jobs and \$3.5 billion in state tax revenues. Of particular note is the fact that about one-third of that total was a direct result of trade with Japan. Hence it can be calculated that in the state of California alone, Japanese trade has created over three hundred thousand jobs and \$1 billion in tax revenues. I might add that in Southern California, at present, some 450 Japanese firms employ approximately fifty thousand Americans directly or indirectly through dealerships and subsidiaries.

I hope I have demonstrated the extremely vital nature of the Japanese market for the U.S. economy, and I would also like to indicate here the overwhelming significance that the supply of goods and services from the United States has had for the Japanese economy. Allow me to present some examples that are of great consequence for the people of Japan. Calculated on a calorie basis, Japan's current food self-sufficiency rate hovers around 50 percent. Thus, the Japanese have come to depend on imports for nearly one-half of their food needs. This dependency is growing yearly. Twenty years ago the rate of dependency on foreign sources of food was only about 20 percent. In ten years our rate of dependency has risen to 40 percent, and as just stated, is now at around 50 percent. This is a larger percentage than that of England—which has often been cited as the classic exam-

ple of a nation dependent on food imports—and the largest percentage among the industrially developed nations. It must be noted that among those industrialized nations struggling to improve their food self-sufficiency rates, only Japan has shown a decrease in this area. Given this context, Japan depends on the United States for half its food imports, or in other words, the Japanese people depend on the United States for one-quarter of all the food they eat. Although Japan is committed to continue its efforts to increase agricultural imports from the United States, I hope that you can now better appreciate the potential consequences of such a policy for Japan.

Similarly, while there is no doubt as to the importance of the American market for the Japanese economy, the stable supply of such Japanese exports as automobiles, videotape recorders, semiconductors, and steel would provide high-quality, low-cost products to American consumers and producers, thus making a large contribution to the U.S. economy.

At this time, while U.S.-Japan economic interdependence continues to increase, the growing significance of the forthcoming era that has been dubbed the Age of the Pacific Basin becomes more and more apparent. The awakening of the recognition of a new Pacific Basin era began in Japan in 1981 under the administration of Prime Minister Ohira. Likewise, the birth of the Reagan administration (with its roots in California) and the fact that for the first time American trade with the nations of the Pacific overtook the total value of trade with the nations of the Atlantic, sparked renewed appreciation of the potential of the Pacific region in the United States. Recently, even some prominent Americans—such as former Secretary of State Henry Kissinger and Under Secretary of State Lawrence S. Eagleburger, whose primary focus had previously been toward Europe—have come to stress the importance of this new orientation.

The Age of the Pacific Basin can be seen as an era in which the nations encircling the Pacific deepen their interdependency, and in which the United States and Japan, forming bulwarks East and West, are poised to take a leadership role in the world economy. Within this context, the vital importance of the interdependent relationship of the United States and Japan becomes especially clear. Moreover, with recovery in Western Europe lagging behind the pace set in the United States and Japan, the resulting unemployment problem there makes the nations of Western Europe particularly vulnerable to protectionist pressures and further intensifies the necessity for

the United States and Japan to cooperate in promoting and developing a worldwide free trade economy.

**I**t is true that a number of issues confronting the U.S.-Japan economic relationship remain to be resolved. If these issues are allowed to threaten the stability of this fundamentally interdependent relationship, it will be a loss not only for the United States and Japan but also for the entire world economy. We must then do all in our power to see that such issues are not politicized and are resolved reasonably and with dispatch.

With these problems in mind, beginning in 1981 and continuing through April 1984 the Japanese government instituted external economic reform measures on four occasions in an effort to resolve a number of outstanding issues. Further, on such broad-based issues as energy, advanced technology, financial investment, and industrial policy, the United States and Japan are working together to develop forums in which these problems can be discussed and resolved on an administrative level. The value of this cooperative effort is recognized by the U.S. government, as was indicated in the October 1984 testimony of Under Secretary of State W. Allen Wallis and Under Secretary of Commerce Lionel Olmer before the East Asian and Pacific Sub-Committee of the U.S. Senate Committee on Foreign Relations.

However, as the various frameworks devised to resolve our problems have only recently been established, it would be somewhat premature to expect to see the fruits of our labors in these areas at this early date. The Japanese government is making every effort to promote a number of reform measures that are still awaiting legislative enactment. For that reason it may be both inappropriate and counter-productive at this time for the U.S. government to overreact by pressing its demands for immediate, tangible results.

The Japanese government is aware of the fact that the U.S. government feels that several other outstanding issues remain before us. Yet, over the past several years the mutual efforts of the United States and Japan have borne fruit, and the forums and frameworks that have been employed in coming to grips with those problems promise to serve us well in the future.

We are also aware that, in addition to the various microeconomic problems with which we are struggling, there loom before us the ominous and potentially disastrous macroeconomic problems of a trade

imbalance. In regard to the rather awesome U.S. trade deficit with Japan, we must manage to maintain our ability to address this problem objectively. In fact, if we look closely at the U.S. trade deficit, we note some encouraging signs. During the first seven months of 1984 U.S. exports to Japan rose 15 percent over the same period last year. This increase is more than twice the rate of growth in U.S. exports to the rest of the world. If we break this down, we can find other positive aspects. Exports of specialized machinery are up 49 percent; telecommunications, sound reading, and reproduction equipment are up 48 percent; chemical components are up 37 percent, and computers are up 26 percent. If the exchange rate of the U.S. dollar were not as high as it is these days, these sales rates would have been up even higher.

Despite these encouraging trends, the current surge of Japanese imports, up to 35 percent over last year, threatens to obscure such improvements. There is no denying the growing trade deficit of the United States with Japan. As to the cause of the deficit, I would like to cite the recent testimony of Under Secretary Wallis, who states that the two main causes for the deficit are the increased strength of the U.S. dollar and the fact that increased spending resulting from the U.S. economic recovery outpaced that of Japan.

These factors, as well as others—such as the structural differences and macroeconomic distortions in the world-trading economy—have been recognized as the source of the U.S. trade deficit. Just the other day the *Los Angeles Times* reported that U.S. Special Trade Representative William Brock jokingly said he had had a nightmare when he first took the job of chief trade negotiator nearly four years ago “that the Japanese government would do everything that we asked them to do and nothing would change—and it has come true.” The Japanese government has cooperated with the U.S. government, but there appears to be no simple solution to the problem of trade imbalance.

The November 5, 1984 issue of *Newsweek* magazine ran an article with the somewhat startling title: “A Marriage of Convenience: Trade between Japan and the United States Suits the Needs of Both Countries.” Citing the “mutually beneficial nature” of the deficit relationship, the article argued in essence that the U.S. trade deficit was balanced out by Japanese investment in America; or, in other words, U.S. trade losses were virtually made up for by Japanese construction of factories, creation of employment, and investment in real estate and financial institutions in the United States. Of course, there

is no guarantee that the “losers” in trade competition will be the direct beneficiaries of Japanese investment. In that sense, the problems engendered by the deficit remain, but the issue cannot be viewed simply in terms of a deficit resulting from the trade of capital goods with Japan. Both the causes and solution for the deficit problem must be found in a broader context. This is not to say that we may just ignore the problem of trade imbalance. The political consequences of such an evasion of responsibility are potentially enormous.

It goes without saying that the United States and Japan must work together in order to bring our trade into a more balanced relationship. Over the past several years Japan has worked to ensure that its trade surplus is not attributable to disparities in market access and has made a series of unilateral trade concessions. These actions, coupled with the ongoing cooperation with the United States on a variety of other issues affecting the balance of trade, demonstrate Japan’s commitment to ameliorating the current U.S. trade deficit.

I have emphasized the necessity for both the United States and Japan to realize the importance of a stable, mutually dependent relationship. We must strive to see that none of the issues confronting us are allowed to threaten that stability and that the government of Japan is working to see that our relationship proceeds on a smooth and steady course. If we succeed with these challenges, we may find ourselves in a position to contribute greatly to the peace and prosperity of not only the United States, Japan and the rest of the Pacific Basin, but the entire world.