

JAPAN-U.S. TRADE RELATIONS

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ISSUE DEFINITION

Commercial aspects of the United States-Japan alliance, in recent years, have begun to dominate the dialogue between the two nations. In particular, friction points have developed over chronic U.S. bilateral trade deficits with Japan, allegations of Japanese protectionism, and rapid incursions into U.S. markets by Japanese export products.

These trade problems with Japan have served as a catalyst in the United States for renewed protectionist pressures. Many U.S. workers view unemployment in their industry as being caused by competition from Japan. Some U.S. manufacturers feel resentful that Japanese exporters can gain easy access to the relatively open U.S. market, while their attempts to sell in Japan are often hindered greatly. Whether accurate or not, these views are causing an erosion of public support for open trade with both Japan and the rest of the world.

Several aspects of U.S. bilateral trade with Japan involve Government intervention into what is normally private economic activity. First, Japan has been willing to make considerable concessions to help rectify the trade imbalance. Second, the negative opinions toward Japanese exports can spill over to general U.S.-Japan relations in which the United States has vital interests. Third, issues of protectionism and "unfair" trading practices by countries can be resolved only by governments and not through market forces.

BACKGROUND AND POLICY ANALYSIS

MERCHANDISE TRADE

Over the 1976-81 period, the United States incurred a cumulative merchandise trade deficit with Japan of \$56 billion. For 1980, the deficit was \$10.4 billion. For 1981, the deficit soared to \$15.8 billion (\$18.1 billion counting shipping costs for imports).

Merchandise trade deficits with Japan began in 1965 and grew to an annual rate of \$3.2 billion by 1971. This contributed to the August 1971 decision to devalue the dollar and impose a temporary 10% surcharge on many imports. The 1973-75 recession depressed U.S. imports and reduced the trade deficit, but with recovery and growth in the U.S. economy after 1976 combined with greatly increased competitiveness of Japanese products, the bilateral trade deficit ballooned to \$11.6 billion in 1978. The lagged effects of the appreciation of the yen and slowdown in the U.S. economy in 1979 reduced the deficit somewhat, but in 1980 and 1981 it rose again.

TABLE 1
 U.S. Merchandise Imports, Exports, and Balances
 With Japan and With The World
 [in millions of U.S. dollars (f.a.s.(1))]

Year	Exports to Japan	Imports from Japan	U.S. Balance With Japan	U.S. Balance With World
1973	8,357	9,665	-1,309	911
1974	10,723	12,414	-1,690	-5,343
1975	9,567	11,257	-1,690	9,047
1976	10,196	15,531	-5,335	-9,306
1977	10,566	18,565	-7,999	-30,873
1978	12,960	24,542	-11,581	-33,759
1979	17,627	26,255	-8,632	-27,346
1980	20,806	31,217	-10,411	-25,338
1981	21,851	37,620	-15,802	-27,889
Jan-Sept. 1982	15,544	29,288	-13,744	-21,383

Source: U.S. Department of Commerce

(1) free alongside ship Data are on a balance-of-payments basis.

As the data in Table 1 indicates, the bilateral trade deficit with Japan has been a major contributor to the U.S. merchandise trade deficit. In overall trade, however, the U.S. merchandise trade deficit is generally offset to a major extent by a large U.S. trade surplus in services. The offset in services with Japan, however, has been minor.

From an economic point of view the bilateral deficit in merchandise trade with Japan should not be a major concern as long as total U.S. trade in goods and services is roughly in balance. Merchandise trade is only part of the total flow of international economic resources, and Japan is merely one country among many trading partners.

For 1981, the U.S. merchandise trade deficit was at \$27.9 billion, while the U.S. current account showed a surplus of \$4.8 billion. Actions by the United States to reduce the trade deficit with Japan, moreover, could backfire by causing the European Economic Community with which the United States maintains a trade surplus to demand similar concessions. An improving merchandise trade balance, furthermore, could strengthen the dollar which would make Japanese exports even more competitive in the U.S. market, and U.S. exports less competitive abroad. The net economic effect, therefore, could be small. Attempts to diminish the imbalance by restricting Japanese exports would generally cause inefficiencies and incur sizeable consumer costs in the U.S. market. An increase in U.S. exports to Japan accomplished by reducing Japanese trade barriers, however, would generate economic benefits to both sides, although Japanese producers would be hurt.

From a political point of view, however, the chronic trade deficits with Japan have proven untenable in some regions of the United States. Market penetration by exports from Japan has occurred mainly in industries in which Japan is particularly competitive. These industries, such as steel, television receivers, and automobiles are often geographically concentrated. Japan's market penetration has also occurred so rapidly, in some cases, that domestic industry has found it extremely difficult to adjust. The perceived loss of American jobs to Japanese exports, therefore, whether accurate or not, has generated pressures that make the chronic trade imbalance politically difficult to tolerate.

Renewed protectionist pressures stemming partly from Japanese import competition also threaten the general U.S. policy objective of an open world trading system. The benefits of free trade are difficult to argue to persons who feel trade with Japan is causing unemployment or feel that Japan's markets are not equally open to U.S. exporters.

The difficulty domestic firms have in competing with increased exports from Japan has been exacerbated by other economic factors. Recession, high interest rates, rapidly rising costs for energy and raw materials, as well as Government regulations have forced major changes in product design, composition, and processes for making certain products. Just when certain industries are facing tremendous design and retooling costs, they are also being confronted by highly competitive products from Japan.

COMMODITY COMPOSITION OF TRADE

Table 2 shows the commodity composition of U.S. trade with Japan by major category. Note that trade in agricultural products goes virtually one-way

from the United States to Japan. Trade in automotive vehicles and parts as well as in other consumer goods, however, travels essentially the opposite direction. In capital goods (except automotive) trade flows both ways, but Japan holds a trade surplus of about \$2 billion. Trade in industrial supplies and materials also flows both ways, except that the United States holds a trade surplus of about \$3 billion. The major source of the bilateral trade deficit is in automotive vehicles and consumer goods.

In terms of specific commodities, the leading U.S. exports to Japan are soybeans, maize, logs, wheat, cotton, airplanes, rawhide, and scrap metal. Leading imports from Japan are automotive vehicles (and parts),

TABLE 2
 U.S. Merchandise Trade and Balances With Japan by Commodity Group
 1980 and 1981
 [in billions of dollars (f.a.s.)]

<u>Commodity</u>	U.S. Imports		U.S. Exports		Balance .	
	<u>1980</u>	<u>1981</u>	<u>1980</u>	<u>1981</u>	<u>1980</u>	<u>1981</u>
Total	30.7	37.6	20.8	21.8	-9.9	-15.8
Foods, Feeds, Beverages	0.3	0.3	5.4	5.9	5.1	5.6
Industrial Supplies and Materials	5.9	7.2	9.5	9.0	3.6	1.8
Capital Goods, Except Automotive	6.6	8.6	4.1	4.6	-2.5	-4.0
Automotive Vehicles, Parts, Engines	11.4	13.0	0.2	0.2	-11.2	-12.8
Consumer Goods (nonfood) Except Automotive	6.2	8.3	1.2	1.3	-5.0	-7.0
Other	0.3	0.3	0.4	0.9	0.1	0.6

Source: U.S. Department of Commerce. Highlights of U.S. Export
 and Import Trade.

iron and steel products, radio receivers, motorcycles, tape recorders, cameras, metal fasteners, television receivers, office machines, metal-cutting machine tools, and calculating machines.

A cursory examination of the commodity composition of trade might lead one to conclude that the United States is like a plantation supplying Japan with raw materials and buying back high-technology manufactures. Actually, however, U.S. agricultural exports are produced by technologically advanced methods. The United States also exports aircraft and capital goods of high technology to Japan.

A major concern over the commodity composition of trade with Japan, however, is that agricultural products tend to have low income and price elasticities (small increases in sales resulting from increases in income or decreases in price). This implies that in the long-term an increasing quantity of U.S. exports of primary products are required to buy the same quantity of imports from Japan of sophisticated manufactured goods. Even if both economies grow at the same rate, therefore, the trade balance would tend to move in Japan's favor as the value of their high technology manufactures increases faster than the value of U.S. primary product exports. A key to long-term reduction in the trade imbalance with Japan, therefore, is to shift the commodity composition of U.S. exports toward higher value-added manufactured goods.

POLICY OPTIONS

During the 96th Congress, the House passed a resolution (H.Con.Res. 376) stating that the present level of the bilateral deficit and its projected growth are intolerable and unacceptable and threaten the future of the very substantial and traditional pattern of trade which has existed between the United States and Japan. The resolution urged Japan to assume a greater sense of responsibility for the trade deficit and take such steps in cooperation with the United States as are required to help correct the deficit. Several bills dealing with specific trade problems are also being introduced in the 97th Congress. Congress also plays a key role in oversight and bringing to public attention particular problems in the trading relationship.

In 1982, several bills have been introduced that focus on reciprocity in access to markets of major trading partners, in particular Japan. In a sense, reciprocity proposals attempt to address the common complaint of U.S. businesses that they are shut out of foreign markets, while other countries have easy access to those in the United States.

Reciprocity differs from reciprocal concessions as practiced during recent multilateral trade negotiations. Reciprocity attempts to equalize the degree of openness of specific markets at a particular point in time rather than to match concessions among countries with different degrees of protection.

For countries like Japan which have recently made large trade concessions but which have had a history of protected markets, reciprocity is being viewed with some alarm. Reciprocity also can become merely another attempt to justify protection for U.S. producers. Potentially, however, reciprocity could be effective in reducing trade restrictions abroad.

In the past, the typical scenario for the resolution of trade disputes with Japan has been as follows: The United States identifies a specific problem and raises it with Japan. The Japanese respond that either the problem is minor or not much can be done about it. Time passes without much action. Often Congress then will bring publicity and pressure to bear on the problem until it is escalated to the brink of a political breach. An agreement is finally struck which the United States often views as minimal, and Japan views as being forced without due concern for its own problems. The crisis passes, but as this cycle is repeated, resentment begins to accumulate in both countries.

The danger with this process is that over the long-term it undermines the fundamentally strong relationship between the two countries. This is especially serious if Japan views itself as a scapegoat for problems of U.S. domestic industries, and many Americans view Japan as the cause of their economic problems.

The Reagan Administration feels that economic issues between the two countries have been and should continue to be given early and mutually satisfactory solutions in the spirit of good will and cooperation.

The policies open to Congress to deal either directly or indirectly with the bilateral trade imbalance with Japan center on restrictions against Japanese exports, promotion of U.S. exports, and measures to enhance the strength of the U.S. economy. Policies to reduce dependence on imported oil and to ease the regulatory burden on domestic exporting industries can also be important.

SPECIFIC TRADE ISSUES

Despite the general public focus on disagreements and complaints in the U.S.-Japan trading relationship, most bilateral trade issues are being resolved in a manner generally agreeable to both sides. Easier problems tend to be solved first, however. Those remaining are more difficult.

Motor Vehicles. Sales of imported passenger cars from Japan more than doubled from 817,000 units in 1975 to 1,858,913 units in 1981 when they accounted for 21.8% of all new car sales. This market penetration coincided with a large downturn in sales in the U.S. automobile market as well as a massive switch by consumers to smaller and more fuel-efficient cars. During 1980, sales of domestically produced automobiles dropped by 2.1 million units under their 1979 level, while sales of Japanese imported models rose by 89,000 units, 5.0%. This contributed to the layoffs and financial losses reported by the four major U.S. producers.

On Nov. 12, 1980, however, the U.S. International Trade Commission rejected petitions by the United Auto Workers union and the Ford Motor Company for temporary relief from import competition in passenger cars and trucks. The Commission determined that imports of either type of vehicle were not a substantial cause of severe injury to the domestic auto industry. The recession and general downturn in demand for motor vehicles were considered to be more important causes of injury. Under current law, this implied that protection from imports was not justified.

Following the Commission's decision, the focus of efforts to assist the automobile industry has shifted to Congress and the Administration.

On May 2, 1981, the Japanese Government agreed voluntarily to restrict exports of passenger cars to the United States to 1.68 million units during the 12-month period beginning Apr. 1, 1981. In March 1982, Japan agreed to extend the 1.68 million ceiling for another year. For the third year, they intend to monitor exports to eliminate any surges. Other measures currently being considered include providing a consumer subsidy or tax credit for purchasing a new car, restricting consumer credit for the purchase of a Japanese imported car, easing of regulations pertaining to autos, establishing import quotas or local content requirements for motor vehicles, as well as general tax measures to improve the economic climate and provide for faster write-off of depreciation.

The United Auto Workers have favored domestic (local) content legislation that requires all automobiles and light trucks sold in the United States in large numbers to contain a certain proportion of American parts and labor.

Efforts are also being made to reduce barriers to U.S. auto sales in Japan's domestic automobile market and to facilitate sales of automotive parts to Japan.

(This problem is covered in more detail in Issue Brief 80030, Automobiles Imported From Japan and Issue Brief 82056, Automobile Domestic Content Requirements.)

Telecommunications Equipment. On Dec. 18, 1980, Japan agreed to open its market for telecommunications equipment bought by the Nippon Telegraph and Telephone Public Corporation (NTT). This concluded several years of somewhat acrimonious negotiations in which the U.S. took an unusually firm stand in the face of continued resistance by the Japanese government.

Under the terms of the three-year agreement, the requirements of the Government Procurement Code, negotiated during the Tokyo Round of Multilateral Trade Negotiations, are to be observed for all purchases by NTT as well as for all of Japan's central government ministries and agencies. As a result, more than \$8 billion of procurement by the Japanese government will be open to international competition on a non-discriminatory basis. Of this total, \$3.3 billion is accounted for by NTT purchases.

With the addition of NTT's purchases to the Procurement Code, the United States felt it had achieved the necessary reciprocity with Japan in commercial opportunities which the Code envisages. The three-year period is viewed as a trial to see if NTT actually does purchase U.S. telecommunications equipment.

U.S. Tobacco Exports. All aspects of tobacco manufacture and sales in Japan are controlled by the government's Tobacco and Salt Monopoly. This monopoly has curtailed competition (all foreign) by restricting the number of outlets authorized to sell imported tobacco products, setting prices for imported brands at about 110 to 140 yen (\$0.50 to \$0.65) more than Japanese brands, and banning advertising of imported products.

Effective Apr. 1, 1980, the Japanese legislature converted the monopoly's pricing policies to equally restrictive tariffs that actually increased the price differential between Japanese and U.S. cigarettes.

After a long series of negotiations, however, on Nov. 21, 1980, Japan agreed to reduce tobacco tariffs from 90% to 35% on cigarettes, 60% to 35% on

cigars, and 110% to 60% on pipe tobacco. Profit margins on sales of imported cigarettes are to rise to equal those of domestic brands; the number of authorized retailers selling foreign tobacco products is to increase in 1981 from 14,000 to 20,000; and U.S. companies are to be permitted to advertise. As a result, U.S. tobacco sales in Japan were expected to rise from \$35 million to about \$350 million annually. In May 1982, Japan pledged to increase the number of authorized retailers to 70,000 by April 1983 and eventually to allow all outlets to handle non-Japanese brands.

Exports of finished tobacco products to Japan, however, are still highly restricted, and efforts to reduce barriers will continue. In October 1982, Japan refused a U.S. request to eliminate the 35% import tariff.

Product Approval Procedures and Standards. The Agreement on Technical Barriers to Trade negotiated under the Tokyo Round of the Multilateral Trade Negotiations has forced Japan to bring many of its practices into conformity with international standards. In addition, institutions now exist to enable U.S. exporters to resolve problems dealing with procedures or standards in exporting to Japan.

The restrictive effect on U.S. exports caused by Japanese safety, health, and other standards has been documented by many "horror stories" among U.S. firms. Major problems have been (1) product approval requirements generally oriented toward design rather than performance characteristics; (2) difficulty in obtaining information on specific standards and inspection procedures to be applied; (3) excluding foreign manufacturers from deliberations on establishing and promulgating standards; (4) the requirement that approval be obtained through a resident company; (5) the required release by U.S. firms of proprietary information; and (6) the general mandate that all testing (except for automobiles) and approval occur in Japan.

Fortunately, much progress has been made in overcoming these problems. Part of the credit can go to the U.S.-Japan Trade Facilitation Committee (TFC) whose U.S. offices are housed in the Department of Commerce. As of September 1982, Americans had filed 117 complaints with the U.S. side of the TFC. Of this total, 59 were discontinued after investigation, 17 were resolved informally, 5 were under investigation, and 36 were formally submitted to the Tokyo TFC office for action. Of these 36, 24 have been favorably resolved, 6 withdrawn and 6 were in progress.

Problems still remain, however, in products such as cosmetics, medical equipment, and automobiles, where it is claimed that standards and procedures continue to impede U.S. sales. Japanese customs officials also have been accused of being overly thorough and arbitrary. Until full reciprocity is achieved in standards and approval procedures, Congressional efforts to achieve reciprocity as well as in support of the TFC and other institutions will be important. The list of issues to be pursued by the U.S. Trade Representative includes asking Japan to reconsider the stringent Japanese emission standards for U.S.-made cars as well as health and environmental standards as applied to such U.S. product areas as pharmaceuticals and cosmetics.

Agricultural Products. Japan is the single most important market for U.S. agricultural exports. In 1981, Japan bought \$5.9 billion worth of food feed, and beverages in addition to another \$1.9 billion worth of unmanufactured cotton, tobacco, soybeans and animal skins from the United States. Japan imports about half of its food requirements, and demand is growing rapidly.

Unlike Japan's policy to eliminate gradually most protection of its industrial sector, protection of its agricultural sector remains solid. Farmers still account for about 10% of Japan's population and wield a disproportionate amount of political power within the ruling Liberal Democratic Party. Japan also holds a basic concern over food security that rivals concern over military security in other countries.

Over the years, Japan has developed a system of price supports and protection of its agricultural sector that is highly inefficient, costly to administer, tends to produce too much rice and not enough other foods, but one that is highly profitable to farmers and to importers fortunate enough to be allocated part of the import quotas. Even though food costs 70% more in Tokyo than in New York City or Paris, the system is solidly entrenched and apparently has little opposition from consumer groups.

U.S. exports of beef and citrus products have recently been the object of negotiations. During the Tokyo Round of Multilateral Trade Negotiations, Japan agreed to a 14,000 metric ton increase in its quota for high quality beef to 30,800 metric tons by 1983. Japan also intends to increase the quota for citrus (fresh oranges and orange juice) by 17,000 metric tons by 1983. These increases are small in comparison to potential demand, but represent some liberalization. Currently Japan buys about half of all U.S. exports of beef (by weight) and about 40% of U.S. exports of citrus fruits.

The price of wheat in Japan is also held artificially high to discourage people from substituting it for rice which is in surplus. This is considered to have a dampening effect on U.S. sales of wheat there.

Congress will continue to play an important role in the oversight and support of this country's negotiating efforts in liberalizing Japan's agricultural import sector. Congress, however, could also assist the Japanese government in placing its agricultural policy on a more economic basis by allaying some of the basic Japanese fears over the insufficiency of food imports. The House Ways and Means Committee has suggested two actions that could be taken. One would be to insure that there is no repeat of a food embargo like that on soybean exports to Japan which occurred during the Nixon Administration. Even the Russian grain embargo worried Japan. Second, would be to provide Japan with long-term guarantees on U.S. food exports similar to those negotiated with the Soviet Union and China. The U.S. pledge made in December 1980 to provide 22.5 million tons of grains to Japan in 1981 was a positive step in this direction.

Civil Aviation Agreement. In June 1982, the United States and Japan concluded a 3-year aviation agreement that will boost service between the two countries. This concluded 18 months of difficult negotiations. Bargaining on issues still unsettled is scheduled to begin by the end of 1983.

The new agreement will allow United Airlines to initiate service to Japan, Continental Airlines to expand flights to Japan from Micronesia, and an increase in the number of charter flights by each country. Japan Airlines will be permitted flights linking Tokyo with Seattle and Chicago and to pick up passengers in Los Angeles on flights from Tokyo to Brazil.

Despite the new agreement, the Japanese continue to regard the 1952 U.S.-Japan Civil Air Transport Agreement as unbalanced in favor of the U.S.

YEN/DOLLAR EXCHANGE RATE

Under the current floating exchange rate system, currency values are determined mainly by market forces according to supply and demand. Such a system is designed to rectify imbalances in flows of goods, services, and capital by making those currencies in low demand cheaper (those with trade deficits or large capital outflows) and those currencies in high demand more expensive (those with export surpluses or large capital inflows).

Exchange adjustments, however, will not necessarily rectify bilateral merchandise imbalances, because currency markets reflect supply and demand conditions for all international transactions and for all countries. During 1980, the yen appreciated against the dollar, which diminished the trade deficit by making Japanese exports more expensive for Americans and U.S. exports less expensive for Japanese. Recently, however, the appreciation of the dollar has reversed that trend. Price, however, is not the only factor affecting the bilateral trade balance. Product quality, availability, sales effort, and the operating efficiency of products also are important. In highly "differentiated" manufactures (such as machine tools and automobiles), for example, higher Japanese prices usually have resulted in more (not less) money spent on those products. U.S. manufacturers of competing products, moreover, often will raise their prices as the yen appreciates, thereby eliminating any U.S. price advantage.

Many Japanese blame high U.S. interest rates which have attracted capital from abroad and strengthened the dollar as the major culprit in causing the bilateral trade deficit to grow.

As shown in Table 3, the yen dollar exchange rate has fluctuated widely between as much as 300 to as little as 210 yen per dollar (in terms of yearly averages). During the fourth quarter 1978, the exchange rate dropped to 190 yen per dollar.

TABLE 3
YEN/DOLLAR EXCHANGE RATE

<u>YEAR</u>	<u>RATE</u>	<u>DATE</u>	<u>RATE</u>
1972	303.1	1st Quarter 1980	243.5
1973	271.2	2nd Quarter 1980	232.8
1974	291.2	3rd Quarter 1980	220.1
1975	296.8	4th Quarter 1980	210.7
1976	296.6	1st Quarter 1981	205.6
1977	268.5	2nd Quarter 1981	220.0
1978	210.5	3rd Quarter 1981	231.9
1979	219.2	4th Quarter 1981	224.7
1980	226.8	1st Quarter 1982	247.4
1981	220.5	2nd Quarter 1982	244.2
		3rd Quarter 1982	258.9
		Oct. 30, 1982	275.6
		Nov. 30, 1982	250.2

JAPANESE PROTECTIONISM

A commonly held view is that the Japanese market is extremely difficult to penetrate because of protectionist policies of the Japanese government. This was certainly true during the immediate postwar period, but over the past 15 years, Japan has gradually reduced the level of protection of its industrial sector. Japan's agricultural sector, however, remains highly protected.

In terms of tariffs on industrial imports, Japan's are scheduled to fall from an average of 5.0% to 2.5% over the first 7 years of the 1980s. (Comparable U.S. tariffs are to fall from 6.1% to 4.2%.) Japan's tariff on computer mainframes will be reduced in stages from the bound rate of 15% to 4%. Integrated circuits from 15% to 4.2% peripheral equipment from 25% to 6% and color film in rolls from 40% to 4%. The duty on automobiles was programmed to be reduced from 30% or 20% depending on vehicle size, to 3%, but in an effort to respond to pressing criticism of market access denial, the Japanese have completely eliminated the duty on all imported automobiles. Tariffs on most industrial products, therefore, are not a serious barrier to imports.

According to a 1980 report by the House Ways and Means Committee, "Japan today is generally an open trading nation, although some very tough residual attitudes of protectionism remain." Nontariff barriers, in particular, can be difficult to surmount. These include onerous approval and inspection procedures, difficulties with customs officials, problems breaking into Japan's distribution system, and rigid import quotas. In December 1981, the United States presented Japan a list of trade barriers hindering U.S. exports there. In January, Japan agreed to reduce nontariff barriers on 67 items. Japan also intends to speed up the reduction in tariff rates on some 1,600 commodities.

JAPANESE COMPETITIVENESS

A favorite Japanese explanation for their export successes in the United States is that their export industries are simply more competitive than their U.S. counterparts. This explanation implies an athletic, not an economic, definition of competition. It implies more efficient production processes, better product design, better quality control, lower costs, or some combination of the above.

The truth is in some industries, such as steel, television receivers, automobiles, and shipbuilding, Japan's manufacturing processes are more productive on average than those in the United States. Certain U.S. plants, however, are as efficient as some of the best in Japan. Certain U.S. sectors (heavy equipment, airplanes), moreover, completely dominate Japanese competitors. Virtually all of Japan's export industries, however, are highly competitive, otherwise, they could not survive in world markets. Sectors of the Japanese economy less exposed to international competition, such as agriculture, retailing, and services, however, are generally much less efficient than their U.S. counterparts.

Recent trends indicate that Japan's competitive position is likely to improve during the 1980s. Labor productivity has been increasing faster and

wages rising more slowly in Japan than in the United States. Between 1975 and 1979, for example, labor costs per unit of output in manufacturing rose by 30% in the United States, as compared to virtually no change in Japan. In short, during that period in Japan all wage increases were matched by productivity increases, whereas in the United States, wages rose 30% faster than productivity. Dollar devaluation, of course, offsets this difference to some extent, but the underlying trend indicates that the United States could face even more severe challenges from Japan in the future.

The solutions being proposed to enhance U.S. competitiveness fall under the rubric of reindustrialization or revitalization as well as in quality control circles and other programs to enhance savings, investment, production efficiency, and product quality.

FUTURE OF THE BILATERAL TRADE IMBALANCE

The prospects for substantially and permanently reducing the bilateral merchandise trade imbalance with Japan are uncertain. During 1982, as the U.S. economy recovers and the Japanese economy continues to slow down, imports from Japan are expected to rise. With the U.S. recovery, total consumption should increase -- including consumption of imports from Japan. In the past, Japanese recessions usually have forced export drives to compensate for sluggish demand at home. Meanwhile, the slowing of Japan's economy during the first half of 1982 should temporarily temper U.S. exports there.

Automotive vehicle exports to the United States, however, should level off, as U.S. producers continue to introduce new models, build inventories of smaller, more fuel-efficient cars, and as Japan's voluntary export restraints take effect. Japanese automakers, however, appear to be compensating for the quantitative restriction by shipping larger and more expensive cars. The value of Japanese auto exports to the United States, therefore, will likely continue to rise. The 24% tariff on pickup trucks from Japan (in effect from August 1980) should reduce truck imports somewhat. The depreciation of the yen relative to the dollar in 1981, however, will make Japanese exports more price competitive in U.S. markets and U.S. exports less competitive in Japanese markets. The U.S. merchandise trade deficit with Japan for 1982, however, is likely to exceed the \$15.8 billion for 1981.

LEGISLATION

Note: Legislation related to automobile imports is in Issue Brief

80030, Automobiles Imported from Japan.

H.Con.Res. 210 (Neal et al.)

Expresses the sense of Congress that the President should negotiate an agreement with Japan providing that Japan pay an annual security tax to compensate the U.S. for expenditures made for Japan's security.

H.Con.Res. 213 (Zablocki et al.)

Expresses the sense of Congress that: (1) the U.S. and Japan should exert maximum efforts to resist Soviet challenges in Asia; (2) Japan should make a greater contribution to its own defense; and (3) Japan's defense expenditures

should be at least one percent of its gross national product. Introduced Nov. 4, 1981; referred to the Committee on Foreign Affairs.

H.R. 4346 (Jones et al.)

Implements certain recommendations of the United States-Japan Economic relations group report of January 1981; assists in continued long-range improvements in U.S.-Japan relations. Introduced July 30, 1981; referred to Committees on Foreign Affairs, Ways and Means, and Post Office and Civil Service.

H.R. 5457 (Brodhead)

Amends the Trade Act of 1974 with respect to reciprocal market access. Introduced Feb. 4, 1982; referred to the Committee on Ways and Means.

H.R. 5614 (Richmond)

Provides for fair trade between the United States and Japan. Introduced Feb. 24, 1982; referred to the Committee on Ways and Means.

H.R. 5616 (Schulze)

Imposes a higher tariff on certain imports from Japan for two years. Introduced Feb. 24, 1982; referred to the Committee on Ways and Means.

H.R. 5860 (Bereuter, et al.)

Authorizes the President to impose trade restrictions on foreign countries which impose nontariff trade barriers on imports of U.S. agricultural goods. Introduced Mar. 17, 1982; referred to the Committee on Ways and Means.

H.R. 6986 (Regula et al.)

Authorizes the President to impose a tariff surcharge on the products of certain countries to offset the expense of providing U.S. defense assistance. Introduced Aug. 12, 1982; referred to the Committee on Ways and Means.

S.Con.Res. 46 (Levin et al.)

Same as H.Con.Res. 213.

S.Res. 462 (Bentsen, et al.)

Expresses the sense of the Senate that the U.S. should seek open access to the Japanese market for U.S. beef and citrus and if unsuccessful the U.S. should evaluate what remedies are appropriate. Introduced Sept. 14, 1982; referred to Committees on Foreign Relations and Finance. Sept. 30, 1982, measure reported from the Committee on Finance (S.Rept. 97-642) and passed Senate.

S.Res. 516 (Grassley, et al.)

Sense of the Senate urging Presidential action on petition to disqualify certain Japanese machine tools from the U.S. investment tax credit. Introduced Dec. 15, 1982; referred to the Committee on Finance.

S. 2058 (Roth et al.)

Promotes foreign trade in services, including removal of unfair trade practices in service sector trade. Introduced Feb. 3, 1982; referred to the Committee on Finance.

S. 2071 (Heinz et al.)

Amends the Trade Act of 1974 with respect to reciprocal market access. Introduced Feb. 4, 1982; referred to the Committee on Finance.

HEARINGS

U.S. Congress. House. Committee on Agriculture. Review United States-Japan Rice Agreement. Hearing, 97th Congress, 1st session, Feb. 26, 1981. Washinton, U.S. Govt. Print. Off., 1981. 152 p.

U.S. Congress. House. Committee on Foreign Affairs. United States-Japan Economic Relations. Hearings and Markup on H.Con.Res. 363. 96th Congress, 2d session. Sept. 16-18, 29; Oct. 1, 16, 1980. Washington, U.S. Govt. Print. Off., 1980. 337 p.

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CHRONOLOGY OF EVENTS

- 12/16/82 -- U.S. steelmakers petition for a reduction in steel imports from Japan and a 25% surcharge to offset an "undervalued yen."
- 12/15/82 -- Domestic content legislation for autos passed House.
- 11/30/82 -- U.S. broke off talks with Japan after reaching impasse on liberalizing beef and citrus and reducing tobacco tariff. Negotiators agreed, however, to recommend that government-sponsored research on high technology be opened to resident subsidiaries of each country.
- 11/15/82 -- U.S. lodged a protest with GATT against Japan's import restrictions on leather goods.
- 09/30/82 -- S.Res. 462 passed Senate.
- 06/07/82 -- U.S. and Japan reach 3-year aviation pact.
- 05/27/82 -- Japan announced a second package of trade measures to eliminate or reduce tariffs, increase U.S. tobacco sales, and provide national treatment for foreign subsidiaries in Japan.
- 04/27/82 -- U.S. placed restrictions on Japanese fishing rights within the 200-mile limit.
- 04/01/82 -- Japan cut import tariffs on 1653 items.
- 03/30/82 -- Japan announced it would keep the voluntary restraint on auto exports by another year.
- 03/22/82 -- U.S. officials asked Japanese to purchase American rice.
- 01/27/82 -- Japan agreed to lower 67 of 99 nontariff barriers and to create ombudsman to handle trade friction.
- 12/00/81 -- U.S. presented Japan a list of trade barriers of concern to U.S. exporters.

- 12/08/81 -- Japan reduced import quotas for beef by 4,000 tons for Jan.-June 1982.
- 12/01/81 -- Senate Finance Committee hearing on the U.S. auto industry. Japan warned of possible U.S. protectionist measures.
- 11/18/81 -- The Reagan Administration submitted to the Japanese government a list of tariff and nontariff barriers contributing to the bilateral trade deficit.
- 11/04/81 -- Joint Economic Committee hearing on Japanese productivity.
- 09/21/81 -- U.S. and Japan established a subcommittee on trade.
- 09/08/81 -- Special Trade Negotiator Brock warned Japan to reduce its trade surplus with the U.S.
- 09/01/81 -- U.S. and Japan announced their intention to begin talks on exchanging Alaskan oil for Japanese-bound Mexican crude oil.
- 08/19/81 -- Pres. Reagan asked Japan to build up its reserves of American grain to the equivalent of at least two months consumption.
- 07/30/81 -- Rep. Jones et al. introduced H.R. 4346 to assist in long-range improvements in U.S.-Japan relations.
- 07/28/81 -- Joint Economic Committee concluded hearings on Japanese and American Economic Policies and Productivity.
- 07/21/81 -- Japan increased imports of frozen chickens from the U.S. and elsewhere. U.S. exports take 61% of Japan's chicken market from January-May, 1981.
- 05/22/81 -- U.S. and Japan ended talks on civil aviation with no agreement or a date to resume meetings.
- 05/12/81 -- Japan agreed to cut tariffs on semiconductors from 10.1% to 4.2% by April 1982 instead of 1987.
- 05/09/81 -- President Reagan and Prime Minister Suzuki concluded talks.
- 05/02/81 -- Japan agreed to voluntarily restrict passenger car exports to the United States.
- 04/29/81 -- Japan stated that the U.S. did not consult with Japan in lifting the Soviet grain embargo.
- 04/20/81 -- Washington accepted responsibility for the sinking on April 9 of the Japanese freighter Nissho Maru by a U.S. submarine.
- 03/30/81 -- Japan Foreign Minister Ito conferred with the President

on autos and other bilateral issues.

- 03/09/81 -- Japan's aluminum industry protested the 195 percent increase in 1980 of imports of aluminum from the United States.
- 03/05/81 -- Japanese lumber dealers asked Japanese trading companies to reduce wood imports from the U.S. and Canada.
- 02/10/81 -- U.S. Ambassador Mansfield and Japanese Prime Minister Suzuki met to discuss pending trade issues.
- 01/29/81 -- Pan American World Airways received approval from Japan to stop in Tokyo on flights between the U.S. and China.
- 01/12/81 -- U.S. and Japan began talks on the Japan-U.S. bilateral civil aviation agreement.
- 12/30/80 -- Japan adopted a 7.6 budgetary increase in defense expenditures rather than the targeted 9.7 percent increase.
- 12/19/80 -- U.S. and Japan reached agreement on telecommunications equipment purchases by Nippon Telegraph and Telephone Public Corp.
- 12/10/80 -- U.S. pledged to supply Japan with 22.5 million tons of agricultural commodities in 1981.
- 11/22/80 -- Japan agreed to reduce import duties on tobacco products and provide other concessions to the U.S. tobacco industry.
- 11/17/80 -- H.Con.Res. 376 expressing concern over the level of the trade deficit with Japan passed the House and was referred to the Senate Finance Committee (Nov. 19, 1980).
- 11/12/80 -- U.S. International Trade Commission determined that imports of automobiles and trucks are not a substantial cause of injury to the U.S. auto industry.
- 10/10/80 -- Joint Economic Committee held hearing on U.S.-Japan trade relations.
- 09/18/80 -- House Ways and Means Committee held hearing on trade with Japan.
- 08/26/80 -- House Ways and Means Committee held hearing on trade with Japan.