

Economic Warfare Against Japan

By STEVE CHARNOVITZ

U.S. Trade Representative Mickey Kantor wants to slap new tariffs on \$5.9 billion worth of Japanese goods. This comes in response to Tokyo's unwillingness to bow to U.S. pressure on autos and auto parts. Most of the Japanese practices America complains about are truly anti-competitive and should have been corrected long ago. But counterproductive policies in Tokyo do not justify counterproductive responses from Washington.

The complaints about Japan embrace both macroeconomic and sectoral issues. The macro problem is Japan's trade surplus of \$130 billion, which causes difficulties for other countries. The sectoral problem is that Japan's automotive markets remain sheltered from competition.

The U.S. trade representative wants Japanese manufacturers to purchase more foreign auto parts and wants dealers to display American vehicles in showrooms. USTR also wants the Japanese government to change its car inspection regulations, which hinder the use of foreign parts.

Enriched by its strong yen, Japan has resisted Washington's demands for affirmative action. In response, an impatient Clinton administration has decided Japan needs some attitude adjustment. Even though Japan has internal problems, such as the highest unemployment rate in 42 years, USTR's penchant for confrontation has not abated.

The newly announced sanctions are a bad idea. They are wrong regardless of whether Japan buckles

under. Here are several reasons why.

Trade sanctions for purely mercantilist purposes violate the rules of the World Trade Organization. A unilateral trade sanction also ignores a series of inter-governmental declarations against economic coercion, most recently at the Copenhagen Social Summit in March 1995.

There may be instances when unilateral actions are justifiable — for example, to thwart terrorism, prevent serious environmental harm or address other pressing global concerns. But boosting sales of American-made parts is not one of them.

Economic warfare is not the proper way to settle commercial disputes. If the United States thought Japanese practices violated international rules or nullified trade benefits, then it should have filed a complaint in the GATT long ago or in the WTO this year.

The WTO agreement directs governments not to make their own determinations that another country has nullified trade benefits. That Washington did this anyway shows a disregard for due process.

The U.S. announcement last week that it is preparing a WTO complaint has the ring of Alice in Wonderland, when the Queen says, "Sentence first, verdict afterwards."

Of course, Washington's procedural failures also may reflect the fact that the WTO does not set forth any standards for competition policy. New rules of the road are needed. But how persuasive will the United States be in pressing to broaden the trade regime when it

does not honor the rules that now exist?

Another flaw in USTR's approach is that it is asking Japan to accept cumbersome, intrusive regulations. For example, Washington wants to yoke Japanese automakers with so-called "voluntary" commitments implemented jointly by industry and government. It is unclear why the Clinton administration wants to encourage such collusive behavior in Japan.

The only certain victim of U.S. trade sanctions will be American consumers, who either will pay higher taxes or lose access to desirable imports. In invoking one of the largest exercises of administrative discretion in the history of trade policy, the administration empowers itself to choose the target products. Such decisions are inherently political and are bound to take on a protectionist flavor. Who knows what deal-making will occur over the next few weeks if USTR winnows down its initial sanctions list?

In spite of these points, the administration has chosen sanctions. Why? One answer is that trade talks with Japan are exhausting; eventually, frustration boils to the surface. Some politicians call for a shift in tactics from talk to retaliation.

A wiser approach would be for the United States to change its strategy. Washington should stop focusing on the bilateral trade deficit and stop pursuing sector-specific outcomes.

Rather than remonstrate what Japan does poorly, the United States

should emulate what Japan does well. Our top priority should be to raise America's savings rate, which is less than half that of Japan's. Instead of dictating quantitative targets to Japan, why hasn't the Clinton administration assigned clear targets to itself on key domestic goals, like eliminating the federal budget deficit and boosting no-defense research? Attending to our own domestic problems probably would engender more Japanese liberalization than trade sanctions ever could.

Finally, if being WTO-illegal, anti-consumer and protectionist is not a sufficient reason for USTR to announce a recall on its new policy, here is yet another: A unilateral trade sanction against Japan fans the flames of economic nationalism.

Isolationists like Sen. Jesse Helms, who want the U.S. government to abandon many international organizations, are gratified when the administration violates trade rules and flouts international law. They like to see the United States act like a bully. They do not mind fomenting anti-Americanism in Asia.

The United States is one of the few countries in the world with enough market clout to invoke a large, unilateral trade sanction. Yet by using that clout in such a self-interested way, we accelerate the erosion of U.S. power and influence. America will lose its leadership role if it ceases earning the respect of other nations.

Steve Charnovitz writes often on business and trade issues.