

# FREEDOM TO TRADE

## JAPAN-BASHING REDUX

by *Brink Lindsey*

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Today is a time of renewed tensions between the United States and Japan. In recent months, top Clinton administration officials have weighed in with very sharp and very public criticism of Japan's economic situation. Their refrain is a familiar one: Japan needs to import more and become less dependent on exporting for growth.

Although the themes are the same as in prior decades, it is important to recognize that the current context is now very different. In the past, Americans feared Japanese economic strength; now Americans fear Japanese weakness. Formerly, it was thought that Japan's protected home market and relentless export drive posed a predatory threat to the rest of the world. Now, Japan's prolonged economic stagnation is seen as exacerbating the larger East Asian economic crisis and potentially causing a global recession.

The change in context is crucial. While the current tensions are unfortunate and unnecessary, they are much less dangerous than the older variety. Unlike in the past, a U.S.-Japan conflict no longer threatens the basic principles of the liberal world trading system.

During the 1980s and early 1990s, the belief that Japan would soon eclipse a declining United States gained widespread acceptance. According to the line popularized by "revisionists" like Clyde Prestowitz, Chalmers Johnson, and James Fallows, "Japan, Inc." was bent on worldwide economic domination, and

was well on the way to achieving its goal. Under those circumstances, the revisionists argued, America's continued adherence to traditional free trade principles meant economic suicide.

That battle has been fought and the revisionists lost. Although the Japanese economic system has many marvelous strengths, its weaknesses have become all too apparent in recent years. Even Clyde Prestowitz now admits that he misjudged the Japanese competitive challenge.

Consequently, the case for wholesale abandonment of free trade to deal with the "Japan problem" has evaporated. At the policy level, the crucial turning point came in 1995, when the United States reversed its cheap dollar policy and backed down from imposing sanctions on Japanese automobiles for that country's alleged unfair trade practices in auto parts.

While the stereotype of Japan as a closed market remains, the stakes have gotten dramatically lower. The imminent loss of American economic preeminence, while never a real threat, was a real hot button issue. The possibility that Japan's current doldrums might clip a few tenths of a percentage point off of America's GDP really does not compare.

Furthermore, consider what the United States is now pressuring Japan to do: cut taxes, boost spending, clean up its banking mess, deregulate the financial sector, and enforce the

Antimonopoly Act more vigorously. It's a mixed bag from a policy perspective, but at least the United States is no longer pushing for deviations from free trade principles. There are no serious calls for import restrictions, demands for market share targets have little steam, and there is no significant support for manipulating the yen-dollar exchange rate to "fix" the bilateral trade balance.

At any rate, the demands of American officials, whether good or bad, are frankly irrelevant. The United States has neither the will nor the inclination at present to force changes on Japan through confrontation. The only perceived threat that Japan poses right now is that it could collapse economically and bring the rest of the world down with it. The United States has no interest in possibly pushing Japan over the edge through a showdown. Ironically, Japan's current weakness gives it a leverage over the United States that it never had when it was stronger.

The recent American jawboning of Japan is overbearing and unconstructive. Japan does need to reform, but it does not need to be kicked while it is down. That said, let's keep matters in perspective. What's important is that U.S.-Japan conflict no longer undermines American confidence in the liberal trading order. For that, we can breathe a sigh of relief.