

THE UNITED STATES TRADE REPRESENTATIVE  
WASHINGTON  
20506

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MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock *WES*  
SUBJECT: Japanese Trade Barriers

The Results of a Closed Japanese Market

For the first ten months of 1981, the United States has recorded a \$13.5 billion bilateral merchandise trade deficit with Japan, exporting \$17.8 billion while importing \$31.3 billion. For calendar year 1982, this surplus is projected to rise above \$20 billion. This in itself might not necessarily be a matter of concern if it resulted from a natural balance of "comparative advantage," with both countries enjoying equal access to each other's markets. Japanese success in penetrating U.S. markets and the resulting U.S. trade deficit, however, have become serious political issues because Japan does not permit sufficient access to those of its markets in which the U.S. is competitive. Nor is the deficit balance of U.S. merchandise trade with Japan substantially offset by an opposite flow of income from services or investments. The global balance of trade and non-trade payments of the United States, a more relevant statistic, is also substantially in deficit, while Japan is enjoying a rising surplus.

The Problem

Japan enjoys the following shares of U.S. markets:

- autos - 21%
- motorcycles - 65%
- radios - 46%
- photographic equipment - 29%
- video tape recorders - 100%
- watches - 14%
- machine tools - 11%

No major U.S. manufactured export enjoys as much as a 10% market share in Japan except aircraft, which the Japanese do not produce. Yet, the U.S. is generally conceded to be more competitive than the Japanese in computers, telecommunications, nuclear power, cigarettes, pharmaceuticals, pulp and paper, numerous processed foods, and other products. And in agriculture, where the U.S. is clearly more competitive than Japan in most products, import quotas keep U.S. products from achieving the market share they could achieve.

In addition, Japanese companies have virtually free access to raw materials in the U.S., such as hides, logs, and tobacco leaf. Japan, however, closely controls and limits U.S. exports of the processed goods derived from these raw materials, such as leather, lumber, paper, and cigarettes.

The investment picture also reflects an imbalance. The Bank of Tokyo has acquired the Bank of California, giving it over 500 branches in California with full power to accept deposits. Fujitsu purchased American technology and a foothold in the U.S. market by buying a part of Amdahl. It is virtually impossible for a U.S. company or bank to acquire a Japanese company or bank. Nomura Securities belongs to the New York Stock Exchange, but no American company can buy a seat on the Tokyo Stock Exchange.

In short, there is little reciprocity between the treatment of American goods and investment in Japan and the treatment of Japanese goods and investment in the U.S. Japanese market access is a particularly serious problem in sectors where the United States is most competitive internationally.

The causes of this inequality are structural. The Japanese businessman has a consensus-induced propensity to buy from his fellow citizens. But there are also numerous government-imposed restraints on U.S. sales to and investment in Japan. Besides the restraints on acquisitions of foreign companies, Japanese NTB's fall into a number of general categories:

- (1) There are specific quotas imposed on 26 products, of which 22 are agricultural.
- (2) Customs procedures in Japan are a major obstacle. For example, the Japanese Customs Service requires all import problems to be solved prior to the release of the goods from customs' custody; in the U.S., the products are first given to the possession of the importer who files the import documentation (and settles any disputes) afterwards.
- (3) The whole Japanese product standard setting process is quite closed to any newcomer and the failure to meet these standards is difficult to overcome, both because of the non-transparency of the process in Japan as well as because the Japanese almost without exception, refuse to accept self-certification by foreign exporters or testing results from companies such as Underwriters Laboratories. In addition, "product approval" of new products often takes years in Japan and must be accompanied by a total disclosure of technological information by the applicant. Similar approval in the U.S. (e.g., by the Federal Communications Commission) may be accomplished in days, with the assumption that the product is approved unless it is specifically disapproved.
- (4) With respect to several U.S. products, such as fish, beef, and cigarettes, the U.S. exporter is forced to deal with his Japanese competitor and/or to employ his Japanese competitor as his distributor or importer.

### Ongoing Efforts to Open Japanese Markets

Under Secretary of Commerce Lionel Olmer has been spearheading an effort to eliminate Japanese non-tariff barriers through a series of meetings with Japanese officials under the aegis of the Commerce Department's Trade Facilitation Committee. This Committee has successfully addressed and solved numerous individual export problems, and is now conducting industry studies. Several weeks ago, Deputy U.S. Trade Representative Dave Macdonald led an interagency delegation to discuss these matters with the Japanese. No specific concessions were requested and, with a couple of exceptions, none were forthcoming. Rather, the approach of this latest interagency effort was to bring home to the Japanese the scope of the lack of market access in Japan. The delegation took the position that the Government of Japan cannot have it both ways. It cannot take the benefit of American markets without giving the U.S. reciprocal access to its own markets. Although the U.S. would rather have free access to markets in Japan, the decision whether to open its own markets or have its foreign markets closed by its trading partners is a decision that only Japan can make. The choice in this matter was left to the Japanese, and a further meeting of the delegations has been set for the last week of February in order to find out what choice the Japanese wish to make and how they intend to implement that choice.

The Japanese are aware that they have major trade problems with both the U.S. and the EC. They have formed several groups to address the problems, including a cabinet council, a council of key business leaders, and a council of government Labor Democratic Party leaders. We will be providing information to these groups as appropriate. We will also develop initiatives we can take over the next two months to keep pressure on these groups.

Nevertheless, real success will be contingent upon our solving two basic problems:

- (1) The problem of access to the Japanese market is structural and attitudinal. It permeates their society and economy and can only be changed by a fundamental change in their approach to recognize that imports are as important as exports.
- (2) The Japanese will not voluntarily accept imports that undermine achievement of their government's objectives for the Japanese economy, i.e., maintaining full employment and developing knowledge-intensive industries. They have repeatedly taken actions to curb imports which threatened to surge into Japanese markets and displace Japanese products.