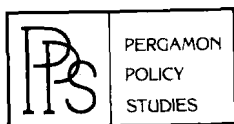


U.S.—Japanese Economic Relations Cooperation, Competition, and Confrontation

Edited by
Diane Tasca





ON U.S. AND
INTERNATIONAL BUSINESS

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Diane Tasca

Study Directors
Zygmunt Nagorski
Masahisa Naitoh

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Introduction

The title of this collection could be regarded as a starkly simplified recapitulation of the postwar history of economic relations between Japan and the United States. The spirit of cooperation that marked these relations during the era of Japan's postwar recovery and emergence as a full participant in the international arena was qualified and checked by Japan's very success in competing with the United States in both the global and the American marketplace. And this competition has given rise to increasingly troubled confrontations between the two powers over questions of trade and economic policy as the U.S. balance of trade with Japan has fallen more and more deeply into deficit. Frustrated over the failure of the domestic economy to strengthen, the United States has grown impatient with what it perceives as Japan's refusal to assume global responsibilities concomitant with its status as a world power; uncertain of the stability of its prosperity and caught in the conflict between its traditional values and those of the West, Japan has grown increasingly resentful of American demands for even more dramatic changes in its way of life.

It is generally agreed that U.S.-Japanese relations have been marked by heightening tension since the "Nixon Shock" of 1971. But how badly has this tension in the economic sphere frayed the whole system of connections between the two countries? What are the various factors that have contributed to these tensions - what are the sources of American impatience and of Japanese resistance? To what extent can each nation be said to be at fault? Will economic relations deteriorate further, and, if they do, how will this deterioration affect the political, diplomatic, and strategic aspects of our relationship? To what extent might it alter Japan's military posture? What can be done to reverse the process of estrangement and lead both nations out of the

current atmosphere of confrontation back into one of healthy competition and cooperation? Will the situation correct itself as economic forces bring the two nations closer together, or will it be necessary for both Japan and the United States to develop new policies in pursuit of a rapprochement?

In the essays that follow, representatives of the business, financial, academic, and political communities in the United States and Japan address these questions. Their papers grew out of a series of monthly seminars held at the Lehrman Institute from October 1978 to May 1979, which brought together a small group of Japanese and American scholars, businessmen, bankers, and government officials, all concerned with understanding and, if possible, reconciling the economic divisions between the United States and Japan. All the authors recognize that these differences arise in large part from the fact that their respective economies represent divergent - in many ways completely opposing - approaches to the organization of a modern industrial capitalist society.

It is true that the most obvious and immediate cause of the tension between the United States and Japan is the American trade deficit and that economic relations between the two countries would ease if that imbalance were rectified through an increase in American exports to Japan in combination with a decrease in Japanese exports to the United States. However, the trade balance is the result of numerous factors within the economy of each nation, factors which have for their part arisen from historical and cultural processes and which are unlikely to change soon, particularly if no strong impetus for change exists within either society. All of the papers are grounded in the common perception, on both the American and the Japanese side, that the fundamental differences in the economies of our two societies reflect rock-bottom divergences in value systems. As these differences are commonly characterized, the Japanese people save for the future, while Americans tend more to spend their money in the present; Japanese industries are oriented toward increasing their share of the market, while their American counterparts are motivated by the profit principle. American corporations are single entities, treated as individuals under the law and free to act as individuals within certain legal limits; Japanese corporations are social organisms with social responsibilities and are held accountable for their actions by a vast network of individuals and institutions. These and other sets of contrasts grow from one central and fundamental difference in values: the American system cherishes the freedom of individuals to act independently of their fellows, while the Japanese system seeks above all the harmonious coordination of individual wills into a consensus.

This juxtaposition lies at the heart of the economic conflict between Japan and the United States. It is crucial to

an understanding of the current difficulties between these two nations because it transcends the purely economic differences between them. Although they share certain goals and values as democratic and capitalist systems, the United States and Japan approach the problems of societal and industrial development from completely opposite directions because of their conflicting perspectives regarding the questions of individual freedom and social harmony. This basic difference gives rise to the contrast in the economies of the two nations between the American bias in favor of the free operation of market forces and the Japanese preference for economic planning and goal setting through the mechanism of consensus. And this difference in values also gives rise to each society's inability to understand the other. The Japanese assert that many American industries are no longer able to compete with their counterparts in Japan and elsewhere because the operation of the free market has not managed to induce investment in new facilities and equipment, and the government has not taken sufficient steps to encourage capital investment, choosing instead to protect these lax industries by limiting competitive imports. Americans, on the other hand, have found solace in the so-called Japan, Inc. myth, which characterizes Japan as a single, tremendously productive corporation, relentlessly churning out exports, both energized and regimented by the spirit of consensus. These are distorted characterizations of the American and Japanese economies, but the distortions are based upon enough truth to give them general currency, and a kind of for-the-sake-of-argument validity. Certainly America's trade deficit, although it may be explained in terms of historical processes, is in large part also a product of the presumably reversible failure of American industry to generate long-term investment. And certainly Japan's economic success is largely the result of the collaboration of several forces which in the United States operate freely, separately, and often chaotically. As Japan's largest market, the United States has been affected by Japan's success more than Japan's other trading partners, and when the peak of Japan's economic triumph coincided with the downturn of the American economy in the early 1970s, Japan became a natural target for American pressure to reduce its surpluses by restraining its exports and increasing its imports.

In response to this American pressure, business and government leaders in Japan feel that they are being used as scapegoats for the failure of American industry to improve its productive capacities. Americans, in turn, argue that Japan's aggressive exporting has engendered hostility throughout the world, that Japan should open its own markets further to world trade, that, in short, the United States is only pressuring Japan to do what it ought to do for its own good.

The Japanese reply that they have already removed most of their barriers to trade and that they cannot impose American demands upon their system without unsettling a precariously balanced government. But the Americans point to the "hidden barriers" to trade that lurk within the inefficient Japanese system for distributing goods and services and argue that the Japanese must accept the responsibilities and risks that accompany their new-found power and prosperity. And so the dispute goes on, producing resentment on both sides because each party believes itself to be pressed into an unfavorable position by the other.

Because this conflict is fueled on both sides by severe domestic difficulties (inflation, unemployment, energy shortages) that show no signs of relenting in the near future, the United States and Japan have reached an impasse in their economic interactions. Several of the essays presented here express little hope for an improvement in relations over the next few years, predicting instead the rise of protectionism in both countries. According to Akira Kojima and Kazuo Nukazawa, whose essays appear below, this shift is likely to be accompanied in Japan by an upswing in nationalism and an endorsement of rearmament, both radical and, to some, alarming, departures from Japanese policy in the postwar era. However, several of the essays see the possibility for the reconstruction of U.S.-Japanese economic relations at some later time. As Masahisa Naitoh indicates, economic forces may themselves bring the two nations into greater equilibrium in the 1980s. In addition, Kenichi Imai points to changes taking place within American and Japanese industry which may encourage greater convergence between the two economies in the future, as American companies become more societal in their orientation, and Japanese industry becomes increasingly shaped by market forces.

The spectrum of opinion which this volume encompasses is, in fact, quite broad, and the differences are not entirely predictable along national lines and areas of expertise. For example, Kiichi Mochizuki, a Japanese industrialist, presents the case for government intervention in the business sector, while Kenichi Imai, an economist, argues for increasing the play of market forces in the Japanese economy. On the American side, Stephen DuBrul depicts Japan as a shrewd and pragmatic survivor, while James Abegglen characterizes Japan's pragmatism as ultimately self-defeating. Despite this diversity, there are numerous points of agreement among the essays. Nearly all of the Japanese authors point to the potential for stagnation and rigidity in the structure of Japan's economy, along with that nation's dependence upon external pressure in order to bring about change. Both sides lament the failure of American leadership, along with the arrogant stance of the United States in its trade negotiations with

Japan. And nearly all the authors stress the need for increasing the exposure of the American public to the problems of Japan and the complexities of the trade issue, since the current swell of protectionist sentiment in the United States is due in part to the manipulation of an uninformed public by the clamor of particular interests hurt by Japan's marketing successes.

It is true that Americans and Japanese know a great deal more today about each other's values, social structures, and economies than ever before. But as several authors point out here, the increasing level of interchange between Japan and the United States is, to a large extent, the product of the trade dispute and is, therefore, a recent phenomenon. Furthermore, this interchange, while it contains a number of noteworthy American contributions to U.S.-Japanese understanding (see, for example, the recent work of Ezra Vogel), still does not adequately represent the perspectives of the Japanese themselves. And this exchange remains wildly unbalanced on the American side: the American public knows much less about life in Japan than the Japanese public knows about life in the United States. A 1979 press survey revealed that the activities of the United States received over ten times as much coverage in the leading Tokyo newspaper as the activities of Japan received over the same period in The New York Times. Whatever its causes, this lopsided interchange has led to the impression among many Japanese that Americans are not interested in them, do not care about them, or, worse, harbor feelings of racial and cultural superiority toward them.

This sense of racial and cultural antagonism continues to underlie much of the economic and social tension between the United States and Japan. On the Japanese side, resentment is often generated by a sense that American officials tend to apply more pressure to the Japanese than they do to their European trading partners, with the activities of the Special Trade Representative singled out in particular. Japanese traders and economists often point to what they regard as hard proof of American prejudice against Japan, namely, the fact that the United States continues to attack Japan on trade matters even though this country has lost more ground to its European competitors (and especially to Germany) in such areas as automobiles, steel, textiles, and electronics than it has to Japan. Americans argue that the United States is not "picking on" Japan, and reject passionately the charge of Occidental racism, but the point is that the impression of Western prejudice persists in Japan, and it frequently surfaced in the deliberations of the seminar group that produced this volume. The misunderstandings that arise from the deep cultural disparity between the United States and Japan inevitably became a recurring theme throughout the course of the seminar meetings, and represent a principal rationale for

the publication of these essays. The information gap between Japan and the United States has prevented the formation of intelligent public opinion in each country with respect to the other, and this volume attempts to fill in this gap in order to develop a constituency for rational and well-considered policy on both sides of the Pacific.

The essays begin with a comprehensive review of the patterns of U.S.-Japanese interaction by Masahisa Naitoh of the Japanese Ministry of International Trade and Industry. He argues that the present difficulties between the United States and Japan should be viewed within the context of the entire history of relations between these two countries, a record which has been marked periodically by both congeniality and conflict. Naitoh finds the prospects for future relations somewhat more encouraging, as economic factors help the United States improve its trade position while Japan's growth begins to decelerate and its surpluses to decline. The first group of essays following this overview explores the present atmosphere of confrontation which dominates U.S.-Japanese economic relations. James Abegglen, of the Boston Consulting Group, maintains that Japan has consistently defined its own national interests too narrowly for its own good. According to Abegglen, Japan's restriction of the sphere of its interaction with the rest of the world has made Japan appear selfish and ungenerous and has made other nations all the more hostile with respect to Japan's export behavior. An alternate American view, by Stephen DuBrul, former President of the Export-Import Bank, focuses upon the confused and erratic behavior of American leadership as a source of the difficulties between Japan and the United States. He proposes that Japan's caution and usually successful pragmatism represent a stabilizing force in the relationship and suggests that the possibility of Japan's rearmament and the opening of Chinese markets to Japanese goods may relieve much of the current friction between Japan and the United States. On the Japanese side, Kazuo Nukazawa, Visiting Fellow in Economics at the Rockefeller Foundation, and Akira Kojima, U.S. correspondent for the Japan Economic Journal, turn to the specific issues of the trade dispute, both writers expressing apprehension over the possibility of a "collision" between the two powers. Nukazawa argues that, while both countries are at fault in the trade dispute, the Japanese have relied too heavily upon American pressure to bring about necessary changes in their own economy. Analyzing the political roots of the confrontation over trade, he suggests that, as American leadership becomes more fragmented, Japan will become increasingly hostile to the application of pressure by American trade negotiators. Akira Kojima focuses more upon the historical and societal sources of the trade conflict, noting that a number of misapprehensions on the American side have

exacerbated the issue.

Since the confrontation between the United States and Japan is rooted in the fundamental differences between their economies, the next portion of the volume is given over to analyses of the discontinuities between the American and Japanese economic systems. A second essay by Masahisa Naitoh compares the American and Japanese economies sector by sector, and argues that it is primarily the weakness of the industrial sector in the United States that has led to the current deterioration of U.S.-Japanese relations. He characterizes these differences as the inevitable reflections of the opposition between the individualistic value system of the United States and the need for social cohesion in Japan. Benjamin Rowland, of the New York investment firm of Salomon Brothers, argues in turn that the social cohesion remarked by Naitoh as the distinguishing feature of Japanese corporate behavior is becoming increasingly difficult to maintain in the face of Japan's domestic problems. In particular, he notes that the strain of financing the Japanese system of guaranteed lifetime employment is likely to contribute to the breakdown of Japanese self-sufficiency. In the final essay in this section, Kiichi Mochizuki, of Nippon Steel in Houston, contrasts the relationship between the public and private sector in Japan with that in the United States. He assesses the adaptability of both systems to the increase in government intervention which, he argues, will represent the next stage of industrial development.

The closing essays are devoted to the development of policy initiatives aimed at improving the relationship between Japan and the United States. Kenichi Imai, Visiting Professor of Economics at Harvard University, concentrates upon the internal economic system of each nation, and upon the Japanese economy in particular, arguing that, despite their obvious differences, the two economies are tending toward convergence in a number of areas, and that these tendencies should be encouraged through the judicious application of new policies on each side. He is especially concerned with Japan's ability to survive the upheavals it is currently experiencing; he contends that the Japanese must look to the freer operation of market forces in order to adapt their economy to a very uncertain future. Irving Friedman of Citibank, formerly with the International Monetary Fund, turns his focus away from the internal sources of tension and confrontation and toward a consideration of the U.S.-Japanese relationship as a whole. He argues that it is in the national interest of both countries to treat their relationship as an unqualified alliance, and contends that the assorted tribulations of the trade dispute are petty in comparison with the benefits that will flow from the preservation of this now-endangered alliance. Elaborating upon a theme introduced in earlier essays, Friedman regrets

the recent predominance of bilateralism in relations between the United States and Japan; he argues that the two powers should usher in a new era of cooperation, not only with each other, but also with the other participants in what is becoming an increasingly interdependent global economy.

The health of that economy obviously depends upon mutual understanding and cooperation among the industrial countries of the world, and the relationship between Japan and the United States represents the major case in point. The problems outlined in the essays that follow are undeniably difficult, but they must not be regarded as being beyond solution. In exploring these issues, the authors point in the direction of their resolution - for example, to the need of the United States to encourage capital investment and rejuvenate its industrial sector, and to the need of Japan to reform its financial and distribution systems, to dismantle its remaining trade barriers, and, in short, to accept its role as a global power. These policy directives are themselves fraught with difficulties, since resistance to them is firmly entrenched in both countries. Nevertheless, the general acceptance of these policy directions throughout the highly divergent essays that follow may be one sign that these two powerful countries will eventually find ways and means of submerging their differences to their own common interest and that of the rest of the world.

Diane Tasca

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1 Overview: The Bases for Conflict and Cooperation in U.S.—Japanese Relations Masahisa Naitoh

Relations between the United States and Japan historically have been marked by alternating periods of cooperation and confrontation, and the present tension between these two nations can be regarded as simply another phase of this historical pattern (see Table 1.1). Internal differences - the clash between the ideologies, value systems, social structures, and national priorities of the two countries - have contributed a great deal to the fluctuations in their relationship over the years. However, the other factors that have significantly influenced the pattern of U.S.-Japanese relations lie largely outside either country, in the changing international environment and in the corresponding shifts in the relative status of the United States and Japan as world powers.

Each country has been characterized throughout its history by an ambivalence regarding its relationship to the rest of the world. In the United States, this conflict can be traced to the split between the universalist idealism of the Founding Fathers on the one hand, and the self-protective isolationism exemplified by the Monroe Doctrine on the other. America's international behavior until the First World War was isolationist and protectionist in nature. Partly as a result of the shift in the balance of power after World War II, America's interaction with the rest of the world underwent a dramatic change, and the universalist idealism of the Founding Fathers became the keystone of American foreign policy. Americans undertook to propagate throughout the world the political, social, and economic principles associated with their ideals of liberty and democracy. This endeavor involved considerable sacrifice on the part of the United States, but one of its most admirable results has been the unprecedented prosperity of the world economy through the operation of the free economic order based on the General Agreement on Trade and Tariffs

Table 1.1. History of U.S.-Japan Relationship

DATE	EVENT	STATE OF RELATIONSHIP	
1853	United States Commodore Matthew Perry arrives at Uraga. Japan's period of isolationism ends.	TENSE	
1854	A Treaty of Amity is signed with the United States, permitting American vessels to stop at two designated ports.		
1858	A Treaty of Trade is signed.		
1868	Meiji Restoration. Emperor Meiji issues an order establishing a new officialdom and proclaiming the direct rule of the Throne in every line of national government.	FRIENDLY	
1904	Opposing the advance of Russian influence into Korea, Japan declares war on Russia.		
1905	The State Senate of California approves the resolution to limit immigrants from Japan.		
1922	Japan participates in the disarmament conference at Washington.	CONFLICTING	
1931	The Manchurian Incident, resulting in the Japanese domination of Manchuria, breaks out.	ALTERNATELY CONFLICTING AND COOPERATING	
1941	Japan launches hostilities against the United States and Britain, thus entering World War II.	CONTENDING	
1945	Japan surrenders unconditionally to the Allied Powers on the basis of the Potsdam Declaration. Japanese military forces are demobilized and a program of thorough democratization is instituted.	AT WAR	
		FRIENDLY AND PROTECTIVE	1945-1951
1951	Japan signs a peace treaty at San Francisco with the United States.	FRIENDLY	
1970	Trade negotiations on textiles.		
1971	Nixon visits China, producing "Nixon Shock."	TENSE YET CO-OPERATIVE	
1973	Oil embargo.	COOPERATIVE	
1977	The problems of trade imbalance begin to surface.	TENSE YET CO-OPERATIVE	

(GATT) and the International Monetary Fund (IMF), a system designed and maintained by the United States.

In the 1970s, however, the situation changed. From the Japanese perspective, it looked as if the postwar spirit of internationalism had been eclipsed in America by the reemergence of isolationism in the wake of the decline of American economic, political, and military power throughout the world. This new American isolationism represented an outgrowth of the United States' tragic involvement in the Vietnam War and the emergence of a heightened consciousness of domestic social problems in the 1960s. These developments focused America's attention on its own internal troubles and strengthened the argument of the isolationists that the United States must look to its own house before attempting to solve the problems of the world. Specifically, in the area of trade policy, these trends have favored protectionism at the expense of free trade, an ominous development because it undermines the very basis of the current global economic order.

In Japan too there exists an attitudinal dualism which will have significant consequences for that country's behavior in international affairs. Japan's value system has evolved out of more than one thousand years of isolation and homogeneity. The Western concept of individualism is notably absent from this value system: traditional Japanese ideology is collectivist and strongly isolationist. But Japanese society was permanently changed a century ago, when Japan's curtain of isolationism was lifted. In self-defense, Japan set about acquiring the technology and economic practices of the West, products of a wholly alien cultural context in which individualism and universalism were dominant. Japanese scholars have frequently pointed out that modern Japanese society has been formed by the marriage of Japanese "soul" and Western technique. The strange coexistence of these two elements in modern Japan is observable in the principles of conduct of Japanese corporations, in Japan's distribution system, and in its diplomatic negotiating posture.

Americans tend to believe firmly in the universal validity of their own ideological precepts and hence to regard divergent ideologies as irrational. But from the Japanese perspective, what is, is rational: Japanese society has in fact been fairly successful in adapting what it needs from Western culture to its own particular ideological system. The continuing process of Japan's integration of the social and political precepts of the West into its own ancient culture will be a very long one. In the meantime, it is vitally important that both East and West understand and respect the profound differences between each other's cultures. Because of these differences, the encounter between the United States and Japan can be viewed as no less than a great historical experiment, and it would be tragic if this dialogue developed