Coping with U.S.-Japanese Economic Conflicts

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Lexington Books

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LexingtonBooks
D.C. Heath and Company
Lexington, Massachusetts
Toronto

Library of Congress Cataloging in Publication Data

Main entry under title:
Coping with U.S.-Japanese economic conflicts.

Contents: "Introduction" by I.M. Destler and Hideo Sato—"The U.S.-Japanese steel issue of 1977" by Hideo Sato and Michael W. Hodin—"The politics of U.S.-Japanese auto trade" by Gilbert R. Winham and Ikuo Kabashima—"Agricultural trade: the case of beef and citrus" by Hideo Sato and Timothy J. Curran—[etc.]

1. United States—Foreign economic relations—Japan—Case studies—Addresses, essays, lectures. 2. Japan—Foreign economic relations—United States—Case Studies—Addresses, essays, lectures. 3. United States—Commerce—Japan—Case studies—Addresses, essays, lectures. 4. Japan—Commerce—United States—Case studies—Addresses, essays, lectures. I. Destler, I.M. II. Sato, Hideo, 1942- .
HF1456.5.J3C66 382'.0973'052 81-47897
ISBN 0-669-05144-6 AACR2

Published simultaneously in Canada

Printed in the United States of America

International Standard Book Number: 0-669-05144-6

Library of Congress Catalog Card Number: 81-47897

Preface

This book treats five politically volatile economic issues that arose between 1977 and 1981. Its case chapters trace the development of U.S.-Japanese difficulties in steel trade, automobiles, agricultural products, telecommunications equipment, and macroeconomic policy coordination, concluding with how these specific issues were resolved. The opening and closing chapters provide broader background information and analyses, including prescriptions as to how officials in both governments can manage better the future economic conflicts that will inevitably arise.

The book began in early 1980, when the Japan-United States Economic Relations Group, known informally as the wise men, asked us to study how recent bilateral economic disputes had risen to political prominence and how such disputes might best be managed and contained. After developing a common analytic framework, working separately, we each conducted or contracted for studies of the five cases, because each of us was originally charged with investigating his own nation's policymaking. Thus, Ikuo Kabashima and Hisao Mitsuyu joined Sato in writing original papers on Japanese policymaking on four of the issues, and Yasushi Hara provided important analysis and advice on the NTT dispute. Timothy J. Curran, Michael W. Hodin, and Gilbert W. Winham joined Destler in doing parallel studies of the U.S. side of these issues. We then gleaned from these studies specific recommendations for the wise men to consider when preparing their report of January 1981 to the president of the United States and the prime minister of Japan.

After consulting with our collaborators, we agreed that the Japanese and U.S. case studies were complementary and mutually reinforcing, so we decided to merge them. In each case chapter, the author listed first undertook to blend the two original papers into a single, coherent account and analysis. (For the NTT article, Curran served as sole author and drew on Hara's contribution and his own previous investigation of the issue in Tokyo.) The result, we believe, is a truly binational study, drawing on interviews in both capitals as well as on public sources. We have published it expeditiously, while the issues are relevant; we hope, however, that the conclusions have broader application.

Our debts are many. The study was initiated and financed by the Tokyo and Washington offices of the Japan-United States Economic Relations Group. Therefore, we are grateful to Ambassadors Nobuhiko Ushiba and Robert Ingersoll, the group's co-chairmen, and to Tadashi Yamamoto and Jack B. Button, its executive directors, for their initial encouragement and support and for their cooperation as we moved toward publication. Yamamoto also provided an indispensable Tokyo base for Sato at the

Japan Center for International Exchange. Destler is grateful to Thomas L. Hughes, president of the Carnegie Endowment for International Peace, for his cooperation with Destler's involvement in this study. Carnegie also provided facilities in the Washington office for Curran, who, in addition to writing two cases, provided superb overall backstopping and research support for the U.S. side of the study, which was conducted in the spring and summer of 1980. We both owe a particular debt to Sato's Yale colleague, Hugh Patrick, one of the wise men, who was a stimulating and constructive critic and who generously allowed Sato to draw on the preliminary findings of their joint Yale project.

Finally, we are grateful to Alease Vaughn for her indispensable help in making sure that successive drafts were typed expeditiously and accurately and in providing broader administrative support.

I.M.D.
H.S.

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1 Introduction

I.M. Destler and
Hideo Sato

In November 1977, a U.S. trade official led an economic mission to Tokyo to urge changes in Japanese policies. The purpose was to avert what U.S. officials saw as a threatening crisis in bilateral economic relations. He was chosen, in part, for his modest rank and low-key personal style, because the United States's objective was to press issues strongly but privately. Instead, the mission provoked a media storm in Tokyo—so much of a storm that, when the emissary called upon Prime Minister Takeo Fukuda, he was greeted with the words, "I am happy to meet the most famous man in Japan." The immediate result was to make conflict more visible and acute.

In early 1979, senior U.S. and Japanese officials had to work very hard to prevent a summit conference from being poisoned, for the Japanese, by a dispute over whether Japan's national telephone company would procure sophisticated equipment from U.S. and other non-Japanese manufacturers. This issue had not even been prominent the year before, but suddenly it became, to Americans, a symbol of Japan's closed market, and, to Japanese, an example of outrageous U.S. pressure.

In early 1977, U.S. steel companies pressed a campaign against imports from Japan and sought quantitative limits on them. Their counterparts in Japanese industry were quite amenable to enforcing such limits. Yet the issue nonetheless ballooned politically, bringing enormous political pressure on Congress and the Carter administration throughout the summer and the fall and a concomitant rise in anti-Japanese political rhetoric.

In December 1978, Japanese Prime Minister Masayoshi Ohira declared that his country would fall short of attaining its economic growth target. This was consistent with the consensus of economists, yet it triggered a sharply critical letter from President Jimmy Carter accusing Japan of abandoning her international commitments.

Throughout 1980 and into 1981, U.S.-Japanese trade politics were dominated by the matter of automobiles. With domestic employment and sales plummeting, the president of the United Auto Workers, Douglas Fraser, flew to Tokyo to seek restraint on Japanese exports and on the construction of Japanese auto plants in the United States. Others joined in the pressure, only to have the U.S. International Trade Commission rule, in October, that the U.S. industry was not eligible for import relief under current U.S. law.

In all five of these episodes, the economic issues between Japan and the United States were intrinsically difficult. In all five, they were rendered more complicated by the specific evolution of politics and decision-making in one country or both. This book seeks to shed light on how and why these complications arose and what might be done about them in the future.

Much of the drama—the noise—in U.S.-Japanese economic relations is inevitable. Both countries are active democracies, and they are also the world's two largest market economies. Democracy spawns controversy, particularly over issues that matter. And trade often matters a great deal—to producers, to workers, and to consumers. With over 300,000 layoffs in the U.S. auto industry in 1980, and with Japanese car imports totaling $8.4 billion in value and 21 percent of the U.S. market in volume, it would be a miracle if automobiles had not become an important political issue in the United States.

Some of the noise is desirable. Dealing with changing economic realities requires frequent, sometimes painful policy adjustment in both Washington and Tokyo. Such change is unlikely to occur without a healthy dose of political contention, within each country and sometimes between the two. Citizens in both countries need to understand that a certain amount of friction is normal, and they must learn to live with it. Policy conflict is often a necessary ingredient in the process of coping with and resolving bilateral issues.

Yet the frequency and intensity of U.S.-Japanese trade conflict is deeply troubling. From 1969 to 1971, bilateral economic relations were dominated by a bitter textile wrangle over Japanese exports that totaled only 4 percent of her textile production and only one pecent of U.S. textile consumption. In the 1977-1980 period, there was an epidemic of economic conflicts—over color televisions, steel, beef and citrus, telecommunications, automobiles, nuclear processing, macroeconomic policy coordination, and economic sanctions toward Iran.

Each of these conflicts became, for a time,a focus of strong controversy in at least one country, and each threatened to spill over to affect broader relations and policies. This is exactly what happened in 1971, when bitterness over textiles pervaded the Nixon White House, encouraging rebuffs to Tokyo on other issues and threatening Senate ratification of the Okinawa reversion treaty. The relationship reached its postwar nadir, symbolized by the U.S. threat of invoking the Trading with the Enemy Act with regard to its major East Asian ally see (Destler, Fukui, and Sato, 1979). There was no comparable breakdown of relations in 1977-1980, although it seemed possible more than once. However the cumulative impact of recent disputes has been to give the impression of "unceasing acrimony," as Ambassador Nobuhiko Ushiba recently put it (Ushiba, 1980, p. 2). And this, we are convinced, has been anything but healthy and desirable.

Persistent, high-visibility trade conflict generates bitterness in both countries: Japanese are bitter about what they see as constant U.S. pressure and self-righteousness; Americans are bitter about what they perceive as Japanese relentless exporting and covert protection of imports. It can render particular issues enormously more difficult to resolve as national positions become polarized and government leaders fear that compromise will be viewed, in the glare of publicity, as a sign of weakness. It fosters stereotypes—of the "unfairness" of Japanese trade practices or the "laziness" of U.S. workers.

What can be done, then, to mute this pattern? How can the two countries achieve a more constructive approach to U.S.-Japanese economic relations, as President Carter and Prime Minister Ohira urged at their May 1979 summit meeting? This book addresses the problem through close examination of recent experience. Specifically, we present case analyses of five representative recent issues—steel, automobiles, agricultural products, telecommunications equipment, and macroeconomic policy coordination. Each draws on research in Tokyo and in Washington in order to highlight the perspectives and interests of both countries. Each addresses a common set of questions—about how the issue rose to political prominence, the specific interplay of interests on both sides, and the path to the resolution of the issue.

Each case—and, more generally, U.S.-Japanese trade conflicts—must be understood within broader contexts. One central cause of such conflict in the sixties and seventies was, of course, the enormous expansion of bilateral trade and its shifts in composition. Another factor was the erosion of the postwar international system dominated by the cold war. A third was the different approaches the two nations took to trade-policy management. A fourth was the peculiar psychology of postwar U.S.-Japanese relations and its inconsistency with current economic realities. Finally, there was the specific situation that decision makers confronted in 1977—a world economy shaken by OPEC, severe inflation, and a deep recession followed by a shaky recovery.

Each of these broader, background factors deserves brief, separate treatment before we turn to the cases that form the heart of this book.

The Trade Explosion

In 1960, the United States exported $1.4 billion in goods to Japan and imported $1.1 billion in goods. In 1980, the United States exported $20.8 billion and imported $30.7 billion in goods. Some of this enormous increase can be explained by inflation.[1] But there remains a fivefold real increase in U.S. exports to Japan, and a sevenfold real increase in imports, over this twenty-year period. This increase far outstripped the growth of overall U.S. production.[2]

The trade balance also shifted dramatically—from a consistent surplus in the United States's favor through 1964 to a steady and growing deficit thereafter, reaching a peak (using U.S. data) of $11.6 billion in 1978 (see table 1-1 below).

There was also a remarkable change in the composition of Japan's exports. Textiles dropped from 30.4 percent of her worldwide total in 1960 to 6.7 percent in 1975, while over this same period iron and steel rose from 9.6 to 18.7 percent and machinery (including autos and ships) rose from 25.5 to 53.8 percent (Rapp and Feldman, 1979, pp. 104-105). In automobiles, Japanese sales to the U.S. market rose from 2,000 cars in 1960 to 313,000 cars in 1970 to 1.9 million cars in 1980. The composition of U.S. exports to Japan remained, by contrast, relatively constant and concentrated in primary goods.

Each of these factors contributed to bilateral trade friction. Increased volume meant a greater impact on more domestic markets, causing predictable reactions from those adversely affected. The bilateral imbalance and the divergent commodity compositions of exports and imports also tended to exacerbate trade relations.

To a considerable extent, friction is inevitable given the two nations' overall situations. Being a nation lacking vital natural resources and large

Table 1-1
Trade Balance Data
(billions of dollars)

	Global Current Account Position		*Bilateral Merchandise Trade Balance*		*Total Trade*	
Year	*U.S.*	*Japan*	*U.S. Data*	*Japan Data*	*U.S. Data*	*Japan Data*
1970	2.3	2.0	− 1.2	1.5	10.5	10.5
1971	− 1.4	5.8	− 3.2	3.4	11.3	11.6
1972	− 5.8	6.6	− 4.1	4.0	14.0	13.9
1973	7.1	− 0.1	− 1.3	1.3	18.8	17.5
1974	2.1	− 4.7	− 1.7	1.9	23.0	23.5
1975	18.3	− 0.7	− 1.7	1.0	20.8	20.8
1976	4.4	3.7	− 5.3	5.5	25.7	25.7
1977	−14.1	10.9	− 8.0	8.6	29.1	30.1
1978	−14.3	16.5	−11.6	10.7	37.3	38.7
1979	− 0.8	− 8.8	− 8.6	7.6	43.8	44.4
1980[a]	0 to +5	−13 to −15	− 9.9	NA	51.0	NA

Sources: Reprinted from Japan-United States Economic Relations Group, *Report of the Japan-United States Economic Relations Group* (Prepared for the president of the United States and the prime minister of Japan, January 1981), p. 17. Current account: United States—*Survey of Current Business* Japan—*Balance of Payment Monthly* Bilateral Merchandise Trade: United States *Department of Commerce, Bureau of Census. FT 990* Japan—*Balance of Payment Monthly.*

Note: The United States has a deficit in bilateral trade, Japan a surplus.

[a]Estimated.

arable land, Japan has to depend heavily on imports to meet its domestic demand for minerals, fuels (oil alone taking up about 40 percent of its import bill), and important agricultural and forestry products such as wheat, soybeans, corn, and lumber. In order to earn the necessary foreign exchange to import these materials, Japan has to export as many manufactured products as possible. The United States happens to provide the world's largest and most prosperous market for manufactured products and it also happens to be the largest exporter of agricultural and forestry products. Although the United States is also a major exporter of manufactured goods, its share of the Japanese import market for manufactured goods has been declining from 39 percent in 1972 to 29 percent in 1978 (GAO, 1979, p. 15). Consequently, major Japanese exports to the United States consist of manufactured products that are largely high technology, whereas agricultural products and raw materials are a large part of U.S. exports to Japan. What the Japanese supply is also more likely to be available from competing U.S. firms. As Philip Caldwell of Ford Motor Company put it: "Look at the types of trade between the U.S. and Japan: What is it that Japan has that we are vitally required to have? The answer is zero."[3]

This situation is hard for Americans to abide. A generally balanced congressional report concludes that, judging by the data, "(aircraft excluded) we are a developing nation supplying a more advanced nation—we are Japan's plantation: haulers of wood and growers of crops, in exchange for high technology, value-added products . . . this relationship is not acceptable" (*United States-Japan Trade Report*, 1980, p. 5).

The trade imbalance adds to the difficulty. Combined with Japan's history of protecting her markets, it reinforces the view that the trade is a one-way street in Japan's favor and makes it difficult for U.S. officials to be accommodating to Japanese arguments without undermining their own credibility at home. Of course, as the same congressional group put it, "from an economic point of view, a bilateral merchandise trade deficit should not be an object of great concern as long as a nation's worldwide current account is in rough balance. This economic truth, however, is a political falsity" (*United States-Japan Trade Report*, 1980, p. 3).

Erosion of the Postwar International System

Another factor contributing to the U.S.-Japanese trade conflict is the erosion—at least until recently—of the bipolar international system. During the height of the cold war in the 1950s and early 1960s, the United States was primarily concerned with the cohesion of the Western coalition against the Communist bloc. Thus, U.S. leaders went out of the way to be generous and patient with Japan and other Western industrial states. Free trade among the nations of the free world was emphasized, with the U.S. government often deflecting domestic pressures for protection from imports originating in the allied countries. With the U.S. economy strong and healthy, the United States could afford to practice this benevolent policy. The allies, for their part, shared enough of the anti-Communist ideology to defer to U.S. leadership, and they welcomed, of course, the opportunity to expand their exports. Indeed, the United States not only provided a relatively open market for Japanese products but also allowed Japan "to engage in severe import and foreign exchange restrictions on goods, services, and capital."[4]

However, as cold-war tension subsided in the latter half of the 1960s, the United States began to deemphasize its patron role, becoming more and more sensitive and attentive to domestic interests. It became less and less patient with its allies over bilateral or intrabloc conflicts. This coincided with the relative decline of the macroeconomic position of the United States in the world and the declining U.S. competitiveness in specific industries. C. Fred Bergsten wrote (1971, p. 625):

> Support for continued liberal trade policies on foreign policy grounds has . . . been sharply eroded. . . . the generally reduced fear of a threat to our security from the communist world—in the industrialized or lower-income countries—renders our society increasingly unwilling to inflict economic pain on important (domestic) groups to promote our overall foreign policy.

At the same time U.S. allies became more self-assertive and less willing to defer to U.S. policy and leadership. This trend was reinforced by the serious problems of inflation and recession, which confronted most Western industrial states in the wake of the 1973 OPEC oil embargo, and by the subsequent problem of recovery and stagflation. Compared to military or security issues, economic issues involve a larger number of domestic actors (including special-interest groups and their proxies in the legislature), which makes it more difficult for governments to balance domestic politics and foreign policy.

Ironically, a combination of several factors—including the relative economic decline of the United States, floating exchange rates, and the quantitative increase in economic transactions across national boundaries—has made the international economic system far more interdependent than before. Domestic groups have become more assertive and influential at the very time the need to coordinate economic policies among Western industrial states has become even greater.

Contrasting Approaches to Trade Policy

A third contributor to trade conflict is differences in national trade policies and institutions. Both countries have developed highly effective governmental trade organizations, but the U.S. organization has traditionally performed a brokering function—balancing competing interests—in order to maintain a relatively open national and international trade regime. Japan, by contrast, has given priority to improving its balance of trade, especially with regard to export expansion.

U.S. manufacturers have long enjoyed a large and prosperous home market and have been oriented primarily toward this market. In the early postwar period, moreover, they could export easily, almost as an afterthought, and the national trade balance was consistently in the black. Thus, government trade policymakers focused not on improving this balance but rather on maintaining and expanding an open international market for all countries, through international agreements, and on minimizing U.S. trade restrictions through careful brokering with import-affected interests and their advocates in Congress. The policymaking system that evolved—a U.S. trade representative (the Office of the Special Trade Representative until 1980) in the president's executive office who balanced domestic and international concerns; special procedures and institutions, including the independent U.S. International Trade Commission (USITC) that weighed import relief claims; and strong congressional committees that controlled general trade legislation but preferred to defer to the executive and the USITC in particular product cases—was well-suited to these goals.

Japan, by contrast, began its postwar recovery with an absolute need to export in order to survive and with a persistent balance-of-payments constraint on its growth. It was logical, therefore, that Japan's government place primary trade-policy responsibility with the same agency that is responsible for industrial growth—the Ministry of International Trade and Industry (MITI). For most of the postwar period, MITI naturally gave priority to promoting exports and restraining imports. Japan's continuing need to import primary products (including 99 percent of its oil) provides a contemporary impetus in this direction. Thus, as a U.S. observer noted in 1979 (Samuelson, pp. 1072-1073):

> The gap between America's efforts to sell Japan and Japan's efforts to sell America is striking. According to Japan's MITI, Japanese companies have 764 trading offices in the United States with 20,844 workers; the comparable U.S. representation in Japan is 162 officers and 1,901 employees. But even these numbers may understate the difference, because the Japanese in the United States probably speak English and are better schooled in Americana than their U.S. counterparts are in the Japanese language and customs.[5]

In both countries, the 1970s brought some institutional adjustment. The MITI became considerably more free-trade oriented, reflecting Japan's enormous stake in open world markets and her partners' growing pressure for reciprocal market access. The U.S. trade reorganization implemented in 1980 placed greater priority on the promotion of U.S. exports. Yet contrasting trade institutions and perspectives continue, contributing to each side's frustrations in dealing with the other. Americans look for a more aggressive Japanese commitment to trade liberalization, at home and worldwide. Japanese see U.S. lags in industrial innovation and export promotion as the cause of much bilateral woe.

In Japan, the seventies brought a weakening of the overriding government-business consensus in support of high investment and rapid growth. Inflation, oil shocks, and the rise of competing social priorities have complicated the government's economic policymaking, leading to what some have labeled "immobilism." Thus, the U.S. image of "Japan, Inc.," misleading a decade ago, is even more inappropriate today.

In the United States, the same period saw a rise in the visibility of protectionist pressures and a stronger advocacy of import relief by affected industries and their allies in Congress. This did not mean that Congress imposed specific statutory restrictions on particular products; in practice, the legislative branch employed its trade-policy power sparingly. However, the executive branch was necessarily more sensitive to congressional views, particularly during the multilateral trade negotiations, because the result required congressional approval.

Psychology of Postwar U.S.-Japanese Relations

What further exacerbates bilateral economic conflicts is the outmoded yet persistent expectations that date from the first two postwar decades, the period of U.S. dominance and Japanese dependence. As noted earlier, the United States's postwar economic policy toward Japan was based on the assumption that the United States needed to help its weak Asian protégé recover and develop economically as a way of deterring Communist subversion and control. Now Japan has become a major economic power in its own right and the traditional cold-war rationale has all but disappeared in U.S. policy toward Japan. That is why the United States has come to treat Japan as an economic competitor. Yet old expectations and perceptions of each other die hard. Some Americans still tend to look on Japan as a protégé that should acquiesce to U.S. wishes. Now confident and proud of their economic achievements, the Japanese strongly resent such presumption on the part of Americans. At the same time, some Japanese still find it difficult to rid themselves of their sense of dependence on the United States as well as their image of the United States as rich and almighty, and they tend to be unusually impatient with or unsympathetic to the actual economic difficulties facing their former patron.

Americans see Japan as not only accumulating bilateral trade surpluses but also outcompeting the United States in many traditional U.S. industries, including steel, electronics, and automobiles. For some Americans, it is unthinkable that the United States would lose free competition to its Asian protégé, and they are attracted to the argument that Japan must be resorting to unfair competition.[6] This in turn irritates the Japanese, who feel they are being blamed for their hard work and efficiency—for living out the Protestant work ethic.

It is true that the United States is economically more important to Japan than vice versa. While Japan's trade in goods and services with the United States constituted 26.1 percent of its total trade in 1978 (down from 30.9 percent in 1955), the United State's trade with Japan was 12.2 percent of its total in the same year (up from 4.1 percent in 1955) (Patrick, 1980, p. 10). The Japanese economy is only one-half of the U.S. economy (although income per capita is now roughly equal) and there is still some absolute difference between the two countries in terms of their various economic capabilities. However, Japan is growing and moving faster than the United States (see table 1-2).

It is this speed of Japanese growth that seems most alarming to U.S. officials and industrialists. As a U.S. journalist wrote, "Japan's economic success has shaken American self-confidence and destroyed the foundation of a father-son political kinship" (Samuelson, 1979, p. 1068). All this creates a psychological climate not necessarily conducive to rational, coolheaded management of economic issues between the two countries.

Both U.S. and Japanese policymakers still largely subscribe to free-trade principles and understand the importance of the overall bilateral relationship. Yet they have difficulty upholding this cause of free trade or the

Table 1-2
Comparative Economic Data for Japan and the United States, 1975-1979
(in percent)

	Growth Rate in Real GNP		*Growth in Output Per Hour in Manufacturing*		*Ratio of Savings to Disposable Personal Income*		*Ratio of Gross Domestic Fixed Capital Formation to GNP*	
Year	*United States*	*Japan*	*United States*	*Japan*	*United States*	*Japan*	*United States*	*Japan*
1975	−1.3	1.4	5.1	−3.9	7.7	22.5	16.3	32.2
1976	5.9	6.5	4.4	8.1	5.8	22.4	16.4	31.0
1977	5.3	5.4	3.0	4.6	5.0	21.2	17.2	30.0
1978	4.4	6.0	.5	7.9	4.9	21.4[p]	18.0	30.5
1979	2.3	6.0	1.5	8.3	NA	NA	17.7[p]	31.7[p]

Source: Reprinted from *United States-Japan Trade Report* (Washington, D.C.: U.S. Government Printing Office, 5 September 1980), p. 8. Based on international Monetary Fund, International Financial Statistics, and U.S. Department of Commerce; International Economic Indicators. Contained in "Anti-Inflation Policies in Japan," Dick Nanto, CRS, Library of Congress, May 20, 1980, Rept. No. 80-ICOE.

alliance when dealing with specific economic issues because of the changing configurations of domestic politics in each country.

The Situation in 1977

If these were some of the general factors affecting U.S.-Japanese trade relations in the late seventies, what was the particular policy environment at the start of the period this book treats? Each country had a new government—Takeo Fukuda became Japan's Prime Minister in December 1976, twenty-seven days before Jimmy Carter's presidential inauguration. The United States had led the advanced industrial countries in recovering from the deep recession of 1974-1975, but the strength of domestic demand was generating a growing trade deficit. Japan's recovery path was quite different. For three years, Japan's economy had been squeezed very tight to thwart inflation, which had reached 24 percent in 1974. The resulting weak domestic demand and slow growth stood in sharp contrast to the remarkable double-digit average annual real growth experienced between 1960 and 1973. By 1977, inflation had been controlled and recovery was underway, but it was led by exports, the general rise of which was triggering concern among Japan's trading partners.

Particularly important to U.S. policymakers was the need to complete the multilateral trade negotiations (MTN) and have the results of that approved by Congress. In scope, the MTN was the most ambitious of the series of postwar rounds to reduce trade barriers: it sought not mainly tariff cuts but agreements on international codes to limit nontariff trade distortions like subsidies and "buy national" government procurement policies. The talks, formally inaugurated in 1973, made little progress in their first three years, but Carter's aggressive trade representative, Robert Strauss, succeeded in winning an international commitment to achieving substantial results and a schedule for their achievement. This meant, however, increased U.S. pressure on trading partners for important concessions, increased governmental sensitivity to the plight of import-impacted domestic industries (which might threaten MTN ratification), and increased concern with any overall trends in trade that might make it appear that the United States was being outdone or taken advantage of. The growing bilateral imbalance with Japan was foremost among such trends, and the remarkable burgeoning of Japan's worldwide trade and current account surpluses in 1977 and 1978 further increased the concerns of the United States.

Yet, while Japan's trading partners saw these surpluses as unwelcome results of Japanese economic power, the view in Tokyo was different. There, for Fukuda, the economic malaise, the weakness of domestic demand, was the core policy problem—the need was to stimulate home-market economic activity without rekindling inflation. It was the weakness of this market that was enlarging the trade gap, because it both limited import demand and channeled production into overseas markets. However, this perception of weakness made Japanese officials less able to initiate the sorts of trade-policy actions that the United States believed were called for by Japanese strength.

Together with the broader factors outlined, the particular policy environment of 1977 was an important general source of U.S.-Japanese trade conflict. Yet attention to these broad contextual factors, essential though it is, does not yield answers to important specific questions—about why and how particular issues escalated into major sources of political tension. Nor does it offer useful clues about how such tension might be avoided or minimized in the future. Why was the product area of prime contention in 1977-1978 not automobiles but citrus products—for, which the value of existing trade flows was less than one-hundredth as great? Why did U.S. officials end up intruding deeply into Japanese domestic economic policymaking,and why did some Japanese appear to welcome this intrusion? How was it that no major political explosion or impasse, such as the conflict over textiles in 1971, resulted? What did officials in both countries do right this time?

To shed light on questions like these is the purpose of this book. It treats the five most prominent U.S.-Japanese economic issues of 1977-1980, divided into three broad categories. The following sections in this chapter will introduce these issues.

However, a type of economic conflict *not* addressed in this book is that which arises from the tension between national economic interests and the political-strategic policies of at least one country—usually the United States. The United States asks that Japan, as an ally, curtail certain economic transactions or put them at risk; Japan sees serious economic costs if it complies with this request. A historical example was the United States's concern in the fifties about Japanese trade with the Peoples Republic of China. More recently, Japan's priority to energy security has repeatedly been in conflict with other U.S. policy objectives: in 1973, when Japan's diplomatic tilt in the Arab-Israeli conflict complicated Kissinger's effort to inaugurate peace talks (Nau, 1980); in 1977, when Japanese plans to undertake experimental nuclear reprocessing at the Tokai Mura plant came up against President Carter's nonproliferation policy; and most dramatically in December 1979, when expanded Japanese economic relations with Iran appeared to undercut the United States's efforts to get its hostages back home.

This latter case posed particular dangers for bilateral relations, because here the attentive audience was the broad U.S. public preoccupied with the hostage drama, and what they heard was the administration's denunciation