TOKYO'S TRADE PLAN: A TINY FIRST STEP

The Japanese government late last month announced its intention to reduce by 20 percent tariff rates on 1,850 items imported by Japan. Further, on July 9, it offered an outline of measures to reduce nontariff barriers. Details will follow in late July. This is welcome news for Japanese consumers and some U.S. exporters. But the tariff reductions are only a tiny step toward checking the mounting U.S.-Japan friction over trade. The announced intention to deal with the more serious problem of nontariff barriers must be followed by the actual removal of such obstacles to trade if a trade war destructive of the U.S. and Japanese economies is to be avoided.

The 1984 U.S. merchandise trade deficit with Japan was $37 billion; it is likely to reach $50 billion this year. Most of this deficit derives from hefty American appetites for Japanese products. Yet many U.S. policy makers believe correctly that a partial cause of the deficit lies in Japanese trade practices that restrict the ability of U.S. companies to enter the Japanese market. The only sensible solution to U.S.-Japan trade problems, therefore, is to find ways for more American goods to gain greater market access in Japan. It makes no sense to restrict Japanese sales to the U.S.

The Reagan Administration is pushing Tokyo to liberalize trade in four product sectors: telecommunications, electronics, pharmaceuticals, and forest products. Results so far have been mixed. Definite progress has been made in telecommunications, while there is little to show in the forestry sector. The Japanese government, meantime, has taken unilateral steps, including appealing to the Japanese public to "Buy American."

Tokyo's intention to lower tariff rates by 20 percent on 1,850 items is, like any tariff reduction, generally good news. However, the specific tariff reductions are of only marginal help to most American exporters. The U.S. paper industry, for example, which suffers from heavy Japanese tariffs, dismisses these reductions as merely cosmetic. And the various local and transaction taxes, on top of an 18.8 percent tariff on U.S. processed tobacco products, raise the price of such U.S. goods by 37.5 percent. This is a considerable barrier to the sale of more American cigarettes in Japan, even though other barriers recently have been lowered.

Tariffs are not, however, the most serious Japanese restriction on U.S. products. The Japanese themselves point out that their tariffs are generally lower than those of the U.S. The main obstacles are nontariff devices. Among them: Quotas severely restrict U.S. beef and citrus products imports; impenetrable sales networks and scores of other informal arrangements impede increased sales of U.S. services. The preliminary Japanese plan to deal with nontariff barriers focuses on certification and testing standards that limit sales of U.S. telecommunications and pharmaceutical products. A more telling indication of Tokyo's readiness to allow more U.S. imports into Japan will come later this month when details of this plan are released.

Even massive trade liberalization, however, will not erase the $37 billion U.S. trade deficit with Japan. The Commerce Department estimates that, if all barriers to U.S. imports were eliminated, the U.S. sales at best would jump $10 to $12 billion. The remaining $25 billion deficit is the result of current market choices of individuals and businesses in the two countries. The trade deficit, therefore, is not a "problem" in need of a government "solution."

Recently Japan suggested that it unilaterally would restrict its exports to the U.S. to reduce trade tensions. Fewer Japanese exports to the U.S., however, would mean higher prices for U.S consumers. Some Americans surely have learned this painful lesson in buying a Japanese auto and being asked to pay a hefty "added dealer's markup." A unilateral Japanese brake on its exports, moreover, would give the Japanese bureaucrats who oppose free trade an excuse to keep their markets closed to American goods. The core issue is not restricting Japan's sales to the U.S., but giving U.S. goods wider access to Japanese markets. Even with increased market access, U.S. businesses will have to work hard to satisfy the demands of Japanese consumers. Immediate jumps in sales and profits should not be expected and should not be the measure of how open the Japanese market is.

Japan's planned tariff reductions are welcome. It is hoped that planned changes in nontariff barriers will be more substantial than rhetorical. But they are only a modest step. The Reagan Administration should continue to make elimination of these restrictions its top trade priority. At the same time, the Administration should avoid the kind of protectionist policies for which it criticizes Japan. The U.S. and Japan both must seek open markets if they are to continue to be the world's two greatest economic powers.

Edward L. Hudgins, Ph.D.
Walker Fellow in Economics

For further reading:

Katsuro Sakoh, "U.S. Services Exports: Time For Japan To Lower Barriers," Heritage *Foundation* Asian Studies Center Backgrounder No. 29, June 11, 1985.

Milton and Rose Freeeman, Free To Choose (New York: Harcourt Brace, 1979), Chapter 2.